

The time does not always go by our clock.

This is what we mean by

res-
pon-
sibi-
lity

"Two activists, an old warhorse chairing the Management Board and a company with a venerable tradition not quite getting into gear: Francotyp-Postalia looks set for an eventful autumn."

effecten-spiegel,
6 November 2019
See also page 30

Familiarity is not something that gives ground gladly; it is very hard to prise it away from the limelight. And transformation is not something that can be achieved just with carrots or sticks:
**successful transformation needs people.
Transformation requires sustainability.
Transformation means responsibility.**

Welcome to the 2019 Annual Report of **FRANCOTYP-POSTALIA HOLDING AG**, telling the tale of what isn't quite where we'd like it to be – and what very much is.

Report of the Supervisory Board 32 / Our Share 36
Group Management Report 40 / Consolidated Financial Statement 101
Notes 110 / Independent Auditor's Report 196
Glossary 204 / Financial Calendar, Imprint 210

YOU CAN FIND THE KEY FIGURES INSIDE THE FLAP ->

The climate crisis, trade wars, Syria, Iran, migration, AI, digitalisation, Fridays for Future, unpredictable presidents here, there and everywhere, sustainability, attitude, fake news, bushfires, recession, purpose, data abuse, the stability of our democracies, populism, negative interest rates, gilets jaunes, uncertainty ... coronavirus since early 2020 –

these are just a few of the many issues and buzzwords that have influenced global activities over the past few months, both directly and indirectly, objectively and subjectively – after all, “markets” are also man-made things.

Nevertheless:

2019:

The result exceeded expectations; promises were kept:

Revenue forecast achieved:

EUR 209.1 million

**EBITDA significantly up
from EUR 17.3 to EUR 33.3 million**

Adjusted free cash flow forecast exceeded: EUR 12.4 million

Yes, “the markets” are also subjective things and rarely act rationally – likewise, they do not always see all the angles that a matter-of-fact appraisal of the various areas of potential would reveal: amongst other things, it’s always a question of perception.

Yes, we can and will do even more in the service of our perception – because where we are perceived ... but why not see for yourself? Read the words of praise from Reinhard Schlieker, Editor-in-Chief of BÖRSE am Sonntag, , when he presented FP with the Mittelstandspreis der Medien (SME Media Award):

“Francotyp-Postalia Holding AG delivers a convincing performance in the ‘Digital Innovation’ category. **Within its segment, it’s the market leader in Germany and the global number three. Its success began 96 years ago, when designers converted a cash register into one of the world’s first franking machines with adjustable postage – a genuine revolution.**

Nowadays, the Berlin-based firm is an international leader in secure digital communication technology with major customers including Metro, Eon, Lufthansa and Deutsche Rentenversicherung.

This medium-sized company has developed a wide range of cryptographic solutions for the high-security transmission of digital data.



Francotyp-Postalia is a shining example of successful digital transformation.”

The Mittelstandspreis der Medien was not the only honour bestowed on our work in the various markets we serve – far from it, in fact.

Of course, we are well aware that these awards will not result in a significant short-term increase in our revenue.

Yet they are valuable all the same, because they make us better known and raise our profile with various different stakeholders

as well as strengthening trust in the FP brand amongst customers too – and trust is a highly valuable commodity.

And they show how we can stand up to others with confidence, how consistently competitive we can be.

Our honours board includes:



"Red Dot Award" for the FP Secure Gateway
"100 Office Products for 2019": the PostBase 100
"Excellence in Customer Advice" seal of quality
"Germany's Leading Innovators" seal of quality
"Germany's Most Popular Employers" seal of quality
"Spotlight Award" and "Inspire Awards" for the CSR Report
"German Design Award", "ARC Award", "Fox Finance Award" and "International Corporate Media Award",
"Mercury Award" for the 2018 Annual report
"Certificate of Honour" in the "Innovators" category from Automation & Digitalisation

Security and freedom are two sides of the same coin – Rather than wanting to see them separated, many people regard security as more important than freedom.

Freedom means responsibility – for our own actions and their consequences. **For us, therefore, security, freedom and responsibility are inextricably linked.**

Data is the asset of the future – we are the people who protect these assets from abuse and have been doing so since the birth of the Internet. We are continuing to develop our technologies on a sustainable basis for a society living in freedom and security.



The T1000, which was launched in 1994 as **FP**'s first web-enabled franking machine, was withdrawn in 2004.

Dramatic though it may sound, we really do want to embrace the future: what we do directly benefits the security of society.

Rüdiger Andreas Günther, CEO/CFO



Not everything:

- Revenue should have been even higher, but the Mail Service Business suffered an unexpected decrease, which other business areas enabled us to offset;
- We would have liked to expand our business model with expedient acquisitions, but there was a lack of suitable targets;
- Our share price trend was still unsatisfactory.

But nevertheless:

- + Yes, maybe revenue could have been higher – but in view of all performance key indicators we still achieved our forecast, and Software/Digital grew by 13.8%.
- + We have increased our market share in the core business of franking since 14 quarters in a row and are now above 12%.
- + We launched so many new products into the markets like never before – digital, hybrid and traditional products.
- + In January 2019 we started at around EUR 3.00 and ended December at Euro 3.45, 15%(!) higher than at the start of the year. Our share price performed significantly better than those of our competitors – demonstrating the market's confidence in our performance.

2020/21:

Given the current situation around the Corona Virus as of today*, we can not credibly provide a reliable statement about the future. Like nearly all companies at present, we are entering the next fiscal year with the expectation that revenue will decrease significantly.

- + With ACT we are focusing rigorously on a solid strategy and will preserve our existing Group liquidity. FP has a stable business model, so I am confident that we are steering the company well through the global crisis. The world is becoming more open for digital products - we will benefit from this in the future.

The Internet of Things now connects billions of devices – “things” that can record, store and exchange data. This includes data on their users – the risk of abuse and attacks is growing exponentially.

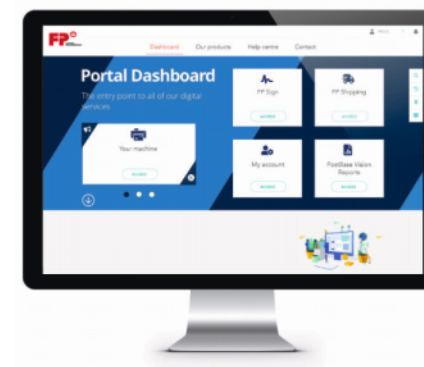
Things can get dangerous and expensive if manufacturing, logistics, medical technology or energy supply data is misused, production chains are interrupted, or businesses and utility companies are crippled.

The global need for data security is growing as digitalisation grows.

We are fighting abuse and thus making the world a bit safer.

We are part of the world-renowned tradition of products *made in Germany*: innovation and quality, reliability and stability are all part of how we see ourselves.

The ingenuity of our engineers is generating a steady stream of new products that improve security and efficiency in numerous markets and various different applications. And we bear responsibility for that.



Yet another milestone achieved through ideas and innovation, expertise and experience: the PostBase Vision.

Everything that can be digitised will be digitised – this process of digitalisation will completely transform how we live and work as artificial intelligence (AI) continues to evolve. As to where this transformation will ultimately take us, nobody really knows at present.

Whenever the old ways disappear but the new have yet to take shape, uncertainty moves in – and we respond with the assurance that comes with our experience: **we have been amongst the pioneers and global market leaders since the very beginning.**

As long ago as 1960, for instance, we became the first non-American franking machine manufacturer to obtain a licence for the US.

Digital sexiness.

Nice body –



GROOTHUIS.DE DAS GUTE BLEIBT

at least it always sends us into raptures. On top of that, our **FP CompactGateway** is small and perfectly formed, ideally equipped for sensor systems and serial interfaces, a piece of cake to install – and a master of **high security**. Speaking of which, are you sure that your data really is secure?

Know what you need to do: **FP InovoLabs**. We would be happy to tell you ourselves what we mean when we talk about high security: 030/220 660 0 or fp-secureiot.com.



Some like it hot –
small and a little bit
on the stocky side.



GROOTHUIS.DE DAS GUTE BLEIBT

How pleasing on the eye curves can be. Just like those of our **FP S-EN-Guard**. It's got a whole lot going on under the bonnet: it's responsible for optimising the decentralised logging of your energy data. And it doesn't just optimise – it's also a knight in shining ultra-**high-security** armour. Speaking of which, are you sure that your data really is secure?

Know what you need to do: **FP InovoLabs**. We would be happy to tell you ourselves what we mean when we talk about high security: 030/220 660 0 or fp-secureiot.com.



We're currently experiencing the Fourth Industrial Revolution – we won't be using the word "digitalisation" any more at **FP** because it's become self-evident: after all, nobody talks about "electrification" any more these days, do they?

Sven Meise, CDO/COO



Not everything:

- Amongst other things, bottlenecks affecting internal and external resources forced us to push the US launch of Parcel Shipping and modifications and new features for the **FP** Sign back to early 2020;
- Our stake in Juconn has not yet brought in the level of revenue we expected.

But nevertheless:

- + With the successful integration of Tixi in 2019, we now boast a comprehensive, overhauled product portfolio for IoT security;
- + We have improved the perception of **FP** in the major IoT markets of energy, automation and infrastructure;
- + JUMP has been fully embraced within the organisation: as well as saving over EUR 2.3 million in costs in 2019 alone, the process will continue to focus on improving quality and increasing speed and efficiency.

2020/21:

- ++ Our IoT business is making progress and we are anticipating a marked rise in revenue;
- ++ JUMP will continue to bear fruit and deliver some EUR 4 million a year in savings.

In the space of just ten years, Tesla increased its market capitalisation to a figure greater than that of Mercedes and BMW combined: this success was built on stakeholder loyalty, **ideas, powerful innovation and some surprising breaking of the rules.**

Ideas, innovations, surprises: a good combination for sales and marketing too. But developing new structures and tools in sales and marketing takes time – those that can't wait often make the move too fast.



A secure gateway of a truly unique kind – courtesy of **FP**, of course.

The future is the place where nobody has ever gone – it's uncertain, and forecasts always have an element of uncertainty in them, because nobody can know what events are going to tear up our expectations: history is not something you can simply extrapolate.

What is certain, however, is that markets grow towards our future. entgegen.

Energy supply and production chains, infrastructure, medical and healthcare systems, smart cities and smart homes, virtual reality, logistics – the world is going digital. We're on board.



Infrastructure, automation, energy – big markets need security.

“I can’t understand why people are frightened of new ideas. I’m frightened of the old ones,” said John Cage. He’s someone I would have liked to meet.

Patricius de Gruyter, CSO



Not everything:

- Amongst other things, our cross- and upselling strategies failed to bring the desired success because our activities in these areas were hindered by our still-heterogeneous CRM landscape;
- Our decentralised marketing approach for FP Sign turned out to be the wrong move.

But nevertheless:

- + The launch of the PostBase Vision in the US was a success, and we now have an installed base of over 70,000 franking systems in the country. In France, meanwhile, we’ve grown to nearly 9,000 units, and our total franking machine business has expanded by 5.6 %;
- + In our core business, our market share in France has grown by 1.3% to over 5 %, in the US by 0.5 % to 8 % and in Austria by as much as 6.5 % to more than 53 %;
- + First positive signs in key account sales for the **FP** Sign in Germany: we acquired some high-profile customers such as Würth, an international telecommunications company, the Stadtwerke Troisdorf municipal utilities, American Towers and Raisin Bank.

2020/21:

- ++** **FP** Parcel Shipping is a highly competitive product that we will be pushing forward from spring 2020 onwards – dealers in the US are certainly enthusiastic and fully on board;
- ++** We are making progress with new ways of marketing the **FP** Sign – the markets will see stronger demand, especially since it is also a key tool for those working from home to maintain the “social distancing” necessitated by the coronavirus.

I will not sell the future for instant profit.

Werner von Siemens, 1884

Nowadays, business models have to be signed off by society too, not *just* the supervisory board.

Gabor Steingart, 2019

Every government, company, and shareholder must confront climate change.

Larry Fink, Januar 2020

The security and future viability of jobs at FP is very important to us. This is something we'll be continuing to campaign for in the future. So far, we believe FP is on the right path towards a sustainable future

Birgit Dietze, First Authorised Representative of IG Metall Berlin, February 2020

**Dear companions, lateral thinkers, partners and shareholders,
Dear companions, lateral thinkers, partners and shareholders,**

about the health of family, friends and colleagues, worried about the global slump in share prices and, yes, a few are even worried about their own livelihoods and the continued viability of businesses – these are all worries that were unknown to us last year.

First of all, therefore, I hope that you emerge unscathed from the biggest disaster since the Second World War – as a combative optimist, I am confident that we will overcome this crisis. Hopefully, we will learn from it and act with even greater awareness and responsibility in the future.

There was also a fair amount going on in 2019 in the world, in Europe, in Germany and at your **FP**. So this letter will have to be a bit longer than usual – there is a great deal to say.

But before we get onto more general issues, allow us to talk about the developments at **FP** and also about the criticism that has been levelled at us.

1. "Lower costs!" – just like that and in some way?

We have repeatedly come under fire for allegedly having "too high costs". **We are not generating any "costs" – we are investing in FP's future**, and our cost management is based on the following principle: we put into the company the investment it needs to develop – no more, naturally, but no less either.

"Cutting costs" is only ever a short-term measure, not a strategy for long-term success. In fact, the opposite has shown itself to be the case often enough. **Success comes from spending the right sums in the right places, i.e. where the future is growing.**

2. Some people accuse me, accuse us of having “visions” – as if these were some kind of hallucinations or nonsense.

As much as I respected Helmut Schmidt when he was our country’s Chancellor, he was very much mistaken when he said “People who have visions should go see a doctor.” Yet **innovation needs a vision**, needs someone to paint a picture of how things could change for the better in the future. Because, without something to aim for, there is no way of *inspiring* people – and, without this inspiration, there is no progress. And we experience this inspiration amongst our customers and colleagues day in, day out.

3. Yes, we bit off a lot in the expectation of being able to chew it all quickly enough – and, unfortunately, not everything proved a success. Yet:

- Through our concerted efforts, we made up our lost ground on the revenue front after a few fairly weak months and more or less achieved what we had set out to do at the midpoint of the year;
- And, although our revenue figures fell short of our initial expectations, our EBITDA and adjusted free cash flow came in well above our forecasts;
- We also invested substantial sums in new structures, processes and systems, opening up new areas of business at the same time;
- The first JUMP projects to be implemented saved over EUR 2 million last year;
- We downsized our workforce where this was necessary – and created new jobs for **FP**’s future;
- We set up the Shared Service Center Europe;
- Our share significantly outperformed those of our competitors Quadient and Pitney Bowes over 2019 as a whole and has continued in the same vein so far in 2020.



Save the Earth! It's the only one with beer!
Humour is being able to laugh in spite of it all – as shown at the FfF demonstration in Hamburg in September 2019.

4. Acknowledgements and mission.

We are *proud* of our employees – just look at everything they achieved last year! Despite challenging market conditions, despite the irritations that were introduced into the company from outside, we met or exceeded our most important forecasts (sales, EBITDA, free cash flow). On behalf of the Management Board, I would like to *thank* you most *sincerely* for your hard work and dedication and look forward to continuing this journey together: **the new FP, the FP of secure digital communication – this remains our goal and our mission.**

5. The year of change, of climate change.

2019: trade disputes, the rise of protectionism, the final throes of Brexit, the uncertainty being spread by US policies just as much as those of Turkey and Russia, constant streams of refugees, the turmoil within the European Union itself – and you could probably think of a fair few more buzzwords from and about last year. The vehemence with which “Fridays for Future” (FfF) forced climate change onto the global agenda came as a surprise.

And climate change is based on the concept of sustainability – “sustainability”, a nothing word so overused that people scarcely like to utter it these days.

For this reason, we prefer to talk of **responsibility** – a responsibility that takes account of the challenges posed by the economy, the environment and social issues in equal measure. **A responsibility that considers the consequences of doing business in terms of its economic, environmental and social aspects** – and makes decisions after weighing them all up. Decisions that will benefit the future of a decent and humane society.

6. A shift in values entirely in line with our philosophy

Climate change and the demands of sustainability had a major impact in 2019: for the first time in many years, society, politicians and business leaders discussed the challenges that we face – and that we will need to overcome. This is because we will only remain healthy and prosperous if we tackle these challenges with the courage to be decisive and innovative, with the courage to think and act differently.

The realisation that shareholder value, i.e. short-term return on capital, is *not* actually the only reason in the world that economies and companies exist, is gaining ground. Larry Fink, CEO of the world's largest asset manager BlackRock,* has called on hundreds of CEOs to act sustainably – and has threatened to stop financing those companies that fail to do just that: **think for the long term, act for the long term, take responsibility.**

7. . We take a holistic view of responsibility – and act with the intention of doing it and its many different facets justice.

This is not always easy – and we did not quite manage to achieve a *consistent* balance between these facets in 2019; responsibility

- For the **unique expertise** concentrated in this company, for all the knowledge that has been built up here over nearly a century and that will lay the foundations for the new horizons coming next and the continuation of our “group with its venerable tradition”, as manager magazin approvingly termed us;
- For **preserving the environment and resources** as best we can what-ever happens;
- For our **employees, for the people** who work directly and indirectly for and with **FP** – we are responsible for these people and their families, in Germany and many other countries in the world;
- For the **Wert der Aktie value of our share** in the medium and long term.

That is our understanding of responsibility.

*You can find the full letter at www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.
It is also worth reading this interview with BlackRock's Vice Chairman at www.zeit.de/2020/12/blackrock-finanzgigant-moral-klimawandel-finanzkrise:
“We are expecting to see capital shift towards sustainability in a big way soon.”

“Our understanding of responsibility is what sets us apart.”

Rüdiger Andreas Günther



8. Added value – redefined.

Our understanding of responsibility is increasingly gaining traction and will have to underpin every balance sheet in the future.

No, this is *not* another of “Günther’s visions” or the Management Board’s version of utopia – it is happening now and has been for a long time: the Value Balancing Alliance (www.value-balancing.com) is pushing ahead with its “Value to Society” project, supported by big accounting firms like EY, KPMG and others, and the French President will put it on the agenda for the upcoming G7 summit.

New accounting and reporting guidelines are thus on the horizon and will redefine the values that shape how people do business – **the requirement for short-term returns is being pushed out by the demand that we take lasting responsibility for the future.**

It will be some time yet before these new guidelines become law – **for us at FP, they will be an advantage whatever happens: after all, we stand for security in digital communication.** And security is also a *societal* value, one that is set to become even more important in the next few years.

If we look ahead to the future from today’s* standpoint, not a lot is certain, because we do not know how exactly the virus will challenge us – but we accept these challenges. Our path is clear: it is called ACT.

**We are committed to looking ahead:
the FP of the future – sustainable and responsible.**

Best wishes and the very best of health
Rüdiger Andreas Günther

*The editorial deadline for the image section of this annual report was March 26th, 2020.

“I’d rather a management board announced ambitious targets and demonstrated a sense of optimism – but then added further down the line that there were a few specific obstacles on the way there and that the objective could no longer be achieved.”
Post on wallstreet.online, 18 February 2020. We are learning from this: although we are optimistic and confident, with conviction in ideas and ideals, and will act courageously and back the expertise and self-confidence of our employees, we will be more circumspect when it comes to forecasts.

The first “activist”:
As CDO/COO, Sven Meise is responsible for the development of the digital products, the ongoing optimisation of business processes as well as the production of classic products, R&D and IT.

The “old warhorse”:
As CEO/CFO, Rüdiger Andreas Günther is responsible for Group strategy, corporate communications, mergers and acquisitions and all the Group’s financing matters.

The second “activist”:
As CSO, Patricius de Gruyter is responsible for sales and marketing for all markets and units.

Continuation, attitude, responsibility:



We make
communication
secure, highly secure –
today and tomorrow,
analogue and digital:
German Mailgeneering.
We are FP –
responsibility
for the future.

Report of the Supervisory Board of Francotyp-Postalia Holding AG (FP Group)

With this report, the Supervisory Board provides details of its activities in accordance with section 171(2) of the Aktiengesetz (AktG – German Stock Corporation Act). In fiscal year 2019, the Supervisory Board performed the duties required of it pursuant to prevailing law, the Articles of Association and the Rules of Procedure, while taking the associated decisions as and when necessary. The Supervisory Board continuously monitored the Management Board’s governance of the company and advised it regularly on company management. The Management Board fulfilled its obligation to share information verbally and in writing, reported regularly, promptly and comprehensively to the Supervisory Board on progress with implementing the strategy and planning, the current business situation, business development and economic situation of the company and its subsidiaries, and involved the Supervisory Board in all important decisions. Whenever a decision was required from the Supervisory Board regarding individual measures of the Management Board, the Supervisory Board passed resolutions on this, if necessary by written procedure. Eight meetings in total were held in the past year, one of which as a conference call. All members of the Supervisory Board in office participated in all meetings. The Management Board took part in all meetings of the Supervisory Board whereby the Supervisory Board conducted parts of the meetings without the presence of the Management Board as and when required. In addition to these meetings, the Management Board and the Supervisory Board conferred on progress and developments in the Group in eight further conference calls in total. The Supervisory Board also consulted outside of meetings when necessary. The Chairman of the Supervisory Board also maintained regular contact with the Management Board. The CEO informed the Chairman of the Supervisory Board of important events that would significantly influence an assessment of the situation, development and governance of the company.

In addition to the discussion of the company’s net assets, financial position and results of operations, the development of its Franking and Inserting, Mail Services and Software/Digital Solutions segments, the risk situation, risk management and all relevant compliance matters, the following issues were prioritised:

- progress with implementing the ACT strategy;
- project status and progress report on the ACT project JUMP;
- stake in the start-up Juconn;
- composition of the Management Board
- remuneration and remuneration system for the Management Board.

The joint meetings of the Supervisory Board and the Management Board were held on 4 March, 25 March (conference call), 27 May, 26 August, 11 September, 2 October, 26 November and 12 December 2019.

Implementation and status of the ACT strategy

The status of the implementation of the ACT strategy and in particular of the ACT project JUMP were regular topics of the Supervisory Board meetings in the 2019 financial year. With the ACT strategy, FP is expanding its business into new digital growth markets in addition to strengthening its core business. The ACT project JUMP serves to create the necessary organisational structures and implement measures to increase efficiency and reduce costs, in particular by standardising IT systems (ERP/CRM) across the Group.

At its meetings in summer 2019 and by way of additional telephone discussions with the Management Board, the Supervisory Board dealt with delays in the implementation of the ACT project JUMP.

Franking and Inserting, Mail Services and Software / Digital Segments

The development of the traditional franking and inserting machine business was addressed and discussed in detail at every meeting of the Supervisory Board. At several meetings of the Management Board in the reporting period, some of which were also attended by the heads of department, the Supervisory Board heard reports on and intensively discussed the progress made with developments and market launches, such as that of the FP Sign digital signature solution, and the IoT business including the revenue development of these business areas, which was below planning.

The trend in the Mail Services business area was also discussed in detail in fiscal year 2019. Its revenue was eroded by several factors. Various operational and strategic measures to realign the business were thus explored in detail during the year.

Composition of the Management Board

As part of the succession planning for which it is responsible, the Supervisory Board discussed the appropriate composition of the Management Board in the first half of 2019 and – following the announcement of delays in the implementation of the JUMP ACT project and the revenue development of the FP Sign and IoT business segments falling short of planning – also in the second half of 2019.

Remuneration and remuneration system of the members of the Management Board

In line with the recommendation for the remuneration system set out in the German Corporate Governance Code, the criteria for determining remuneration for members of the Management Board are as follows: the duties and responsibilities of the Management Board member in question, his or her personal experience and performance and the economic situation and, very importantly, the long-term success and future prospects of the company. The remuneration structure is geared towards sustainable corporate development. The monetary remuneration components thus include both a fixed component and a variable component, which is linked to success. A crucial factor for the Supervisory Board when determining the variable remuneration component is that the remuneration of all members of the Management Board is coherent. The remuneration report in the combined group management report describes the amount and structure of Management Board remuneration in detail.

In the 2019 financial year, with regard to the remuneration of the Management Board, the Supervisory Board dealt in particular with the issue of target achievement with respect to the variable remuneration components for 2018 for those members of the Management Board who held office throughout the year. The discussion on this issue is ongoing as of the reporting date.

Work in the committees

Given the size of Francotyp-Postalia Holding AG and the fact that the Articles of Association prescribe that the Supervisory Board must consist of three members, no other committees or bodies were formed. As long as the Supervisory Board continues to be limited to three persons, the Board as a whole assumes the duties of an Audit Committee. In this capacity, the Supervisory Board examines and monitors the financial reporting process and the effectiveness of the internal monitoring system, the risk management system

and the internal audit system. These monitoring duties also cover the FP Group’s non-financial report on corporate social responsibility (CSR). The FP Sustainability Report is published at the same time as the Annual Report. Examination and monitoring are based on the regular reports by the Management Board.

Net assets, financial position and results of operations

At every meeting, the Management Board reported on the net assets, financial position and results of operations of the FP Group. In particular, the detailed reports also included an analysis of financing, investment and liquidity. Deviations from forecasts and changes to targets with respect to anticipated business performance were communicated and explained to and discussed with the Supervisory Board by the Management Board along with any measures derived from these deviations or changes.

The budget for the following years that is to be prepared annually by the Management Board was also discussed in detail by the Supervisory Board at the meeting on 26 November 2019, and the budget for fiscal year 2020 was approved at the meeting on 12 December 2019.

Auditing the annual financial statements and consolidated financial statements

In accordance with the statutory provisions, the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, was appointed by the Annual General Meeting on 28 May 2019 and commissioned by the Supervisory Board to audit the annual and consolidated financial statements for fiscal year 2019. The Supervisory Board, which had previously obtained a statement of independence from the auditor, then set out the key areas on which the audit was to focus and determined the auditor’s fee. The Supervisory Board has the task of examining the financial statements, the consolidated financial statements and the combined Group management report prepared by the Management Board and the Group’s separate non-financial report. The same applies to the report and conclusions reached by the independent auditor and independent auditor for the Group. KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, has audited the annual financial statements of Francotyp-Postalia Holding AG as at 31 December 2019 as well as the consolidated financial statements and combined Group management report as at 31 December 2019, and has issued an unqualified opinion thereof in each case.

The annual financial statements of Francotyp-Postalia Holding AG and the combined management report for Francotyp-Postalia Holding AG and the Group were prepared in accordance with German statutory provisions. In accordance with section 315e of the Handelsgesetzbuch (HGB – German Commercial Code), the consolidated financial statements were prepared in line with the International Financial Reporting Standards (IFRSs), as adopted by the EU. The independent auditor conducted his audit in accordance with the generally accepted standards for the audit of financial statements promulgated by the IDW Institute of Public Auditors in Germany. As the Supervisory Board did not form its own audit committee, the Supervisory Board as a whole conducted the audit of the documents specified. The Management Board submitted these documents to the Supervisory Board in due time, together with the audit reports by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin.

During the balance sheet meeting held by the Supervisory Board on 14 May 2020, in the presence of the auditor, who reported on the key audit findings, the 2019 annual financial statements, 2019 consolidated financial statements and combined Group management report and audit reports were discussed comprehensively. The Supervisory Board concurs with the Management Board’s presentation of the company’s and Group’s situation in its reports and annual financial statements as well as with the results of the audit reports. Accordingly, the Supervisory Board raises no objections thereto. The Supervisory Board approved by resolution the financial statements prepared by the Management Board on 17 May 2020. The financial statements of Francotyp-Postalia Holding AG for 2019 have thus been established in accordance with section 172 AktG.

Corporate Governance

On 17 January 2020, the Management Board and Supervisory Board issued a declaration of compliance with the German Corporate Governance Code (the Code) in accordance with section 161 AktG, which forms part of the group declaration on corporate governance pursuant to section 315d HGB in conjunction with section 289f HGB, and have made this permanently accessible to shareholders on the website of Francotyp-Postalia Holding AG. The Management Board and Supervisory Board comply to a large extent with the recommendations and proposals of the Code. The group declaration on corporate governance, which can also be found in the 2019 annual report, and the declaration of compliance explain in detail where the Management Board and Supervisory Board deviate from the recommendations and proposals of the Code.

The Supervisory Board is kept regularly informed of compliance issues at the FP Group in accordance with the compliance guidelines.

Efficiency review

The Supervisory Board regularly examines the efficiency of its activities. The Supervisory Board successfully completed its most recent efficiency review in fiscal year 2018 with the aid of an external consultant, the German Institute of Directors. The structure, independence, knowledge and experience of the Supervisory Board was considered suitable/very good, and it was attested that the Supervisory Board does very good work. In particular, it was noted that the work of the Management Boards was effectively monitored. The Supervisory Board focused on implementing the strategy and assessing the opportunities and risks of the company. To that end, the Supervisory Board again received detailed reports on the status of the implementation of the individual projects of ACT and JUMP at every Supervisory Board meeting in 2019. In particular, this included the re-prioritization of the ACT project portfolio and the ERP / CRM project.

2019 Annual General Meeting

Agenda item 4, the vote to give official approval to the actions of the members of the Management Board for fiscal year 2018, did not pass, with 52.53 % voting against. Key aspects of the discussion on this agenda item were the compensation system for the Board of Management and various expense items in connection with the implementation of the strategy.

Composition of the Management Board and the Supervisory Board

Extension of the appointment of Rüdiger Andreas Günther as Chairman of the Management Board

By resolution of 27 May 2019, the Supervisory Board extended the appointment of Mr Günther as member of the Management Board until 31 December 2022.

Appointment of Carsten Lind as new member of the Management Board

On 13 February 2020, the Supervisory Board appointed Mr. Carsten Lind as a new member of the Management Board with effect from 1 June 2020. Should the position of Chairman of the Management Board become vacant, the Supervisory Board plans to appoint Mr. Lind as the new Chairman of the Management Board.

Offer of a termination agreement to Rüdiger Andreas Günther

On 13 February 2020, the Supervisory Board proposed a termination agreement to Mr. Günther due to differences regarding the implementation of the Group strategy.

Resignation of Robert Feldmeier from the Supervisory Board and appointment of Dr. Mathias Schindl as a new member of the Supervisory Board

Robert Feldmeier, a member of the Supervisory Board of many years’ standing, resigned from office with effect from 20 October 2019 for personal reasons. This prompted the Management Board of Francotyp-Postalia Holding AG to ask the competent court, Charlottenburg Local Court, to approve the appointment of Dr Mathias Schindl as a new member of the Supervisory Board. The court accepted the nomination with effect from 14 November 2019. Dr Schindl remains appointed by the court until the next General Meeting of Francotyp-Postalia Holding AG.

Dr Mathias Schindl was born in 1965 and holds a doctorate in physics. He has worked in executive and director roles at various IT and software firms for more or less the past 25 years. Dr Schindl is currently managing director of his own management consultancy, which focuses on providing strategy and innovation advice in the digital sector.

On behalf of the entire company, the Supervisory Board would like to thank Robert Feldmeier for all his hard work and the successful partnership we have enjoyed.

Botho Oppermann elected new Deputy Chairman

Mr Botho Oppermann was elected Deputy Chairman of the Supervisory Board with effect from 26 November 2019.

Our thanks

The Supervisory Board is well aware that the success of the company and its ACT strategy hinges on its staff. The company’s transformation based on the ACT strategy as well as the ACT project JUMP, which is being implemented at the same time and bringing substantial organisational and operational changes, are requiring the employees and executives in the FP Group to be ready to embrace a great deal of change. With their motivation and commitment, they have helped to ensure that FP remains on a sound footing and well on track.

The Supervisory Board owes its heartfelt thanks and appreciation to the members of the Management Board, the managing directors of the subsidiaries, the divisional heads, the members of the works councils and all employees for their work and dedication in fiscal year 2019.

Thanks also go to our customers and partners, who have likewise made a major contribution to the success of our company.

In addition, we would like to thank our shareholders for the confidence they show in the company.

The Supervisory Board
Francotyp-Postalia Holding AG



Klaus Röhrig
14 May 2020

Shares

2019: a good year on the stock markets

Following a disappointing 2018, the international equity markets mounted a strong recovery in 2019. Overall, the global stock markets made major gains despite geopolitical risks and the US/China trade dispute. The Euro Stoxx 50 added nearly 19 %, while the US S&P 500 climbed by 29 % and the Nasdaq, the US exchange for tech stocks, rose by as much as 35 %.

Beginning January 2019 at just over 10,580 points, the German share index (DAX) likewise made considerable gains up to the midpoint of the year. By July, it had already almost reached the 13,000-point mark. The escalation of the US/China trade dispute initially triggered fairly major price falls in August 2019. These proved short-lived, however, as even the first signs of a détente in the trade conflict and monetary loosening measures from the European Central Bank (ECB) and its US counterpart, the Federal Reserve, prompted further significant rises. The DAX thus climbed back above 12,000 points in September 2019, continuing on past 13,000 points two months later. Germany’s leading index peaked at 13,408 points on 12 December. On the last trading day of 2019, the DAX was at 13,249 points – up by 25.5 % over the year as a whole.

The trend in Germany’s small cap index, the SDAX, initially mirrored that of the DAX. It began 2019 at 9,569 points, before making significant gains over the course of the year. The SDAX closed out the year at 12,512 points, up as much as 32 % on the start of 2019.

FP shares well on the rise in 2019

The FP share was also able to enjoy a good performance in 2019, closing the 2019 stock market year with a significant plus. After a mixed start to the 2019 financial year, FP started to catch up in the second half of the year. With success: the revenue target was achieved after all.

FP’s shares began 2019 on the stock market at a price of EUR 3.00 and enjoyed healthy demand that boosted their price accordingly. Interest amongst institutional investors in particular further increased. In January 2019, for instance, Obotritia Capital KgaA (“Obotritia”) disclosed that it had exceeded the 10 % threshold for shareholdings in Franco-typ-Postalia Holding AG. The shares peaked at EUR 3.78 in early March 2019. This was followed by a period of volatility, with the share price stabilising quickly thanks in particular to increased interest from institutional investors. Obotritia then disclosed that it had also exceeded the 15 % threshold at the start of September 2019, since when it has been FP’s largest single shareholder. FP’s shares traded within a narrow price range around the EUR 3.50 mark for the rest of the year. The positive third-quarter figures pushed the share price up briefly, before it fell back again slightly over the next few weeks, closing out the year at EUR 3.45. FP’s shares thus gained significantly in value in 2019, finishing the year up 15.0 %.

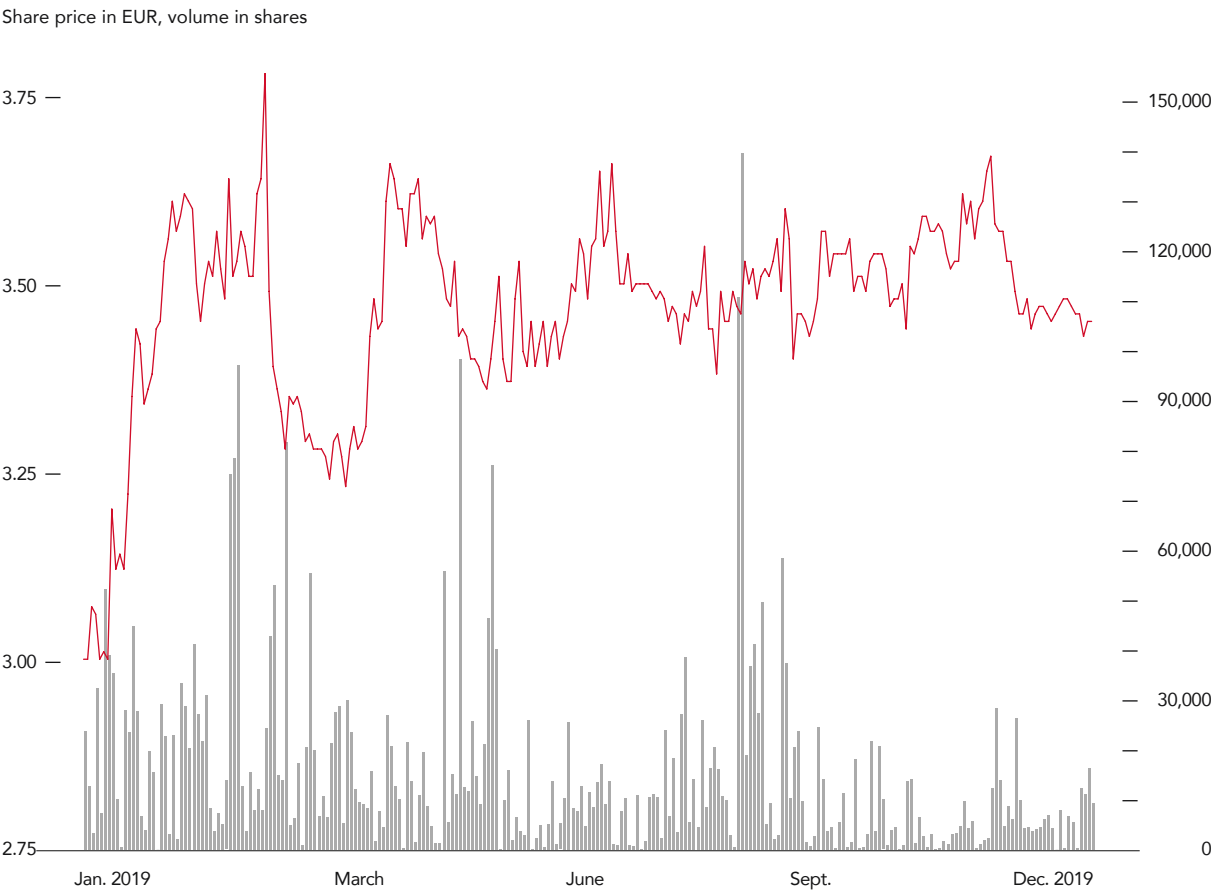
This positive performance sets FP well apart from its two listed competitors in its core business, whose shares fell by 32 % and 9 % respectively over the year as a whole. In 2019, therefore, the investors have again supported the ACT strategy and FP’s sustainable transformation course.

The volume of FP shares traded daily on the Xetra platform fell to an average of 15,000 in 2019 from their higher levels in 2018. This indicates greater interest in FP from investors with a long-term investment horizon. The largest figure – over 139,000 shares traded on a single trading day – was reached on 23 August 2019.

Coverage of FP shares – 100% “Buy” recommendation

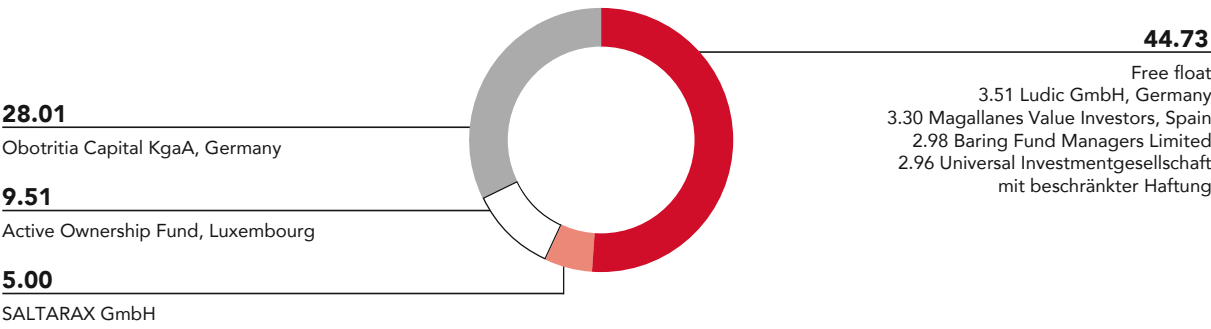
In the course of 2019, the equity analysts who regularly follow FP shares consolidated their conviction regarding the ACT strategy. They also further confirmed the associated high price potential of the share. Two analysts raised their price target at the end of the year and switched their recommendation for FP to “Buy”, following a “Hold” recommendation for the six-month period. The FP share is currently being followed by analysts from five companies: Baader Bank, Warburg Research, LBBW, Dr. Kalliwoda Research and GSC Research. All analysts recommend buying the share; their average price target is EUR 4.90.

PERFORMANCE OF THE FRANCO-TYP-POSTALIA SHARE (01.01.2019–30.12.2019)



Broad Shareholder Base

SHAREHOLDERS STRUCTURE IN PERCENT



As at March 2020
(Note: Obotritia Capital KGaA increased to 28.1 % in March 2020, SALTARAX GmbH increased to 5.00 % in February 2020)

The FP Annual General Meeting

Once a year, the Annual General Meeting offers all FP Group shareholders the opportunity to take part in a direct dialogue with Group management. 40.96 % of the voting share capital was represented at the Annual General Meeting in Berlin on 28 May 2019. In voting on the agenda, the proposed resolution on the discharge of the members of the Supervisory Board for the 2018 financial year was rejected by 52.53 %. All other items on the agenda were approved by a large majority.

Talks with investors intensified

The strategy of the FP Group is geared towards a sustainable increase of the enterprise value. Continuous, open and transparent communication with all capital market participants is of paramount importance to the company. The Management Board and the Investor Relations team make use of one-on-one meetings, investor conferences and roadshows to explain the company’s business model and highlight its potential. The FP Group further expanded its IR activities in fiscal year 2019. For instance, FP’s Management Board presented the company at a number of conferences and events in 2019.

Intensive exchange with investors is very important for FP. At numerous in-depth conferences and meetings with investors in Frankfurt, Munich, Hamburg, Warsaw, Vienna and Budapest, a large number of interested investors gained an insight into FP, the ACT strategy and the resulting prospects.

The Management Board presented the current ACT strategy as part of a close dialogue held during many individual meetings at the Berenberg/Goldman Sachs and Baader Bank conferences in Munich in September 2019.

The Management Board and the IR team brought the conference calendar to a conclusion in November 2019 by holding a large number of individual meetings with international investors at the German Equity Forum in Frankfurt, Europe’s most important platform for equity capital financing for medium-sized enterprises, which takes place regularly in November.

Other events were held over the year and there were numerous one-to-one meetings, either in person or over the telephone. A number of these one-on-one talks with investors, analysts and interested parties took place in the Group’s Berlin headquarters. Overall, IR activities continued to intensify compared with the previous year, which shows at the same time that interest in FP’s shares is growing significantly.

The FP Group also uses conference calls as an important forum for dialogue after the quarterly figures have been published. The associated presentations have been made available on the company’s website for the benefit of all interested parties. Visitors and capital market participants can also find all further relevant background information on the company’s homepage at www.fp-francotyp.com.¹⁾ Together with annual and half-year reports, the FP Group’s quarterly reports, financial presentations and press releases can also be found here. All the latest developments, such as announcements about voting rights or directors’ dealings, can also be found there.

In the 2020 fiscal year, the company will continue its dialogue with investors and intensify its IR activities. FP’s presence at international roadshows and capital market conferences will be continued in order intensify existing contacts and establish new contacts with investors.

For any inquiries, please contact the Investor Relations team by e-mail (ir@francotyp.com) or phone on +49 30 220 660-410.

1) This reference is not part of the audit of the financial statements by KPMG AG Wirtschaftsprüfungsgesellschaft.

KEY SHARE DATA	
Number of shares	16.3 million
Type of shares	Bearer shares
Share capital	EUR 16.3 million
Voting rights	Each share grants one vote
SCN	FPH900
ISIN	DE000FPH9000
Stock exchange symbol	FPH
Trading segment	Official market (Prime Standard)
Stock markets	Xetra and regional German exchanges
Designated sponsor	ODDO SEYDLER BANK, Baader Bank AG
Coverage	Warburg Research, LBBW, GSC Research, Dr. Kalliwoda Research, Baader Bank
Announcements	Electronic Federal Gazette
Closing price (Xetra)	EUR 3.45 (30.12.2019)
High (Xetra)	EUR 3.78 (06.03.2019)
Low (Xetra)	EUR 3.00 (02.01.2019)
Market capitalisation as at 30.12.2019	EUR 56.2 million
Earnings per share (basic)	EUR 0.11
Earnings per share (diluted)	EUR 0.11

GROUP MANAGEMENT REPORT

41	Group Principles
57	Economic Conditions
58	Results of Operations
64	Financial Position
68	Net Assets situation
71	Overall Assessment on the Course of Business and Position of the Group
72	Report on events after the reporting date
72	Risk and Opportunity Report
84	Forecast
86	Takeover-related disclosures
89	Remuneration Report
96	Francotyp-Postalia Holding AG (Condensed Version – HGB)

Please note that there may be rounding differences compared to exact mathematical figures (monetary units, percentages, etc.).

1. Group Principles

1.1 Business Activities

Francotyp-Postalia Holding AG (FP Group, FP, Francotyp-Postalia or the company), is head-quartered in Berlin and looks back at a history spanning 97 years. The FP Group’s business activities focus on products and services for efficient mail processing, the consolidation of business mail, and digital solutions and Internet of Things (IoT) applications for businesses and authorities. The company, which has subsidiaries in various industrialised countries and a dense worldwide network of dealers, divides its business activities into three product areas: Franking and Inserting, Mail Services and Software/Digital.

1.1.1 Product areas

Franking and Inserting product area

In the Franking and Inserting product area, the FP Group develops franking and inserting systems. FP sells and leases these systems and also offers customers a comprehensive service package. Customers can use franking systems to frank their mail quickly and automatically. This makes their everyday office life easier and saves postage costs. One main revenue generator is the aftersales business, which generates recurring revenue from the leasing of franking machines, the sale of consumables such as tape or ink cartridges, services, software solutions for cost centre management, FP Parcel Shipping and the Teleporto service.

Mail Services product area

The Mail Services product area comprises the franking service – collecting unfranked outbound post and providing the franking – and the consolidation service – sorting the post by postcode and delivering it in batches to a regional office of Deutsche Post AG or an alternative postal distributor. This business is operated by the FP Group with eight sorting centres throughout Germany, being the leading independent consolidator of business mail on the German market.

Software/Digital product area

The Software/Digital comprises the business with hybrid mail services and solutions for secure digital communication. With its hybrid mail services, the FP Group offers its customers universal complete solutions for incoming mail processing (FP Input). This involves digitising all incoming mail, analysing it according to the customer’s specific criteria,

evaluating it and then feeding it into the customer’s data or document system in an electronic form. In addition, FP also handles output management (FP Output), i.e. printing, inserting, franking and handover to the mail delivery services. The FP Group’s secure digital communication services primarily comprise products for long-term storage and protection of electronic documents using encryption and signature software, such as FP Sign, a cloud-based electronic signature solution for the legally binding digital signing and exchange of contracts and documents. The Software/Digital product area also includes the FP Group’s range of products and solutions for the Internet of Things (IoT). High-security edge gateways, one of the key components of the Internet of Things, were developed on the basis of the tried and tested, decades-old franking machine technology. FP now offers its customers tailor-made, cloud-based end-to-end-solutions for the secure transfer, management and analysis of data in the Internet of Things.

1.1.2 Significant sales markets and competitive position

With its franking systems, the FP Group is represented on the most important markets in the world, which include Germany, the US, the UK and France. Having installed approximately 216,000 franking systems, the company’s global market share has improved to over 12 % (Source: Postal Companies Statistics and own estimates). As a result, the FP Group is the third-largest provider worldwide. In Germany and Austria, the company is the market leader, with a market share of approximately 43 % and 53 % respectively. Global sales are performed by subsidiaries in Germany, the US, Canada, the UK, the Netherlands, Belgium, France, Austria, Italy and Sweden as well as by a dense network of dealers in around 40 countries. Global sales are handled in three regions: North America, Central Region (Germany, Austria and Switzerland) and Middle Europe (remaining European countries and worldwide dealer network).

In many markets the letter volume is shrinking as a result of digitalisation. Also in fiscal year 2019 the FP Group witnessed an ongoing trend towards smaller franking systems. The FP Group traditionally focuses on the A and B segment for franking systems and has franking systems especially for smaller and medium volumes of letters with the Post-Base family. By launching a new product generation under the PostBase Vision brand in the 2019 fiscal year, the FP Group intends to further expand its market position in the A segment.

A segment	B segment	C segment
1–200 letters/day	200–2,000 letters/day	> 2,000 letters/day

In the Mail Services product area, the FP Group guarantees the extensive collection of business mail and has thus established itself as an consolidator on the German market thanks to a nationwide structure with eight sorting centres in Langenfeld, Hamburg, Hanover, Berlin, Leipzig, Frankfurt, Stuttgart and Munich. The FP Group has its own printing and scanning centre in Berlin for its hybrid mail services business in the Software Solutions segment. There is also a printing centre at the Austrian Group company in Vienna.

In the course of the 2019 fiscal year, FP also offered the FP Sign product to franking machine customers via its subsidiaries in various countries.

1.2 Strategies and Objectives

1.2.1 New era with ACT strategy

The FP Group drew up the ACT strategy over the course of 2016 and presented it to the public in November of the same year. The ACT strategy aims at developing the Group into a dynamically growing company. The new growth strategy persuasively dispels the three long-standing myths about the FP business model:

- 1. “The franking machine market is shrinking rapidly due to declining letter volumes.”
- 2. “The FP Group cannot grow in business with franking systems.”
- 3. “Digitalisation is happening overnight and disrupting the market.”

The FP Group is countering this with its strategy and shows progress and measurable results, also in the third year in which ACT was implemented.

Revenue growth in the franking machine business is viable

The performance of the FP Group in fiscal years 2016 to 2018 already indicated the potential still to be tapped in the core business with franking systems. This trend continued in 2019 in a challenging market environment. The Franking and Inserting segment achieved revenue growth of 3.6 % in fiscal year 2019 after adjusting for currency effects. This was driven

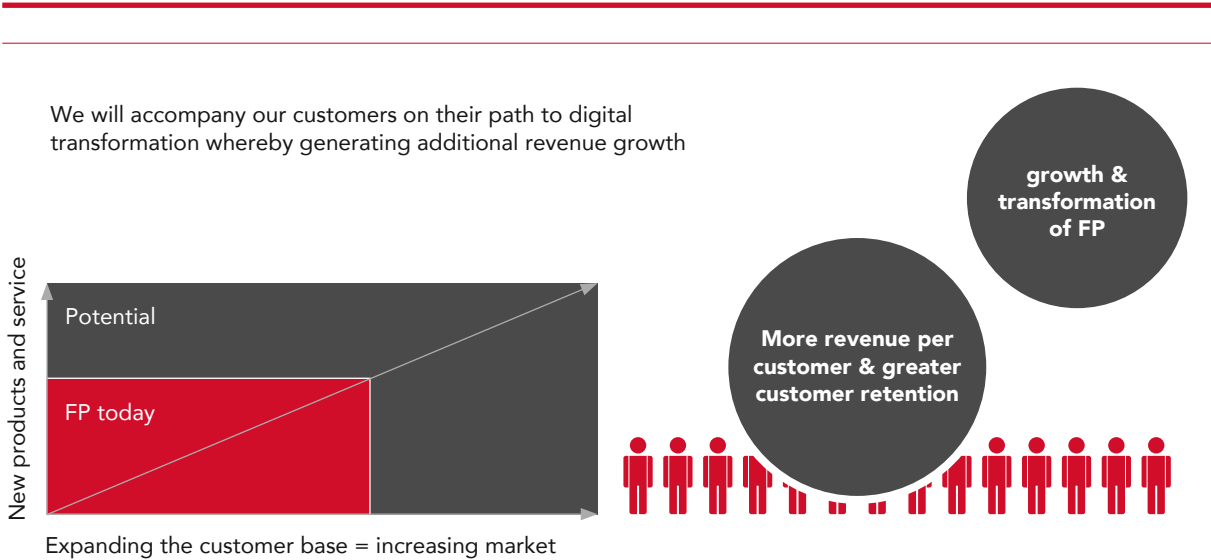
by the strategic positioning towards the segment of smaller letter volumes. FP’s existing product range has been expanded by the launch of PostBase Vision in 2019. The FP Group thus appeals to a broad spectrum of businesses worldwide, from small customers to customers with medium and large volumes of letters. The majority of small and mid-size companies still continue to rely on letters and postal distribution for the secure delivery of sensitive documents.

The franking machine market offers further growth potential

Within the franking machine market, the penetration of digital communication processes is bringing substantial change: companies are increasingly replacing large systems for high volumes of letters with smaller systems. Businesses that previously processed large to very large volumes of letters themselves are now outsourcing this processing to third-party service providers. Small volumes of letters remain within the companies, for which small, easy-to-use franking systems can now be utilised instead of large franking machines. This segment shift is offering Francotyp-Postalia opportunities to gain new customers, as the FP Group has systems that have won multiple awards for their design and functionality, including in particular the PostBase franking systems in the A segment. The FP Group began launching PostBase Vision, a new generation of franking systems, midway through fiscal year 2019 – initially in the US, then in Germany, the UK and France. PostBase Vision has a newly developed printing system as well as a more convenient operation via touchscreen, for connecting to other customer systems and for additional online offers of further products and services.



PostBase Vision



Digitalisation is happening gradually

Digitalisation itself generally takes place in three stages:

- 1. Digitalisation of incoming mail,
- 2. Production and processing of outgoing mail,
- 3. Complete digital document and transaction management.

The digitalisation of these processes takes place successively and in most cases does not result in previously fully analogue, paper-based communication and document processes becoming exclusively digital immediately. Instead, the two communication channels operate side by side. Digitalisation is therefore not disrupting the market, but is leading to a longer-lasting transformation process for the customer. The FP Group already has solutions such as FP Sign for supporting this process with secure fully digital handling, in particular confidential communication processes including contracts.

A paradigm shift at the FP Group

The implementation of the ACT strategy aims at expanding FP’s existing customer base of around 200,000 companies by exploiting the segment shift in business with franking systems. At the same time, with each existing customer and each new customer there is an opportunity to accompany them through the digital transformation process and offer them secure digital communication products and services in addition to traditional mail processing.

The ACT strategy takes these opportunities into account. It comprises the three components of **Attack**, **Customer Journey** and **Transformation**.

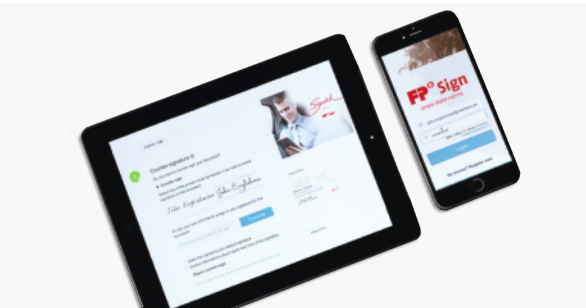
Attack: expanding the customer base, revenue growth and increasing the market share in the core business

The FP Group’s core business with franking systems has more growth potential than was assumed initially. With the launch of PostBase Vision, the FP Group is enhancing the PostBase family and is prepared for changes in customers’ requirements. With a targeted market development strategy, especially in the US, the UK and France, which are still the most attractive markets, the FP Group wants to acquire further market share in the core business and expand its customer base. This goal was also served by the transformation of international sales, which began in 2018 and will be consolidated into three major sales regions under uniform management.

Customer Journey: developing new solutions and services for existing and new customers

The FP Group is adapting to the changes in customer requirements. The existing roughly 200,000 customers worldwide, most of which are small and medium-sized companies, will be offered new digital products and services via the discoverFP customer portal. This includes a desktop-based online solution for franking and posting parcels (FP Parcel Shipping, starting in the US), web shop services and the option of using hybrid mail services of the FP Group. The Input/Output management services are being expanded successively with the addition of new solution components as well as solutions for new customer segments. The FP Group is

increasing its market opportunities with additional innovations. For example, FP Sign is a pioneering product. With this solution for the secure, confidential and legally binding digital signing and exchange of contracts and documents, the FP Group is addressing the growing market for electronic signatures (global e-signature market), which is expected to expand by 30–35 % per year up to 2023 (PS Market Research). The product was enhanced in 2019 with the addition of new features and was successively introduced into other countries including the USA, UK, Sweden and Austria.



Transformation: developing new, digital business areas

At the same time, the FP Group’s evolution to become a partner for digitalising processes means that it also has to change. The challenges here primarily relate to the implementation and use of new, agile methods of innovation for better and faster strategic positioning and the adjustment in line with changing customer needs. This includes in particular the development and marketing of new digital products and business models that go beyond the traditional customer base and market segments.

FP can put its technological core areas of expertise to use here and build on its DNA (sensor systems, actuator technology, connectivity, cryptography). More than 200,000 machines are connected to the FP servers in Berlin. This allows not only the highly secure readout of data, but also bidirectional communication in accordance with the highest security standards. The FP Group already operates the infrastructure needed for the Internet of Things. The technology stack of the franking machine is therefore particularly well suited for gateways with edge computing functionalities. FP extended its value chain already in 2018 with the acquisition of Tixi. Further progress was made in 2019, both with the company’s own developments in the gateway segment and by taking a stake in Juconn GmbH. FP is thus becoming increasingly established in the secure IoT solutions business and moving towards opening up completely new sales markets and circles of customers.

1.2.2 Midterm targets for dynamic growth under review

With the adoption of the ACT Strategy 2016, the FP Group had set itself ambitious goals: By 2023, the year of its 100th anniversary, revenue was to be doubled to around 400 million euros and an EBITDA margin of around 20 % was to be achieved. Already in the 2019 financial year, expectations regarding the speed of strategy implementation proved to be too optimistic. The current SARS-CoV-2 pandemic poses enormous challenges to society, the economy and the nation, and thus also to FP, and the full economic consequences, both in terms of their extent and duration, are currently not foreseeable. For this reason, the originally formulated medium-term goals are being suspended until further notice. The Management Board and Supervisory Board will also propose to the Annual General Meeting that the dividend for the 2019 financial year be suspended.

Irrespective of this, the FP Group’s dividend policy for the future will remain constant: assuming a positive free cash flow, the company is planning a payout ratio of 35–50 % on adjusted consolidated net profit.

1.2.3 Corporate growth through acquisitions, equity investments and mergers

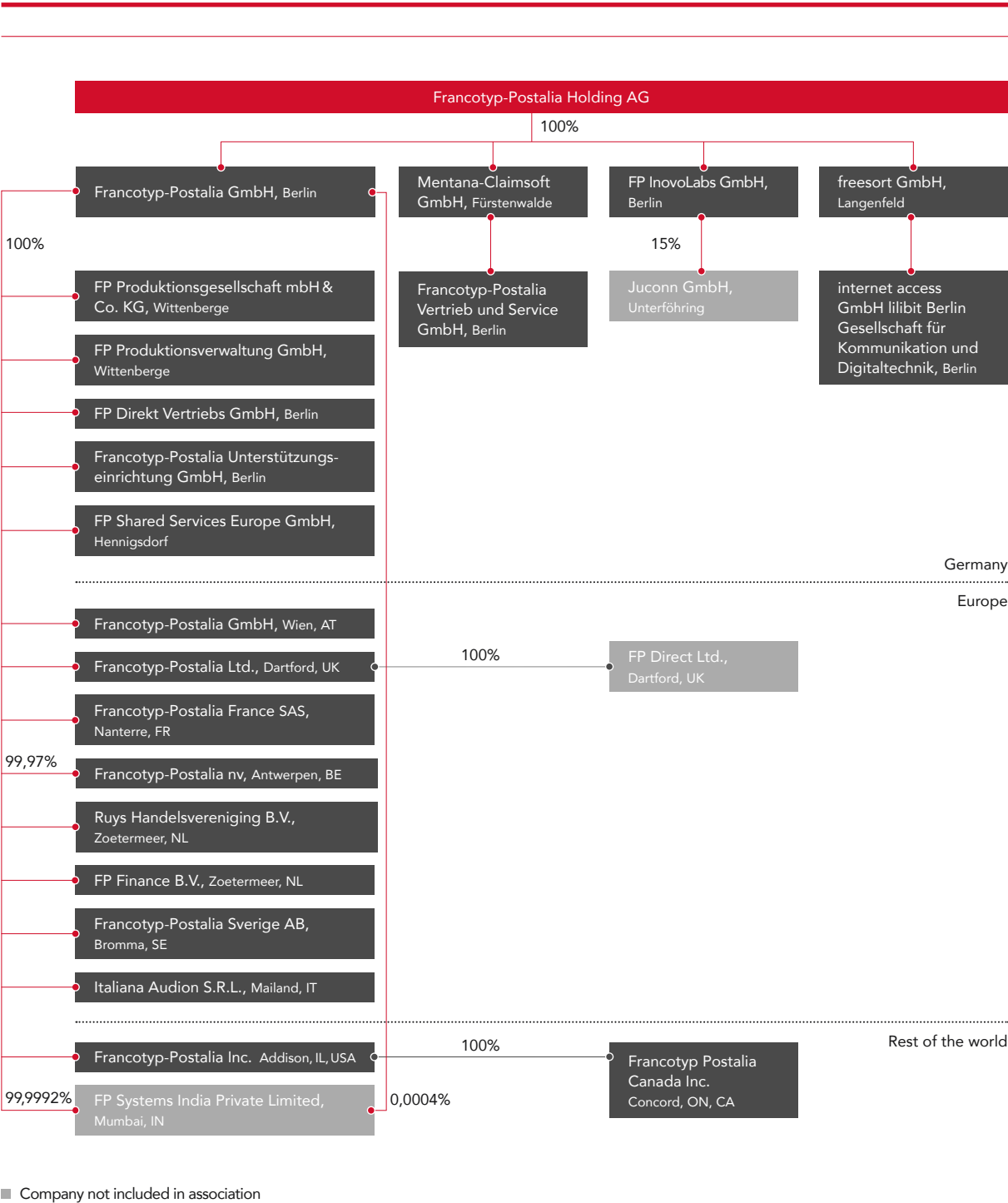
The requirements of the ACT strategy are based on the assumption that the targets can essentially be met without acquisitions. Nevertheless, opportunities for expanding the business by means of acquisitions or investments will be examined carefully and, provided they are strategically suitable and the purchase price is reasonable, will be taken.

The FP Group considered numerous potential acquisitions and equity investments during fiscal year 2019, but none was able to meet all the strategic and financial targets in full.

1.3 Organisation

1.3.1 Group structure and locations

The chart below shows the Group structure as at 31 December 2019.

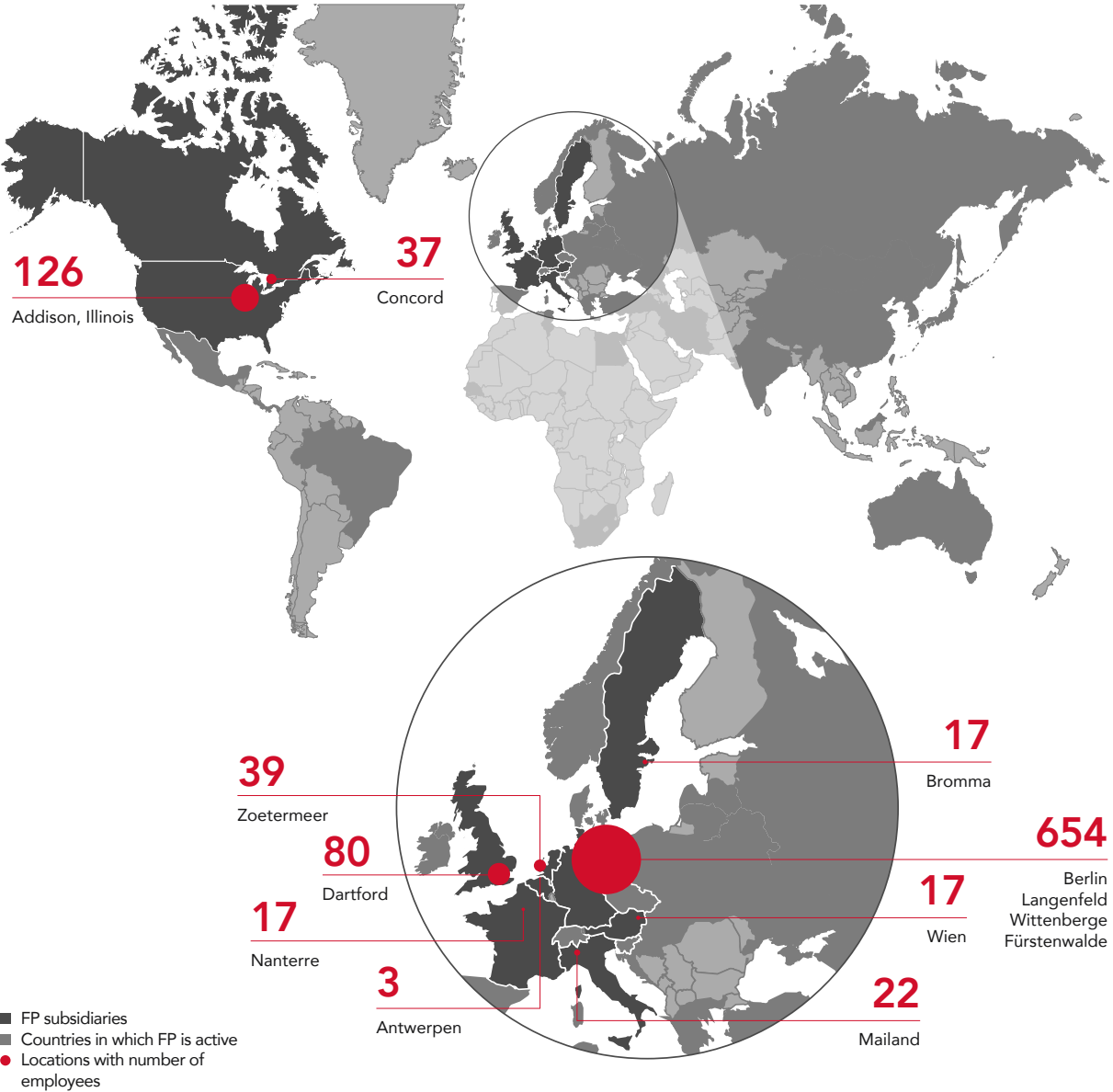


The headquarters and main offices of the FP Group are located in Berlin. Key departments such as Controlling, Accounting, Tax and Treasury/M&A, HR, Procurement, IT and Group Controlling are based in Berlin. The development of franking systems and new digital products and business models also takes place there.

Since 2012, the FP Group has been manufacturing its franking systems exclusively in Wittenberge, Brandenburg in Germany.

FP has subsidiaries on the markets in Germany, the UK, the Netherlands, Belgium, Austria, Italy, Sweden, the US, Canada and France. It also has a dense global network of dealers for distributing its franking and inserting systems. An overview of the subsidiaries can be found in the notes to the consolidated financial statements. The organisational and leadership structure has been realigned with the implementation of the ACT project JUMP. Sales have been consolidated in three large regional organisations since 2019: North America, Central Region (Germany, Austria, Switzerland) and Middle Europe (rest of Europe and international dealers).

OUR LOCATIONS WORLDWIDE



1.3.2 Management and controlling

The FP Group is managed by the Management Board independently. It consists of three members who are appointed by the Supervisory Board. The members of the Management Board are jointly responsible for managing the business. Please see section V. Management Board and Supervisory Board (additional disclosures in accordance with German Commercial Code) in the notes to the consolidated financial statements for information on the Management Board members' responsibilities according to this schedule of responsibilities.

The Management Board works closely with a team of national and international managers. In the course of the 2019 financial year this cooperation was enhanced through the establishment of an Executive Committee that includes the Management Board.

The Supervisory Board with three members monitors and advises the Management Board. There was one change of personnel on the Supervisory Board in fiscal year 2019. Robert Feldmeier, a member of the Supervisory Board for many years, resigned from office with effect from 20 October 2019 at his own request for personal reasons. This prompted the Management Board to ask the competent court, Charlottenburg Local Court, to approve the appointment of Dr Mathias Schindl as a new member of the Supervisory Board. As at 31 December 2019, it comprised the following members: Klaus Röhrig (Chairman), Botho Oppermann (Deputy Chairman) and Dr Mathias Schindl.

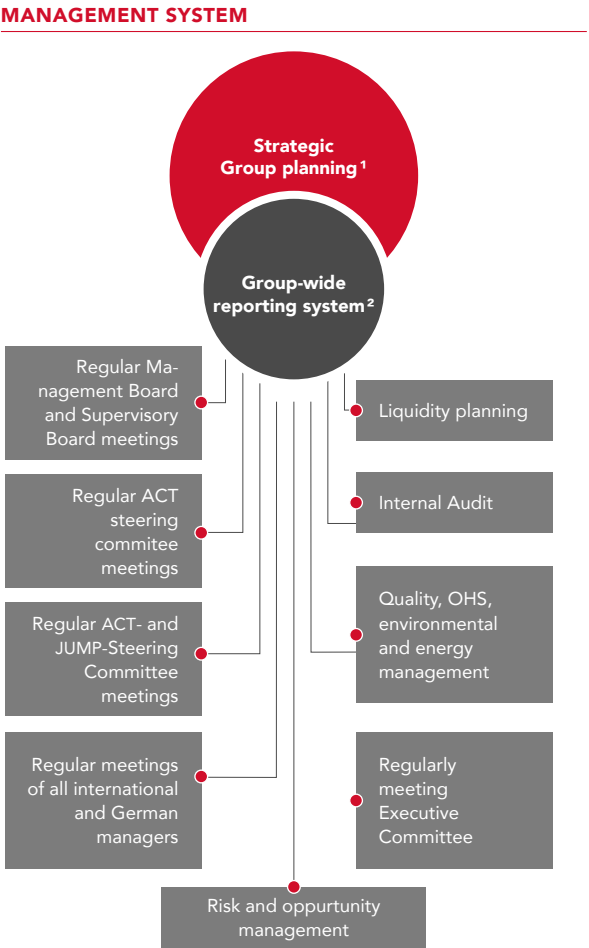
Group's Declaration on Corporate Governance Pursuant to Section 315d HGB in Conjunction with Section 289f HGB

The declaration on corporate governance¹⁾ in the FP Group contains the information required in accordance with section 315d of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with section 289f HGB and is published on the homepage of the FP Group (<https://www.fp-francotyp.com/en/corporate-governance-report/daf25965d3a9381f>).

1) The declaration on corporate governance is not part of the audit by KPMG AG Wirtschaftsprüfungsgesellschaft.

1.4 Management

1.4.1 Management system



1) Covers a period of three years, is adjusted annually in the budget process and during the year, if necessary
2) Monthly on net assets, financial position and results of operations

The FP Group organises its operating activities in four segments: Production, Sales Germany, International Sales, and Central Functions. This segmentation is in line with the company's internal reporting.

The structure and organisation of the global FP Group are being changed with the ACT project JUMP and optimised according to a new target operating model. At the same time, a uniform ERP/CRM landscape will be introduced to offer worldwide support for the future uniform processes. As well as restructuring the Sales organisation, the internal procedures were also reviewed and realigned during fiscal year 2019 to make them more process-oriented. Many administrative functions that were previously carried out locally are now concentrated in two Shared Service Centres, one in

North America and the other in Berlin/Brandenburg. This shall leverage synergies and improve efficiency across the Group. While this will be accompanied by a general reduction in the number of employees, more employees for strategic and support functions will be required in the future. Overall, the FP Group is planning to achieve growth in revenue and earnings with the ACT project JUMP without having to increase the total number of employees proportionally.

1.4.2 Financial performance indicators

Group management is essentially carried out using the following financial performance indicators:

- revenue,
- EBITDA,
- adjusted free cash flow.

The FP Group thereby ensures that decisions take sufficient account of conflicting priorities: growth, profitability and cash flow.

Revenue is used to gauge market success. The Group uses earnings before interest, taxes, depreciation, and amortisation (EBITDA) to measure operational performance and the performance of the individual business units.

In principle, taking free cash flow into account ensures that the financial substance of the Group is preserved. Free cash flow is derived from the net cash flow from operating activities less capital expenditure. For the adjusted free cash flow, the free cash flow is adjusted for investments in finance lease assets and M&A and for payments for the ACT project JUMP.

1.4.3 Non-financial performance indicators

In addition to financial performance indicators, the FP Group also uses non-financial performance indicators to manage the company. The focus lies on the quality of the service range, which is measured using a quality and an improvement indicator.

The quality indicator measures changes in product quality based on annual servicing incidents in relation to the average weighted installed base of machines. Ongoing changes such as the introduction of new products or the optimisation of existing ones are also taken into consideration. Until now, this indicator has only been measured in Germany and applied on a comparative basis to the international subsidiaries, for example to help calculate costs. From 2020 onwards, it will be renamed PQI – Germany and supplemented by the indicator PQI – International. The Product Quality Indicator – International is likewise calculated from the average

installed base of machines and the annual number of servicing incidents. However, it aggregates all data from Belgium, the UK, Italy, Canada, the Netherlands, Austria, Sweden and the US, i.e. those countries that supply the FP Group with data on service incidents to help identify opportunities for improvement. As the value for the PQI – International is calculated in a different way to that for the PQI – Germany and will first be reported on for 2020, it has also been calculated for 2019 in order to compare the trend. Both PQIs only cover products currently being manufactured in Wittenberge (this has been the case since 2019). Figures for PostBase Vision will also feed into the indicator in 2020.

New developments in our PostBase franking systems have allowed us to significantly increase quality over the past few years. The PQI – Germany improved by 34 % between 2018 and 2019, falling from 14.6 to 9.6. The reason for this is the systematic improvement in quality that has been implemented in the current product series. The PQI – International amounted to 45.4 in 2019.

We are anticipating slight improvements in both the PQI – Germany and PQI – International in 2020 as we will be continuing to increase our product quality through improvement projects devised by the quality groups.

The improvement indicator also records the quality of FP products, especially the quality of new franking systems. It was previously based on the amount of parts used for improvements to machines already delivered and measures the ratio of costs for parts warranty claims to total revenue. Since 2019, and retrospectively for 2018, the nf IQ has been calculated based on costs for parts warranty claims and the revenue generated by franking machines. The FP Group records the necessary data on a monthly basis; an analysis of past years shows that the indicator embarks on an upward trend when a new generation of franking systems is introduced. After adjusting the calculation basis, the nf IQ for 2018 amounted to 0.62. In 2019, the nf IQ rose slightly to 0.65, resulting in higher warranty costs, especially in the first half of 2019. nf IQ is expected to improve in fiscal year 2020 as the measures from the regular quality circles take effect.

The FP Group regularly uses these two non-financial performance indicators internally with respect to the issue of sustainability. Both non-financial performance indicators measure sustainable increases in product and service quality. Improvements in the two indicators serve to ensure customer satisfaction and thus the company’s financial success. This also helps to ensure more sparing use of material and human resources.

1.5 Research And Development

1.5.1 Presentation and explanation of research and development activities

1.5.1.1 Focus

As a high-tech company, FP enjoys a **tradition in innovation** stretching back decades. The transfer of monetary data streams and secure communications have helped to build up our special expertise in the development of functionalities that meet the requirements of the different postal authorities and companies across the globe. These competencies characterises the DNA of FP with its components of sensor systems, actuator technology, connectivity and cryptography.

The work of the Research and Development department is focused on product development for relevant innovative solutions, physical products and software for the company’s target markets. Activities of basic research that primarily do not have an economic purpose are less of a priority.

Rather, the focus lies more on developing products and processes connected with **secure digital communication** by harnessing FP’s core areas of expertise.

1.5.1.2 Objectives

The overriding objective of research and development is to support the key strategic measures under the ACT strategy by developing innovative products and overhauling existing ones based on the evaluation of markets and technology. This is particularly true in FP’s digital business areas giving rise to the following main priorities:

- Maintaining and expanding the core business
- Strengthening digital products
- Developing the IoT as a business area
- Continuously adapting the organisational structure
- Cooperation with universities and start-ups

1.5.1.3 Core areas of expertise

Development activities are focused on FP’s core areas of expertise

- Secure infrastructures
- Cryptography (security and encryption software)
- Sensor and control solutions
- Software
- Connectivity
- Agile development processes
- Testing and test automation

Secure infrastructures

FP develops and operates secure infrastructures that underpin billing services, which are an important core element of the digital transformation. They are helping to accelerate the shift away from selling hardware-based products and towards offering solution-oriented services. Customers use services in just the scope and for just as long as they need and only pay for what they use. However, the duration and scope of this use are growing ever smaller.

The proliferation of such “pay-as-you-use” services is calling for increasingly secure and flexible billing services for services of all kinds, which will mean a significant rise in demand for billing services on the market.

Cryptography (security and encryption software)

Secure billing services require modern encryption technologies. Encryption means cryptography. For over 15 years, Francotyp-Postalia has been utilising its expertise in applied cryptography and adapting it continuously to new technologies and requirements. Mastering this technology is vital for all FP products and therefore the main R&D discipline. Cryptography makes information systems resistant to manipulation and unauthorised reading. It is therefore used wherever secure storage and transmission of confidential data is required. These technologies are complemented by functions that permit the sender of information to be clearly identified. FP offers a range of different security solutions to this end. In the case of franking systems, these solutions essentially enable the high-security transmission of monetary values and sensor data. In the IoT environment, meanwhile, they ensure that all types of data can be transmitted from its place of origin to various cloud services, while retaining its unique identity.

Sensor and control solutions

The tried-and-tested Tixi.com interface technology that FP has acquired allows data to be obtained from almost all sources such as industrial management systems, energy meters and all types of analogue and digital sensors, and made available for evaluation and use in digital services. The applications created using this technology in 2019 are extremely versatile and range from building management, control of photovoltaic systems, virtual power plants and energy management at airports all the way to industrial facilities such as injection moulding machines, ships, hardening shops and mobile waste compactors. Work began in 2019 on implementing more new interfaces such as LMN and CLS for value-added services for smart meter gateways.

Software

Software is of critical importance to the success of FP products in use around the world. In order to drive its software development in a focussed manner FP is increasingly consolidating its software development in competence centres. Software development today encompasses much more than “simple” machine control and ranges from PC and web applications and embedded software to the servers used to manage data, carry out cryptography and implement cloud solutions. Two distinct areas of competence have been formed, each with its own remit. The first comprises application development, which focuses on PC and server software, cloud applications and the development of mobile applications for the Android and iOS operating systems. This area was newly established in Global IT and its application development team. The second area focuses on developing embedded software, primarily industrial IoT, and on further developing the products in the core business of Franking and Inserting.

Connectivity

These days, all FP’s products and services are closely interlinked. FP has a growing installed base of more than 200,000 PostBase, PostBase One and PostBase Mini systems, which all communicate with the FP Repository. These are complemented by over 30,000 IoT Gateways, which are connected to infrastructure run by customers or FP. The FP Repository monitors the condition of the connected systems, and a wide variety of services can be offered or executed. Each product and service is a complex solution that is connected to and communicates with other solutions. The discoverFP portal combines the different services and establishes a connection to hybrid or fully electronic mailing systems. Cloud systems can be used to access parcel services such as FP Parcel Shipping and to exchange or sign contracts and documents legally, securely and confidentially, even on the move, thanks to the FP Sign solution.

Agile development processes

The optimum utilisation of resources and expertise is crucial to success in research and development. The tried-and-tested use of agile development methods enables FP to adapt products dynamically to market requirements. At the beginning of a project, there is an idea, which is not carried out rigidly in the sense of a conventional “waterfall model”, but can be continuously improved through early contact with customers and marketing. In addition to the agile execution of projects, FP is also making increasing use of agile methods in the product definition phase. These design sprints already result in quick market feedback during the inception phase of the product idea. FP now uses agile processes and methods integrated into a mature multi-project management environment on all projects where this is practical.

Technical centre

FP’s multifunctional technical centre brings together development results and approaches to solutions from the various specialist areas. Potential functional principles can be developed, tested and analysed in the experimental laboratory to provide a basis for important decisions on product design. This is also becoming increasingly relevant for the innovative solutions for data gathering and evaluation in the IoT environment in particular. The “time to PoC”, i.e. the time in which “proofs of concept” for verifying business models for customers can be developed, created and tested, is growing ever more crucial. At the same time, the technical centre offers space to make necessary changes in real time and carry out further testing. Above all, the decision to further upgrade its technology, for example with 3D printers, is proving its worth. Highspeed cameras and climate cabinets also enable research environments to be set up that can visually detect processes quickly and simulate long lifetimes. This gives FP key insights into the long-term performance of the products to be developed. New methods using alternative printing technologies as well as simulated ageing processes are just two examples of the insights gained by the technical centre in the areas of design and electronics.

The technical centre also began automated software testing for the IoT gateways in 2019. The workability of new developments and new software releases is checked in a complex, automated testing environment comprising a range of typical programmable logic controllers (PLCs) and standard metering infrastructures.

The technical centre does not just try out new technologies, but also assesses their use in products and new innovative solutions. The interplay between new and old and the experience gained from experiments create a fertile environment for developing products. The range of new and/or alternative technologies is very diverse, encompassing the use of printing technologies, communication techniques and what is known as human-machine communication.

1.5.1.4 Activities

Specifically, work in 2019 focused on maintaining and expanding the core business, developing digital products, adapting and transforming development activities, and co-operating with universities and start-ups.

Maintaining and expanding the core business

A total of 55 software releases from the PostBase product family, including national variants, were created, tested and rolled out. The PostBase can thus be found in 29 countries and the PostBase Mini in 17.

Another priority was finalising and launching the new PostBase Vision generation of franking machines in four key markets and five different national variants. This also involved completing development of the new one-inch printing system, including testing and approving new postal inks with a particular focus on environmental sustainability.

Another prerequisite for introducing the PostBase Vision, which was honoured with the IF DesignAward, was finalising development of the new hardware security module (HSM) with a modified “Factory Data Center” production environment and modified infrastructure for rollout. As well as compatibility with all PostBase platform systems, the architecture of this HSM also offers new interfaces for use in FP Secure Edge Gateways for the industrial areas of application of the IoT.

A FIPS (Federal Information Processing Standard) licence was also obtained in 2019 for the new generation of HSMs for franking systems and products in the IoT field. This licence is a prerequisite to offer franking services in the US.

A further highlight was the development of processes and software that enable the PostBase Vision franking machine to be closely linked to FP’s customer portal discoverFP for the first time and cloud services to be integrated.

Developing digital products (excluding IoT)

Application development focused on further developing the cloud-based digital signature solution FP Sign and, in particular, on adding key functions and convenience features, incorporating requirements from other countries and developing FP Sign mobile apps for Android and iOS in connection with its rollout via app stores.

Other major areas of activity included developing a shipping solution for sending parcels for the US market and integrating the necessary infrastructure as well as providing support to the rollout of the international discoverFP portal.

Further developing the IoT as a business area

The focus in the IoT environment was on honing the focus of activities along the IoT value chain.

The IoT (Internet of Things) will fundamentally change the habits of all people. In short, this technology means that a device that is connected to the internet can communicate directly with other devices, a group of devices or a platform. The possibilities for communication range from the transfer of simple status updates, e.g. the current temperature, to complex management of industrial facilities. As varied as the applications may be, however, they all have one thing in common: the need for data security. The integrity of the data transmitted must be ensured, i.e. it must be unchanged, complete and authorised by the expected communication participant. In some sensitive areas, confidentiality must also be guaranteed – unauthorised persons must not be able to read the content.

With the acquisition of Tixi.com, FP has closed a gap in the upstream section of the value chain. The Tixi technology enables access to sensors, control units and almost all kinds of data sources.

In January 2019, FP has taken a stake in Juconn GmbH so that it can offer its customers real end-to-end-solutions, thus rounding out FP’s range of solutions in the downstream section with dashboards, monitoring features and the use of analysis and blockchain functions.

In 2019, FP focused its IoT development activities on products for its newly defined target markets of infrastructure automation, energy distribution, renewable energy and the safe and secure retrofitting of automation facilities and the implementation of new interface solutions such as OPC UA and ESPA.

FP IOT VALUE CHAIN

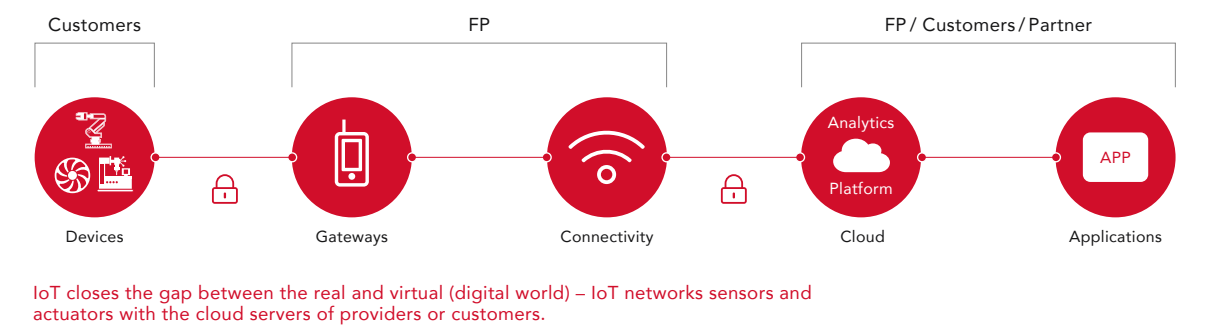


Figure 1: IOT Value Chain

This enabled the IoT product portfolio acquired from Tixi to be integrated and harmonised so that it is tailored to the target markets, using FP’s secure technology and creating a uniform pricing and product structure. This development was underlined with the launch of the FP Secure Gateways product family in a new design. It is now divided into the ENGard, OTGuard and Compact product groups as well as the Secure Connector. The functional design of the FP Secure Compact Gateway was presented with the Red Dot Design Award in 2019.

Changes in Research and Development Activities compared to the previous year

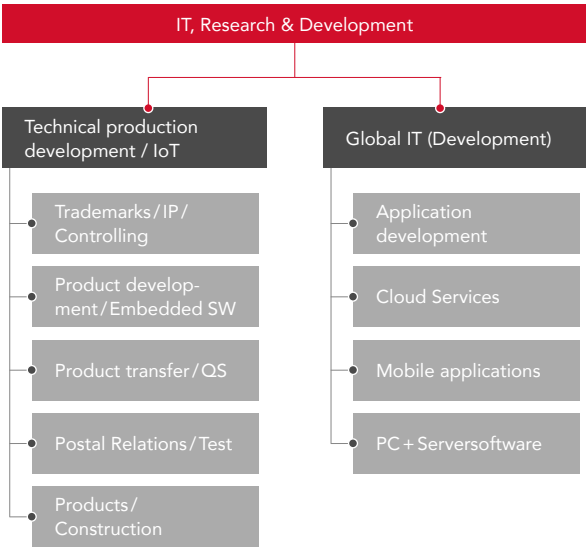
In line with the focusing measures described, the organisational structures at both division and department level were completely overhauled in terms of both content and location, with the emphasis now on the digital areas of business.

This involved pooling all IoT activities at Prenzlauer Promenade 28 and closing the site in Berlin-Frohnau.

In late 2019, the IoT sales setup was significantly expanded and staffing levels increased by focusing the work of internal teams as well as purchasing and onboarding more technological expertise.

The application development department has been moved from R&D to IT. Grouping these application development activities under a single management team in IT shall make processes more efficient and reduce the number of internal interfaces.

The restructuring of the development department, the integration of Tixi and the focus on IoT processes and digital products required major modifications to process maps and controlled documents. The organisational changes made were incorporated into the integrated management system (IMS). All relevant processes and controlled documents were developed successfully. The objectives here included organisational development, building up knowledge management and strengthening internal and external communication.



Cooperation with universities and start-ups

The FP Group has been in active discussions with universities and other educational institutions for a long time. For example, FP offers students working on their bachelor’s and master’s dissertations opportunities to consult and work with experienced FP engineers and FP developers and use FP’s laboratories and workshops for their own research and developments.

In this context, FP enables funding projects to be provided with organisational and human resources support. In 2019, therefore, activities focused primarily on a form of funding screening, the CEF project “StudIES+”, as well as giving support to a study for the International Management master’s course at Pforzheim University of Applied Sciences.

FP is leading a consortium together with SiXFORM GmbH, Bundesdruckerei GmbH and Hochschule Harz, the latter via the netlab at its Department of Automation and Computer Sciences, as part of an EU funding programme entitled “Connecting Europe Facility (CEF) 2014–2020 TELECOM Call 2017”. FP has mainly developed solutions for digital student IDs as well as secure, authenticated document exchange based on the European eIDAS Regulation.

In September 2019, FP also launched a project called “Market analysis for discoverFP.com – the FP platform for proprietary and third-party solutions in the UK” together with students at Pforzheim University of Applied Sciences as part of its International Management master’s course. With the support of colleagues from FP UK, the students carried out detailed market analyses, customer interviews and competition analyses in order to identify potential innovative solutions, including new business and marketing models for the platform.

1.5.1.5 New products

All areas of R&D activities came up with new products with an impact on the market.

Core business

New franking system PostBase Vision

The PostBase Vision was rolled out in the US, France, the UK and Germany. Work has begun on the national variant for Canada.

PostBase Vision is the consistent further development of the PostBase “Classic” franking system, which was introduced in 2012. Its market launch began halfway through fiscal year 2019. With a new design, the PostBase Vision shall convince customers, while making it even more future-proof and user-friendly. The colour touch display, which has been increased in size by 40 %, swivels and adapts to the user automatically. The display now allows users to control functions with swiping gestures and enter text and QR codes on the PostBase Vision itself. The new, intuitive graphical user interface (UX) has been complemented with new interfaces such as Wi-Fi and Bluetooth. The PostBase Vision thus also represents the first time an innovative one-inch printing technique has been used in production for franking products, offering new features to protect against generic or refill products. It employs the latest-generation hardware security module.

Customers can choose from five modern colour designs for the Post Base Vision, each of which matches the current office design world.

The close integration of the franking machine’s features in discoverFP, the portal to the digital FP world, is a new development. The discoverFP portal now gives customers direct access to their account details, contact details, purchase orders, invoices and contracts. They can use their customer number to obtain their R-Pin for initial registration and log into the portal at any time. In the event of faults on their machine, the discoverFP portal provides a quick route to solving their problems. The FAQs give customers relevant help and tips, while the search for diagnostics codes lets them find the right solution quickly, add new features to their machines and see the current status, ink cartridge fill levels, their postage credit and their top-up status whenever they like.



Figure 3: PostBase Vision

discoverFP customer portal

The discoverFP customer portal has now been rolled out to nine countries and more will follow. The new PostBase Vision franking system uses the central cloud application to facilitate transparency and cost control via a new cost centre management function and multi-level reporting, amongst other things. Portal users assigned an administrator role can create and manage cost centres as well as administer the rights granted to machine users.



Figure 4: discoverFP customer portal

The aim of discoverFP is to support all current and future customers with the digital transformation of their own communication business processes. This is supported by an overview of the relevant franking system data as well as an integrated help centre and the option to access invoices, orders and contracts.

The solutions and services required for this, based on Francotyp-Postalia’s ACT strategy, are also being adapted gradually to suit new target groups of customers. Agile project methodology ensures that customer feedback is quickly incorporated into the development of further portal functions (e.g. integrating shipping solutions), meaning that these services are subject to a process of continuous improvement in the interests of customers.

FP Parcel Shipping

The parcel industry has been enjoying very strong growth for a few years now thanks to the ever-increasing availability of goods online.

Whilst major power sellers and e-commerce companies rely on fully integrated logistics solutions to ship their products, SMEs need practical, convenient solutions.

For this reason, FP expanded development of its FP Parcel Shipping product in 2019. This web-based cloud solution allows parcels to be shipped by several different carriers. As part of FP’s customer portal discoverFP, the product is initially being developed for and launched for the US market. Customers can now choose from a list of carriers that includes USPS, UPS and FedEx, while all standard methods such as e-cheques, bank transfers and credit cards can be used to make payments. In terms of features, the choice of printing formats for print labels has been expanded and the option to select standard parcels specified by each carrier has been introduced. Customers can also now make use of a local direct connection to parcel scales.

Together with the new address management and integrated address validation features as well as advance notification sent to the recipient by e-mail, there is now a mature parcel shipping system on the market.

FP Sign

In 2019, the signing solution FP Sign was rolled out in six language variants and to ten countries: Germany, the US, the UK, the Netherlands, Belgium, Austria, Italy, France and Sweden. Subscriptions to the solution can be made directly via the relevant websites.

The integration of business solutions is being simplified based on the application and accounting API, which is continuously being upgraded, and the introduction of new white-labelling modifications. Partners can be added and managed right down to the tiniest detail at organisational structure level, which has been supplemented with the addition of distributors and resellers.



Figure 5: FP Sign

Further core features of FP Sign and its underlying working method:

- eIDAS compliance
- End-to-end monitoring and transparency of digital business processes
- Seamless integration in business applications such as SAP, Salesforce and specialist sector-specific software thanks to the support of state-of-the-art APIs
- Can be used in any industry
- Mobile app for working on the move, integration into WhatsApp (as of 2020)
- Template management of signature requests, absence regulations, predefined signature or paraphernalia positions, even for complex multiple documents
- Continuous further development and focus on the requirements of the relevant industry thanks to the direct involvement of customers
- Involvement of all specialist departments, such as procurement, administration, sales, marketing and HR
- A solution for everyone – from SMEs to large corporations

IoT – FP Secure IoT

A milestone was reached in 2019 with the development of the new FP Secure Gateway product family and the launch of marketing for IoT solutions under the FP umbrella brand. The slogan “powered by Tixi” has been added to the FP umbrella brand to leverage additional benefits from the high profile that the “Tixi” brand enjoys on the market.

This new FP product family, including the ENGuard, OT-Guard and Compact product groups as well as the Secure Connector, is the solution for secure data transmission in the IoT environment for the target markets. Each FP Secure Gateway has a scalable number of interfaces. The information recorded by sensors can be transmitted to a data centre, e.g. in the cloud, and protected in a scalable manner in accordance with the level of security required. The communication channels are set up in line with the area of application. The volume of data and the available network connection are the main influencing factors. Local commissioning apps facilitate streamlined rollout processes and rapid commissioning. One unique feature is the fact that the security level can also be increased further retrospectively and adapted to more stringent requirements.



Figure 6: FP Secure Gateway (centre) in the “top-hat rail” design

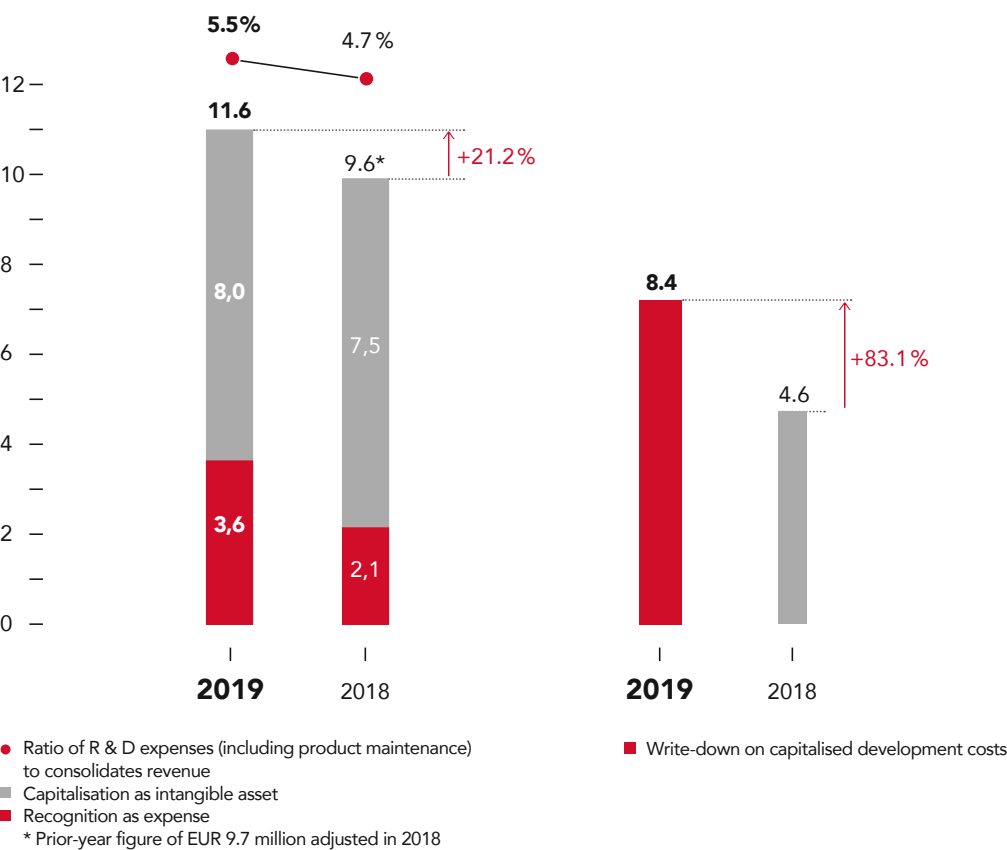
More customer projects and PoCs were also implemented based on the Juconn cloud in response to growing demand for end-to-end solutions.

The FP Secure IoT Gateways were certified for Deutsche Telekom’s Cloud of Things in the course of 2019. This means that the technology now supports nearly all cloud service offerings, including AWS, Cumulocity and Siemens MindSphere.

The gateways’ design allows them to be used in industrial environments and thereby in the field of Industry 4.0. A USP of the Gateway product family compared to other products is its optional security features such as the HSM-supported secure storage of key material for cryptographic key management processes (key generation, re-encryption). The key material is used in integrity protection, guaranteeing confidentiality, secure time stamp and verification services.

1.5.2 Quantitative information on the results of research and development activities

RESEARCH AND DEVELOPMENT COSTS in EUR million



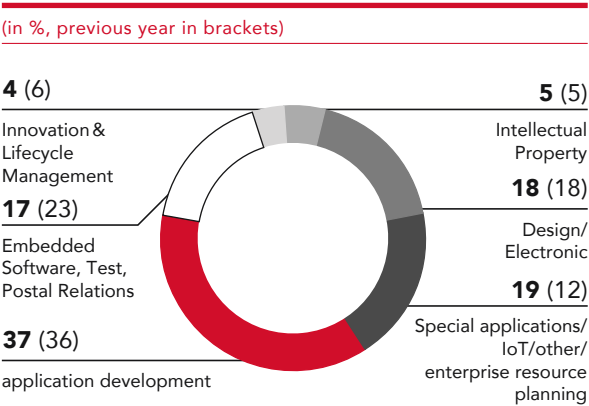
1.5.2.1 Research and development costs

As a result of higher personnel expenses and external services, research and development costs in fiscal year 2019 increased significantly by 21.2 % year-on-year. This increase is attributable to a higher proportion of research and development costs recognized as expenses. The use of external services for research and development purposes by the FP Group increased by 25.2 % to 2.1 million euros in the reporting period. This increase was mainly due to the development of the customer portal discoverFP and the web-based cloud solution FP Parcel Shipping. The share of capitalised development costs in total research and development costs for the period (capitalisation ratio) fell in the reporting period from 78.4 % in the previous year to 68.7 %.

Write-downs on capitalised development costs increased by a substantial 83.1 % to EUR 8.4 million in the reporting period. This was chiefly due to the impairment of the 2017 version of the FP Sign signature solution and the market launch of the PostBase Vision with the discoverFP customer portal.

1.5.2.2 Number of employees in research and development

a. Allocation of employees to the research and development divisions as at the reporting date



b. Research and development employees

At the end of 2019, 73 employees (previous year: 73) were permanent staff in the research and development divisions of the FP Group (including subsidiaries), which represents 7.2 % of the Group's total workforce (previous year: 6.9 %). Additional external employees are temporarily recruited for certain projects, as required. At the end of 2019, external staff accounted for up to 7 % of the permanent R&D workforce (previous year: 11 %).

1.5.3 Outlook

Alongside measures for continuous improvement and product maintenance, developing new, innovative features, products and services for secure digital communication remains a high priority. Examples of this include:

- More national variants for the PostBase Vision
- New - / Further development of FP Sign technology platform
- Expansion of digital payment services for FP products and subscription models
- Expanding identity and licence management for digital products
- Connecting up modern energy meters to IoT Gateways via LMN/CLS smart meter interfaces
- More IoT protocols to connect gateways up to modern control systems and connecting up OPC/UA-capable systems to FP Secure Gateways

Agile development methods have been established practice for years and are now also seeing increasing use in hardware development. The challenges of the digital transformation of companies arise on many levels and require the expansion of core competencies, the constant adaptation of the organization, but also cooperation in order not only to maintain the increasing speed of innovation cycles, but to increase it significantly. The commitment of the FP Group's development engineers remains a key building block in the creation of innovative analogue and, most importantly, digital products and services too.

2. Economic Conditions

2.1 Macroeconomic and Industry-Specific Conditions

According to calculations by the International Monetary Fund (IMF), global gross domestic product (GDP) increased by 2.9 % in 2019. Higher growth in developing countries was partially offset by lower growth rates in the developed countries, which are particularly relevant to the FP Group. In the USA, FP's largest foreign market in terms of number of customers and revenue, significant growth was recorded in 2019. The economy in the eurozone and Germany also grew, albeit at slower rates, as the figure below shows:

TABLE OF GDP GROWTH IN 2019

World	+2.9%
United States	+2.3%
Eurozone	+1.2%
Germany	+0.6%

Sources: IMF, Bureau of Economic Analysis, Eurostat, German Federal Statistical Office

The euro / US dollar exchange rate plays an important role when it comes to the FP Group's exports to the US and other markets. Amidst fluctuations, the euro fell slightly but steadily against the US dollar over the course of 2019, finishing up at USD 1.12 as at 31 December, some 2 % below the previous year's closing price. On average, the euro traded against the US dollar at approximately 5 % above the level in the previous year during fiscal year 2019. Due to the uncertainties in the context of the Brexit negotiations, the rate of the pound sterling, which is also important to the FP Group, continued to fluctuate in 2019. With a closing price of 0.85 pound sterling, the exchange rate remained well below the 0.90 recorded at year-end 2018. On average, however, the euro traded against the pound sterling at only around 1 % below the level in the same period of the previous year during fiscal year 2019. The euro also fell sharply against the Canadian dollar in 2019 (-6 %) but rose slightly against the Swedish krona (+2 %). Stronger foreign currencies boost the revenue and earnings development of the FP Group insofar as some of the revenue is generated in these currencies and converted into euro at Group level.

The FP Group processes post in foreign and domestic markets. According to statistics from the Universal Postal Union, nearly 300 billion letters are still being sent around the world, albeit with a downward trend (2018; global figures for 2019 are not yet available). The US, which makes up half of global mail volumes, saw only a modest fall in 2019 at -2.6 %, while Germany is even expecting mail volumes to remain

stable for the year. In other countries (UK, France), the decline is much sharper at –7 % to –8 % in 2019. These declines are within the forecast trend range for the next few years. The parcel market, by contrast, is enjoying strong rates of growth: parcel volumes have risen by around 17 % annually over the past few years, with some 87 billion being sent in 2018.

Although the extent to which the SARS-CoV–2 pandemic will influence the fall in mail volumes cannot be quantified at present, it is expected that the decline could accelerate. This is partly because the crisis is likely to give a boost to digitalisation and partly because potential negative economic trends could reduce mail volumes. Faster growth is anticipated for the parcel market, at least for the time being.

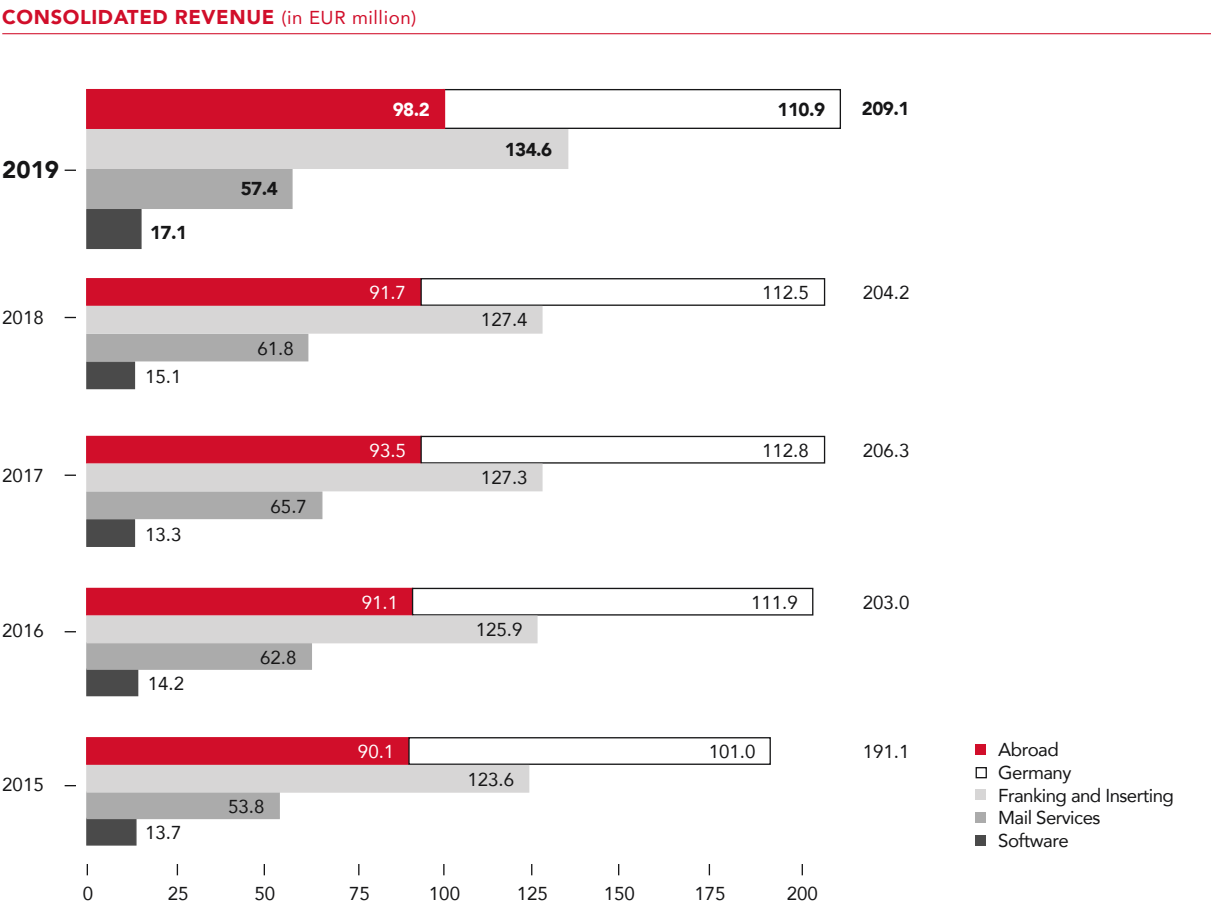
3. Results of Operations

The comparable reporting period 2018 is shown in the adjusted version in the notes to the results of operations. For the reasons and effects of the adjustment, please refer to section I. (11).

3.1 Changes in Material Items in the Consolidated Statement of Comprehensive Income

in EUR million	2019	2018	Change in %
Revenue	209.1	204.2	2.4 %
Change in inventories	–0.0	–0.3	n/a
Other own work capitalised	18.6	14.1	32.1 %
Overall performance	227.6	218	4.4 %
Other income	2.9	1.9	52.1 %
Cost of materials	101.6	101.6	0.0 %
Staff costs	60.2	64.5	–6.7 %
Expenses from impairment losses and income from reversals of impairment losses on trade receivables	–1.9	0.8	120.9
Other expenses	33.5	35.5	–5.8 %
EBITDA	33.3	17.3	92.6 %
Amortisation, depreciation and write-downs	27.4	17.3	58.2 %
EBIT	5.9	–0.0	n/a
Net interest income	0.4	1.4	–71.8 %
Other financial result	0.6	0.1	962.4 %
Shares in profit and loss of companies accounted for according to the equity method	–1.0	0	n/a
Income taxes	–4.2	–0.5	724,6 %
Consolidated net income	1.7	0.9	85.4 %

3.1.1 Revenue development



The FP Group increased revenue by 2.4 % to EUR 209.1 million in fiscal year 2019 (EUR 206.5 million or +1.1 % year on year adjusted for currency effects).

In particular, FP achieved further growth in the strategically important markets of the US and in France in the year under review. At EUR 134.6 million, the company generated much higher revenues than the previous year in the traditional franking and inserting business in fiscal year 2019. This growth was underpinned once again by the success of the PostBase product family, which received a new member in fiscal year 2019 with the market launch of the PostBase Vision. Re-estimating the useful life of leased products for the purpose of reporting lessors in the statement of financial position contributed EUR 3.1 million to the increase in revenue. The exchange rate effects across all currencies were positive, totalling EUR 2.6 million in the year under review. Adjusted for currency effects, the FP Group achieved growth of 3.6 % in its core business in fiscal year 2019. Compared with the competition, FP therefore performed well once more, further expanding its business volume. FP again gained market share in 2019 in its key markets, particularly in the strategically important markets of the US and France.

In the German domestic market, the FP Group’s revenue in the 2019 financial year fell by 1.4 % year-on-year to EUR 110.9 million.

In the Franking and Inserting segment, the company’s revenue in Germany was up 3.0 % at EUR 36.9 million in fiscal year 2019. Revenue in the Mail Services segment fell by 7.0 % on the previous year, mainly due to a further sharp year-on-year fall in mail volumes (–12 %). Deutsche Post AG’s increase in postage prices on 1 July 2019 and strategic changes enabled the negative trend in mail volumes to be partially offset in revenue and earnings terms. However, this was not enough to prevent the Mail Services segment from once again failing to achieve its planned level of contributions to the FP Group’s revenue and earnings in fiscal year 2019. In its Software / Digital segment, FP secured double-digit growth in revenue in fiscal year 2019, up by 13.8 % to EUR 17.1 million. FP has continuously expanded the range of services in this business area as part of the ACT strategy and is now benefiting from this. This positive development has been driven mainly by hybrid mail services and by the solutions relating to the Internet of Things (IoT). FP is thus continuing to pursue its transformation from a franking machine manufactur-

er into a provider of secure digital communication, although revenue in fiscal year 2019 still fell well short of expectations, particularly in the case of the FP Sign signature solution.

The FP Group’s largest foreign market in fiscal year 2019 was again the US, where revenue rose by 18.9 % to EUR 52.6 million. Even after adjusting for currency effects and before re-estimating the useful life of leased products for the purpose of reporting lessors in the statement of financial position, the FP Group still increased revenue by a substantial 6.1 % year on year (2018: EUR 44.2 million). FP Group revenue in the UK shrank by 8.8 % to EUR 14.5 million in fiscal year 2019, primarily due to the uncertainties surrounding Brexit. Foreign revenue increased by 7.1 % in euro terms to EUR 98.2 million in the year under review. The exchange rate effects across all currencies were positive, totalling EUR 2.6 million in the year under review. Adjusted for currency effects, the FP Group’s foreign business generated revenue of EUR 95.6 million in fiscal year 2019.

REVENUE BY PRODUCT AND SERVICE			
in EUR million	2019	2018	Veränderung %
Product sales income (Franking and Inserting)	32.2	35.6	−9.7 %
Service /customer service	26.4	23.2	13.9 %
Consumables	24.3	23.1	4.9 %
Teleporto	8.4	9.1	−8.4 %
Mail Services	57.4	61.8	−7.0 %
Software/Digital	17.1	15.0	13.8 %
Revenue acc. to IFRS 15	165.7	167.9	−1.3 %
Finance leases	14.7	8.0	82.6 %
Operating leases	29.1	28.3	2.6 %
Revenue acc. to IFRS 16	43.7	36.3	20.3 %
Reduction in revenue due to currency effects from hedge accounting	−0.3	0	n. a.
Revenue total	209.1	204.2	2.4 %
Non-recurring revenue*	23.0 %	21.4 %	
Recurring revenue*	77.0 %	78.6 %	

* Before reduction in revenue due to currency effects from hedge accounting.

The fall in product sales income in the core business in fiscal year 2019 was mainly due to lower sales in Germany following an unusually strong previous year in comparative terms. Product sales income was boosted in the year under review by a marked rise in revenue from the US, which was down to positive currency effects as well as the successful market launch of the PostBase Vision. In the service business, the company also generated significantly higher revenue in fiscal year 2019 than in the previous year from fee-based software updates in connection with postage changes, particularly in Germany. The business with consumables also developed positively in the reporting period.

Revenue within the scope of IFRS 16 was affected by various factors in the 2019 financial year. Firstly, successful sales underpinned by the PostBase family in the North American lease market as well as currency effects boosted revenue; secondly, a new distribution model for sales financing enjoyed its first major successes in the Central Region and Middle Europe. Thirdly, re-estimating the useful life of leased products for the purpose of reporting lessors in the statement of financial position also contributed to the increase in revenue. By contrast, lease revenue fell in the UK and Italy.

3.1.2 Other own work capitalised

The sharp increase in own work capitalised in the year under review (+ 32.1 % year on year) is due primarily to the planned investment in new products and in the global introduction of a uniform ERP /CRM landscape. The development costs reported in own work capitalised increased by a substantial EUR 6.5 million to EUR 13.9 million year on year, primarily due to the investments in ERP /CRM and in the development of IoT products and solutions. The additions to leased products reported therein fell to EUR 4.4 million in fiscal year 2019 compared with EUR 6.2 million in the previous year.

3.1.3 Other income

The EUR 1.0 million rise in other income in the year under review was mainly due to cost subsidies and grants from an EU project (StudIES+) amounting to EUR 1.4 million. At EUR 0.6 million, income from lapsed liabilities was slightly below the level of the previous year (EUR 0.7 million).

3.1.4 Cost of materials

Positive and negative effects cancelled one another out in fiscal year 2019, keeping the cost of materials at the previous year’s level. The cost of purchased services also remained virtually unchanged year on year at EUR 66.4 million. Whilst the fall in franking service expenses in the Mail Services segment led to a marked decline, the cost of purchased services increased, chiefly as part of the Group-wide rollout of the new ERP /CRM system. By contrast, expenses for raw materials, consumables and supplies increased slightly to EUR 35.3 million in the year under review compared with EUR 34.9 million in the previous year. The weak performance of the euro against the US dollar in particular had a negative impact here. The cost of materials ratio improved to 48.6 % in the year under review (previous year 49.8 %).

3.1.5 Staff costs

Staff costs dropped by 6.7 % year on year to EUR 60.2 million in fiscal year 2019, influenced by various factors during the year under review. After extraordinary staff-related costs for the ACT project JUMP amounting to EUR 5.7 million had been incurred in the previous year, the transformation program has picked up speed as scheduled in fiscal year 2019. Savings of EUR 2.3 million as part of the project’s implementation thus had a positive impact on staff costs during the year under review. Besides a further selective increase in headcount as part of the ACT strategy, staff costs were also impacted by negative currency effects of EUR 0.5 million. The staff cost ratio fell significantly to 28.8 % in fiscal year 2019 compared with 31.6 % in the previous year.

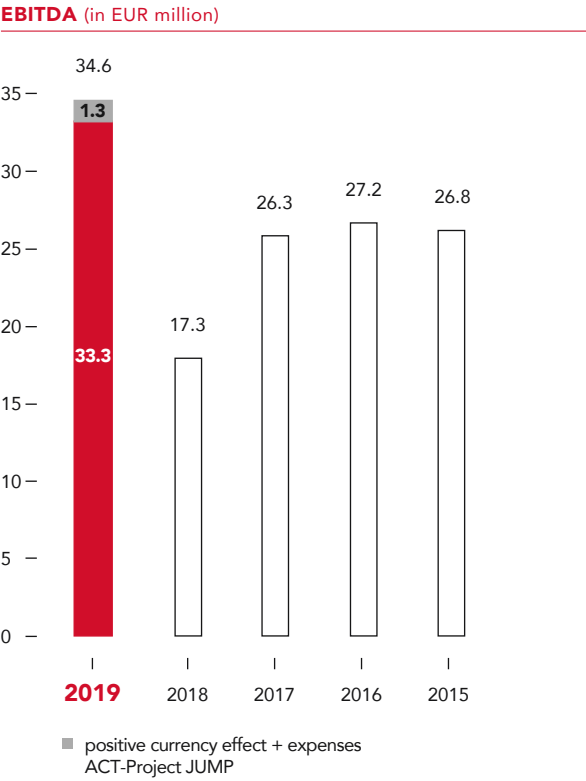
3.1.6 Expenses from impairment losses and income from reversals of impairment loss-es on trade receivables

The increase in expenses from impairment losses and income from reversals of impairment losses on trade receivables of EUR 1.0 million in the year under review is based on increased individual default risks.

3.1.7 Other expenses

Other expenses fell by 5.8 % to EUR 33.5 million in fiscal year 2019, mainly due to the change in how lease expenses are recognised in accordance with IFRS 16. This pushed other expenses down by EUR 3.7 million in the year under review. Other expenses were impacted by higher purchased IT services amounting to EUR 2.5 million (previous year EUR 1.3 million), including consulting services in connection with the global rollout of the uniform ERP /CRM landscape of EUR 0.3 million, as well as increased marketing expenses of EUR 4.0 million (previous year: EUR 3.6 million) and a rise in staff-related costs to EUR 3.0 million (previous year: EUR 2.5 million). Expenses for consulting services for the ACT project JUMP fell by EUR 0.5 million to EUR 1.8 million in fiscal year 2019 (previous year: EUR 2.4 million).

3.1.8 EBITDA



The FP Group achieved much-improved EBITDA of EUR 33.3 million in fiscal year 2019 (+92.6 % year on year). Its EBITDA margin climbed to 15.9 % as against 8.5 % in the previous year. As forecast, the ACT project JUMP once again had an effect on earnings in fiscal year 2019. EBITDA includes extraordinary expenses for the project totalling EUR 2.3 million (previous year: EUR 8.0 million). Recurring savings in the same amount were achieved in fiscal year 2019 in conjunction with the project’s continued implementation. EBITDA was also boosted in the reporting period by positive currency effects, particularly the performance of the euro against the US dollar (total contribution of EUR 1.0 million), as well as re-estimating the useful life of leased products for the purpose of reporting lessors in the statement of financial position as at 31 December 2019 (contribution of EUR 2.5 million) and the first-time application of IFRS 16 to the FP Group as lessee (contribution of EUR 3.7 million).

Adjusted for currency effects and the expenses for the ACT project JUMP, EBITDA increased by 26.5 % year on year to EUR 34.6 million in fiscal year 2019 (corresponding to a 16.8 % EBITDA margin as against 12.4 % in the previous year).

3.1.9 Amortisation, depreciation and write-downs

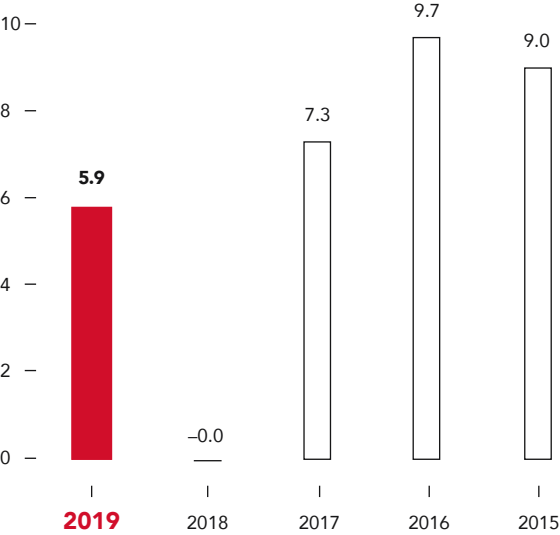
Amortisation, depreciation and write-downs climbed by 58.2% year on year to EUR 27.4 million in fiscal year 2019, due in particular to depreciation of EUR 3.7 million resulting from the first-time application of IFRS 16 and an increase in the amortisation of internally generated intangible assets (EUR +1.1 million year on year).

In the 2019 financial year, the FP Group also made an impairment in the goodwill of freesort GmbH in the amount of EUR 5.9 million, as the company again failed to meet its operational targets despite the reorganisation measures introduced in the 2019 financial year.

There was also an impairment of capitalised development costs for the FP sign signature solution in the amount of EUR 2.7 million as the first version, unveiled at CeBIT 2017, has not yet generated the revenue that was forecast. Re-estimating the useful life of leased products as at 31 December 2019, with effect from the 2019 financial year, served to alleviate depreciation, amortisation and write-downs in the amount of some EUR 3.1 million in fiscal year 2019.

3.1.10 EBIT

EBIT (in EUR million)



The rise in EBITDA pushed EBIT up to EUR 5.9 million for fiscal year 2019 as against EUR -0.0 million in the previous year despite the marked increase in amortisation, depreciation and write-downs.

3.1.11 Net interest income

The substantial 71.8% fall in net interest income to EUR 0.4 million in fiscal year 2019 was mainly due to the tax-related non-recurring income received in the previous year (interest income of EUR 0.8 million from the successful conclusion of mutual tax agreement procedures in accordance with the EU Arbitration Convention and the German-American double taxation treaty). The final figure achieved in the year under review was also adversely affected by higher tax-related non-recurring interest expenses from reclassifying provisions for ongoing audits in the amount of EUR 0.3 million (previous year: EUR 0.1 million). Re-estimating the useful life of leased products for the purpose of reporting lessors in the statement of financial position increased interest income from finance leases slightly to EUR 2.1 million in fiscal year 2019 (previous year: EUR 2.0 million). Applying IFRS 16 to the FP Group as lessee for the first time did not have a material impact on net interest income in fiscal year 2019.

3.1.12 Other financial result

The FP Group posted a positive other financial result in fiscal year 2019 of EUR 0.6 million (previous year: EUR 0.1 million). This development is due primarily to currency effects affecting the measurement of items in the statement of financial position at the reporting date.

3.1.13 Shares in profits and losses of companies accounted for using the equity method, after tax

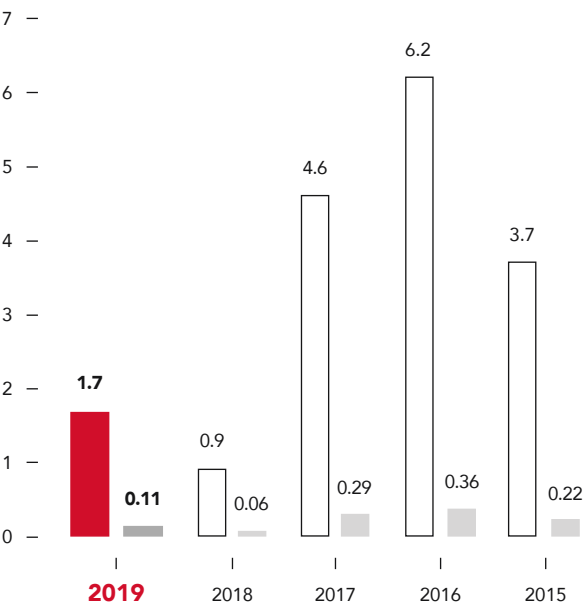
In the 2019 fiscal year, the FP Group realised a share of loss of EUR 0.1 million from the shareholding in Juconn GmbH, which is included at equity in the consolidated financial statements. In addition, against the background of delayed business development and scaling compared to the original expectations at the time of acquisition, the company recognised an impairment loss of EUR 0.9 million in the reporting year in the course of an impairment test of the implied goodwill.

3.1.14 Income taxes

Income taxes totalled EUR -4.2 million in fiscal year 2019 as against EUR -0.5 million in the previous year. This corresponds to a tax rate of 71.3% (previous year: 35.9%). For the one-off effects of the amortisation of the goodwill of freesort and the investment in Juconn GmbH with an impact on earnings before taxes of EUR 6.8 million, the effective tax rate in the 2019 financial year is 33.2%.

3.1.15 Consolidated net income

CONSOLIDATED NET INCOME (in EUR million and EPS (basic) in EUR)



Consolidated net income improved by 85.4% in fiscal year 2019. This figure is relatively low, as in the previous year, due to the impairment losses and write-downs initiated in the reporting year. The FP Group posted earnings per share (EPS) of EUR 0.11 (basic / diluted) in fiscal year 2019 compared with EUR 0.06 (basic / diluted) in the previous year.

3.1.16 Summary of results per segment

The segments are based on local accounting standards. The following table shows the revenue and EBITDA of the segments.

SUMMARY OF RESULTS PER SEGMENT

in EUR million	Revenue			EBITDA		
	2019	2018	Change in %	2019	2018	Change in %
Production ¹⁾	4.5	4.2	7.2 %	26.6	10.2	161.4 %
Sales Germany ¹⁾	109.8	112.0	-2.0 %	3.9	2.3	70.7 %
International Sales ¹⁾	91.3	88.1	3.7 %	13.3	22.9	-41.9 %
Central Functions ¹⁾	0.0	-	n/a	-10.8	-10.7	-0.5 %
Group ²⁾	209.1	204.2	2.4 %	33.3	17.3	92.6 %

1) Revenues with external third parties and EBITDA, according to local accounting standards.
2) Revenue and EBITDA according to IFRS. Information on reconciliation can be found in section II of the notes to the consolidated financial statements.

4. Financial Position

In the notes on the financial position, the comparative period 2018 is presented in the adjusted version. For the reasons and effects of the adjustment, please refer to section I. (11).

4.1 Principles and Objectives of Financial Management

The main aim of financial management is to avoid financial risks and to ensure the financial flexibility of the FP Group. The company achieves this objective by employing a variety of financial instruments. Various factors are taken into account when selecting the instrument, such as flexibility, loan terms, the existing maturity profile and finance costs. The long-term liquidity forecast is based on operational planning. A significant part of liquidity in the FP Group comes from the segment’s operating activities with the resulting cash flow. The company also uses loans from financial institutions and finance leases.

4.2 Dividend-Bearing Net Profit and Dividends

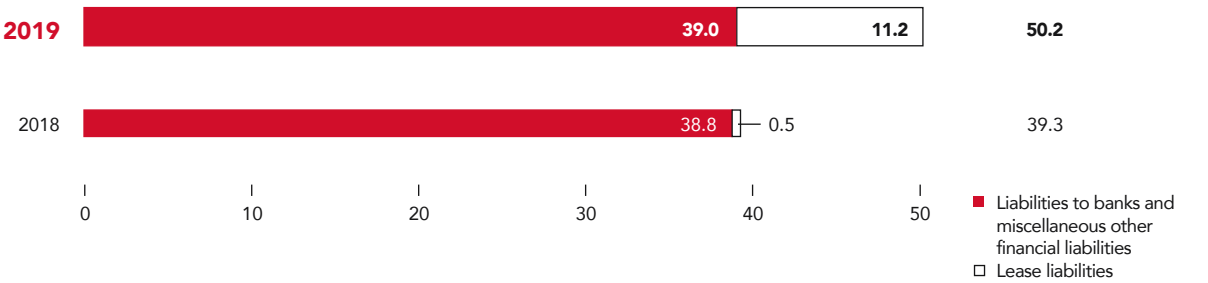
The FP Group’s dividend policy remains consistent as a basic principle, including as part of implementing its ACT growth strategy. In view of the developments and risks associated with the spread of the coronavirus SARS-CoV-2, the company is focusing on preserving and increasing available Group liquidity so as not to jeopardise the FP Group’s strategic and operational objectives in the long term. The Management Board and Supervisory Board will therefore propose to the AGM that no dividend be paid for fiscal year 2019 in light of the adverse impact on employees and the company.

The Management Board proposes that the unappropriated surplus of EUR 13.7 million be carried forward. Please refer to Section IV of the notes to the consolidated financial statements for information on how the unappropriated surplus giving rise to a dividend entitlement is determined.

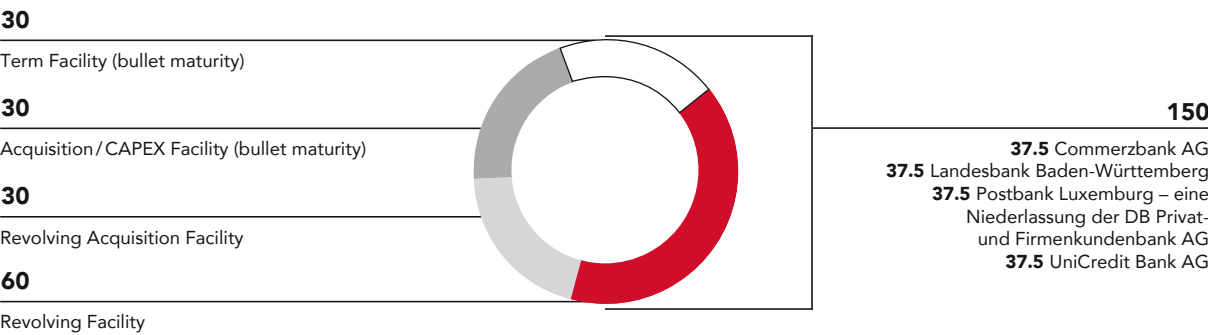
4.3 Financing Analysis

To finance itself, the FP Group primarily uses cash flow from operating activities as well as loan agreements with financial institutions and finance leases that are either already in place or are adjusted during the year.

FINANCIAL LIABILITIES (in EUR million)



SYNDICATED LOANS (in EUR million)



The syndicated loan agreement for a financing volume totalling EUR 150 million concluded with a strong syndicate of international banks in 2016 and renewed and extended early in fiscal year 2018 has a term to 28 September 2023. The financing documents on the basis of the British Loan Market Association (LMA) include an option to increase the loan by EUR 50 million.

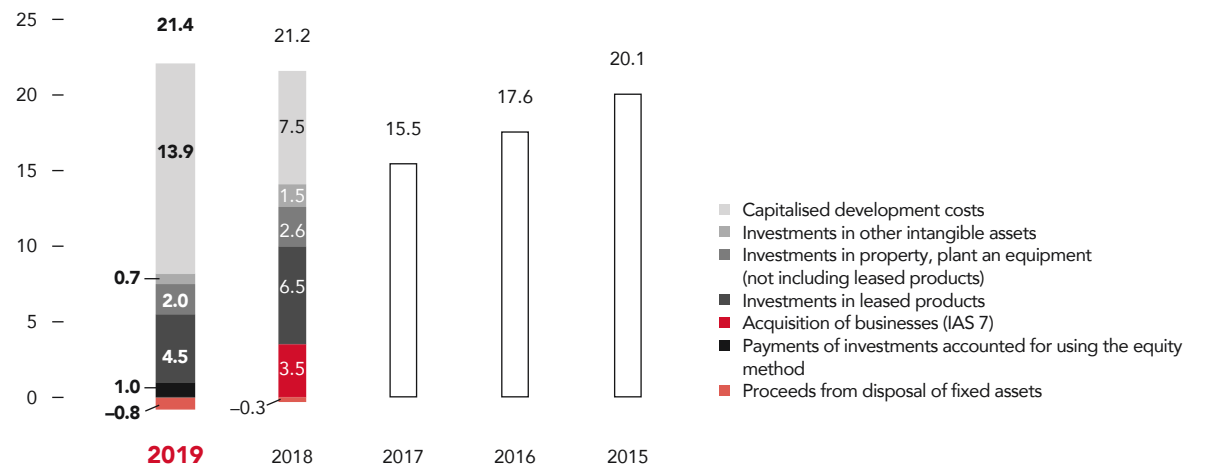
Other key conditions of the syndicated loan agreement include the option to utilise part of the loan facility in foreign currencies. Furthermore, the FP Group has entrepre-

neurial headroom to enter into additional financial obligations. Overall, the syndicated loan agreement forms a forward-looking basis for the FP Group’s financial stability and flexibility.

Information on changes to company equity in fiscal year 2019 can be found in Section 5.2 EQUITY.

4.4 Investment Analysis

INVESTMENT (in EUR million)



In fiscal year 2019, the FP Group also continued to make significant investments in future growth on the basis of the ACT strategy, including in product development, production and other core and supporting processes and in franking systems for lease markets.

Investments in leased products, mainly in the US, the UK, Canada and France, fell to EUR 4.5 million in fiscal year 2019 (previous year: EUR 6.5 million).

4.5 Off-Balance-Sheet Financial Instruments

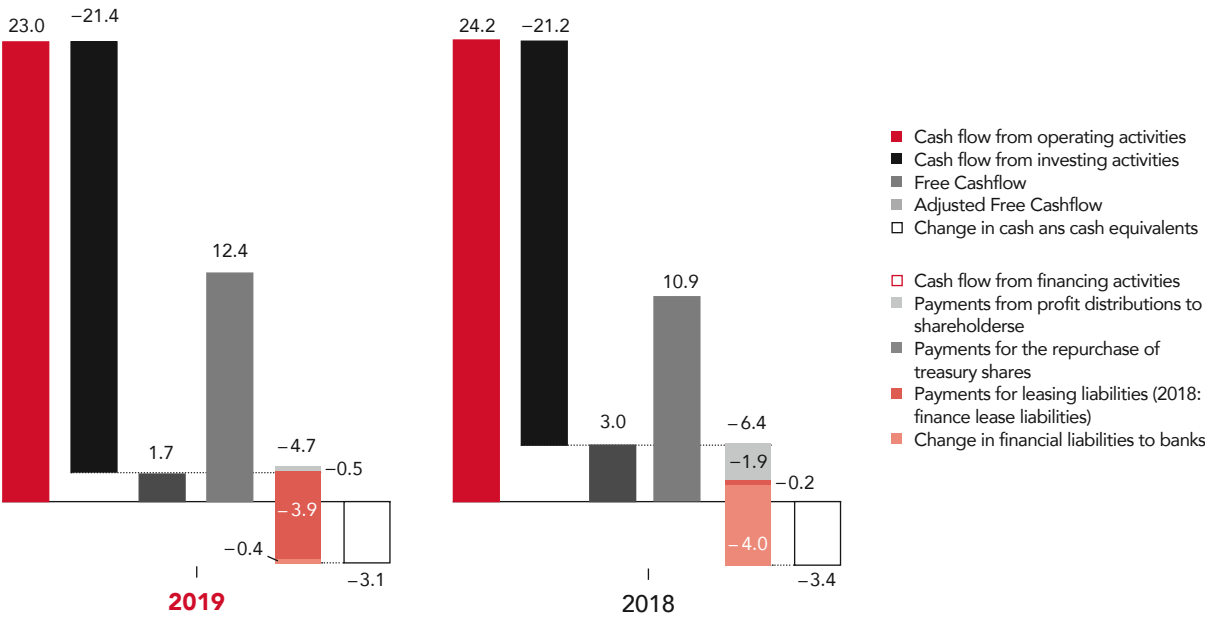
The FP Group had unrecognised tax loss carryforwards of EUR 8.3 million as at 31 December 2019 (previous year: EUR 6.9 million).

4.6 Liquidity Analysis

LIQUIDITY ANALYSIS (in EUR million)		
	1.1.–31.12.2019	1.1.–31.12.2018
Cash flow from operating activities	23.0	24.2
Cash flow from investing activities	–21.4	–21.2
Free cash flow	1.7	3.0
Adjusted free cash flow*	12.4	10.9
Cash flow from financing activities	–4.7	–6.4
Change in cash and cash equivalents	–3.1	–3.4
Change in cash due to currency translation	0.4	0.5
Cash at beginning of period	21.2	24.1
Cash at end of period	18.5	21.2

* Adjusted for investments in finance lease assets and M&A and payments for the ACT project JUMP.

LIQUIDITY ANALYSIS (in EUR million)



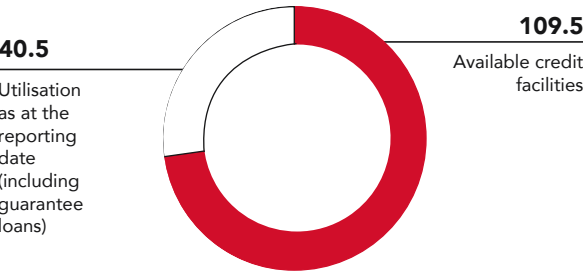
Various factors influenced cash flow from operating activities in fiscal year 2019. An increase in payments for the ACT project JUMP to EUR 3.8 million (previous year: EUR 1.4 million) had an adverse impact. In addition, high non-recurring incoming payments of EUR 5.9 million had been received in the previous year from the successful conclusion of mutual tax agreement procedures. Cash flow from operating activities was boosted by improved EBITDA in the year under review, which was primarily down to the successful core business, the continued implementation of the JUMP project and the enforcement of rigorous cost management without jeopardising delivery of the ACT strategy. The first-time application of the new IFRS 16 standard also improved cash flow from operating activities for the FP Group as lessee. In accordance with IFRS 16, the repayment portion of the lease liabilities of EUR 3.9 million is treated as cash flow from financing activities.

The negative cash flow from investing activities increased in fiscal year 2019 reached again the highly level of the previous year. Please see the section on INVESTMENT ANALYSIS (Section 4.4) for more information about further changes.

Despite the planned high level of investment, the FP Group achieved a positive free cash flow of EUR 1.7 million in the year under review. Adjusted for investments in finance lease assets of EUR 5.9 million (previous year: EUR 2.9 million), payments for M&A of EUR 1.0 million (previous year: EUR 3.5 million) and payments for the ACT project JUMP of EUR 3.8 million (previous year: EUR 1.4 million), the FP Group generated adjusted free cash flow of EUR 12.4 million in fiscal year 2019 (previous year: EUR 10.9 million). Re-estimating the useful life of leased products for the purpose of reporting lessors in the statement of financial position as at 31 December 2019, with effect from the 2019 financial year, pushed finance lease receivables up by EUR 3.1 million.

The change in cash flow from financing activities in fiscal year 2019 was chiefly attributable to repayments of lease liabilities of EUR 3.9 million and payments for distributions to shareholders of EUR 0.5 million.

COMMITTED, BUT NOT FULLY UTILISED CREDIT FACILITIES (in EUR million)



In accordance with the syndicated loan agreement, the FP Group has undertaken to comply with two defined financial covenants:

Leverage =

Total net debt

Adjusted EBITDA
(if required, adjusted for non-recurring effects)

≤ 3,0 ×

Interest Cover =

Adjusted EBITDA
(if required, adjusted for non-recurring effects)

Net interest income
(adjusted for IAS 23 Borrowing Costs)

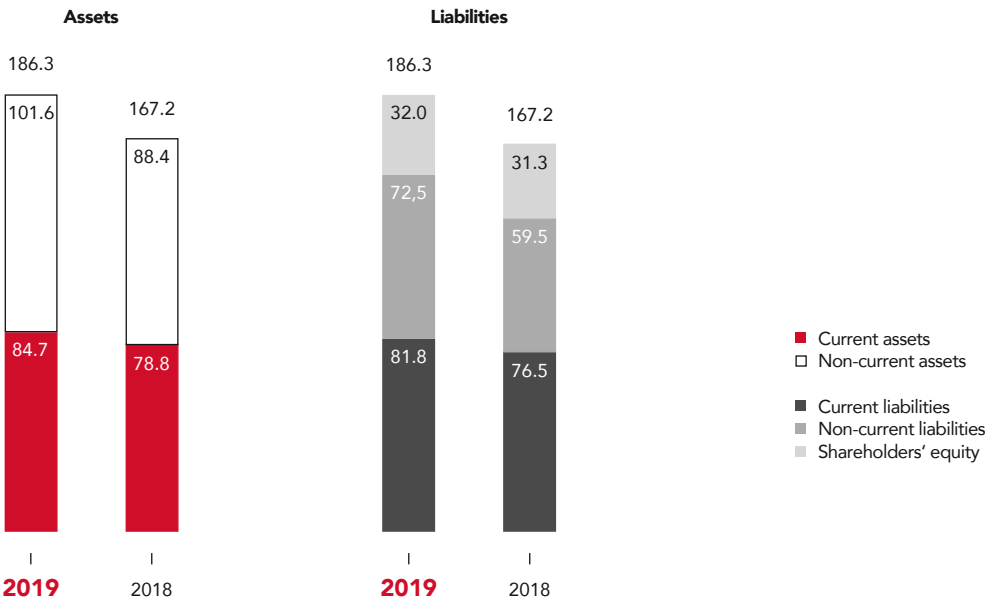
≥ 5,0 ×

The credit conditions were complied with consistently throughout the reporting year. In fiscal year 2019, the FP Group was able to meet its payment obligations at all times.

5. Net Asset Situation

The comparative period 2018 is shown in the adjusted version in the notes to the financial position. The reasons and effects of the restatement are explained in section I. (11).

STATEMENT OF FINANCIAL POSITION STRUCTURE (in EUR Million)



The FP Group’s statement of financial position as at 31 December 2019 was influenced by the implementation of the ACT growth strategy, the development in operating business in fiscal year 2019, the introduction of the new IFRS 16 standard for the FP Group as lessee, the re-estimation of the useful life of leased products for the purpose of reporting lessors and depreciation of non-current assets.

5.1 Non-Current and Current Assets

in EUR million	2019	2018	Reason for change
Intangible assets	38.8	40.8	Increase in the context of investment in new products and a new ERP/CRM system (EUR 5.2 million); reduction due to impairment of the FP Sign signature solution (EUR –2.7 million); reduction due to impairment of goodwill affecting the freesort cash-generating unit (EUR –5.9 million)
Property, plant and equipment	29.2	29.9	Decline due to depreciation, mainly affecting technical equipment and machinery (EUR –0.8 million); carrying amount of leased products after re-estimating useful life on a par with the previous year (effect in 2019: EUR 3.1 million reduction in depreciation)
Right-of-use assets	11.2	0	Increase in right-of-use assets as a result of first-time application of IFRS 16
Other assets	18.1	13.4	Increase in finance lease receivables (EUR 4.2 million, including EUR 2.7 million due to re-estimating the useful life of leased products for the purposes of reporting lessors in the statement of financial position); slight increase due to the acquisition of shares in companies accounted for according to the equity method (EUR 0.6 million)
Tax assets	4.3	4.4	
Non-current assets	101.6	88.4	
Inventories	12.4	11.2	Increase in raw materials, consumables and supplies and finished goods and merchandise
Trade receivables	18.1	19.0	Decline in the context of increased im-pairments due to higher individual de-fault risks
Other assets	23.7	17.8	Increase in finance lease receivables (EUR 1.8 million, including EUR 0.3 million due to re-estimating the useful life of leased products for the purposes of reporting lessors in the statement of financial position); increase in income taxes receivable (EUR 1.4 million); increase in miscellaneous other assets (EUR 2.1 million)
Securities and cash	30.5	30.9	Decrease in cash and cash equivalents (EUR -2.6 million) and increase in postage credit balances managed by the FP Group (EUR 2.2 million)
Current assets	84.7	78.8	

5.2 Equity

As at 31 December 2019, the share capital of Francotyp-Postalia Holding AG amounted to EUR 16.3 million, divided into 16,301,456 no-par value bearer shares (31 December 2018: 16,301,456).

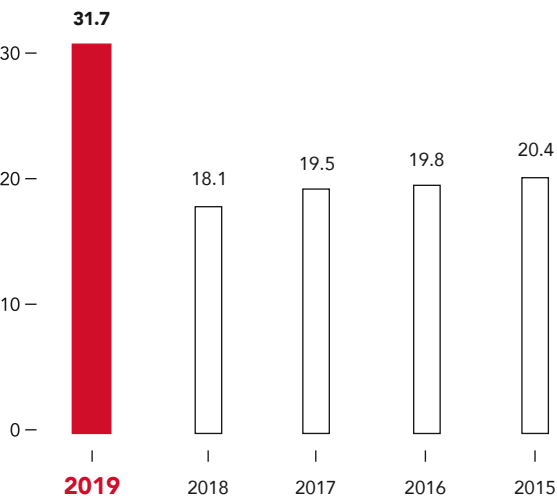
As in the previous year, the company held 397,393 treasury shares or 2.4 % of the share capital as at 31 December 2019. The calculated value of treasury shares is openly deducted from equity. The difference of the purchase price is offset against capital reserves. For additional information on own shares, reference is made to section IV of the notes to the consolidated financial statements (18). More information about authorised and contingent capital as well as conversion and option rights can be found in the explanatory report by the Management Board in accordance with sections 289a (1) and 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code).

5.3 Non-Current and Current Liabilities

in EUR million	2019	2018	Reason for change
Provisions for pensions and similar obligations	20.6	18.8	Increase due to actuarial remeasurement during the fiscal year
Other provisions, deferred tax liabilities and other liabilities	5.8	1.6	Increase due to reclassifying current provisions for the ACT project JUMP (EUR 1.8 million); increase in deferred tax liabilities (EUR 2.1 million)
Financial liabilities	46.2	39.1	Increase as a result of lease liabilities in accordance with IFRS 16 being recognised for the first time (EUR 7.2 million)
Non-current liabilities	72.5	59.5	
Tax liabilities	2.7	3.3	
Provisions	9.6	11.9	Decline due to reclassifying provisions for the ACT project JUMP (see above); decline due to reversing other provisions for which the reason had ceased to exist (EUR –1.3 million)
Financial liabilities	4.1	0.2	Increase as a result of lease liabilities in accordance with IFRS 16 being recognised for the first time (EUR 3.3 million)
Trade payables	14.6	14.0	Slight increase in the context of development of operating business
Other liabilities (incl. hedging derivatives)	50.8	47.1	Increase in Teleporto liabilities (EUR 3.0 million; adjusted for currency effects EUR 2.1 million)
Current liabilities	81.8	76.5	

An additional indicator for the FP Group’s capital structure is the net debt ratio, which represents net debt over equity and is constantly monitored.

DEVELOPMENT OF NET DEBT * (in EUR million)



* 2019 figures based on the new IFRS 16 standard, “Leases”; 2015 figures restated in 2016.

Net debt is calculated from financial liabilities less cash and cash equivalents. Financial liabilities include liabilities to banks and lease liabilities (until 2018: finance lease liabilities). Cash and cash equivalents comprise cash less restricted funds (postage credit managed by the FP Group) and securities. This applies to the calculation of the net debt ratio as a management parameter for the FP Group’s capital structure as well as the presentation in the cash flow statement.

in EUR million	31.12.2019	31.12.2018
Financial liabilities*	50.2	39.3
Cash and cash equivalents	18.5	21.2
Net debt	31.7	18.1
Shareholders equity	32.0	31.3
Net debt ratio	99%	58%

* 2019 figures based on the new IFRS 16 standard, “Leases”.

Owing to high investments and payments for the ACT project JUMP and especially including the effects of the first-time application of the new IFRS 16 standard, “Leases”, for the FP Group as lessee, the FP Group’s net debt increased considerably in fiscal year 2019. This is balanced by capitalised rights of use amounting to TEUR 11,182.

As of 31 December 2019, equity increased slightly by 2.6 % compared with the previous year. The company’s net gearing therefore increased significantly as of the reporting period, mainly due to non-cash accounting effects resulting from the first-time application of IFRS 16.

5.4 LEASING

As a lessor, the FP Group offers both operating and finance leases. These business models are reflected in the company’s statement of financial position. As at 31 December 2019, the “leased products” item under non-current assets contained assets with a carrying amount of EUR 18.3 million (31 December 2018: EUR 17.6 million), which are mostly leased to customers under operating leases. Finance leases with cus-

tomers are reported in finance lease receivables; the non-current and current amounts totalled EUR 24.1 million as at the end of the reporting period (31 December 2018: EUR 18.2 million). Without these business models, total assets would be EUR 143.0 million instead of EUR 186.3 million.

6. Overall Assessment an the Course of Business and Position of the Group

6.1 Comparison of Actual/Forecast Business Performance iin 2019

The table below shows the financial and non-financial performance indicators of the FP Group. The actual values for the financial performance indicators of revenue and EBITDA are also stated with adjustments, as FP published its forecast based on the assumption of constant exchange rates for foreign currencies. In addition, EBITDA is adjusted for the expenses of the ACT project JUMP in line with the forecast.

COMPARISON OF ACTUAL / FORECAST BUSINESS PERFORMANCE IN 2019

in EUR million	2019 forecast*	ACTUAL 2019	Note
Revenue	Revenue up slightly year on year (EUR 204.2 million); FP revised its revenue forecasts on 22 August 2019. A strong increase in revenue had originally been forecast for 2019.	EUR 209.1 million EUR 206.5 million*	A slight year-on-year increase overall as forecast, taking account of positive currency effects (EUR 2.6 million). Growth is based on success in the core business. The effect of the reassessment of the useful life of leased products for lessor accounting purposes, the amount of which was not forecasted, contributed EUR 3.1 million to the increase in sales. Declining revenue in the Mail Services segment due to a reduction in mail volumes processed had a negative impact. Significant growth once again in the Software/Digital segment despite revenue still lagging well behind expectations.
EBITDA	Sharp increase in adjusted EBITDA year on year (EUR 25.1 million)	EUR 33.3 million EUR 34.6 million*	Marked rise, taking account of positive currency effects (EUR 1.0 million) and high expenses for the ACT project JUMP (EUR 2.3 million), exceeding expectations. EBITDA was also positively influenced by the effect of the reassessment of the useful life of leased products for lessor accounting purposes (2.5 million euros) and the first-time application of IFRS 16 to the FP Group as lessee (3.7 million euros).
Adjusted free cash flow**	Positive, but down significantly year on year (previous year: EUR 10.9 million)	EUR 12.4 million	Slight increase, exceeding expectations. Underpinned by marked rise in EBITDA. The increase in finance lease receivables due to re-estimating the useful life of leased products also magnified the adjustment to investments in finance lease assets (EUR 3.1 million).
Quality indicator – Germany	Improvement year on year (previous year: 14.6)	9.6	Improvement due to projects whose implementation was agreed by the quality group as well as others
Improvement indicator	Slight deterioration year on year (previous year: 0.62)	0.65	Slight deterioration, mainly due to a problem with PostBase; however, this was resolved by the quality group in Wittenberge

* Assuming constant exchange rates for foreign currencies and before expenses for the ACT project JUMP.

** Adjusted for investments in finance lease assets, M&A and payments for the ACT project JUMP.

6.2 Business Development in 2019

As planned, fiscal year 2019 was shaped by implementation of the ACT strategy, in particular the ACT project JUMP.

The FP Group's positive performance continued in fiscal year 2019, with the company increasing revenue slightly year on year. Revenue continued to be boosted by the company's success in its core business. Re-estimating the useful life of leased products for the purpose of reporting lessors in the statement of financial position also made a significant contribution to the increase in revenue.

A sharp rise in revenue had originally been forecast for the year under review. In light of the economic downturn, declining revenue in the narrow-margin Mail Services segment, the postponement of some revenue in the core franking and inserting business and the positive yet lower-than-expected revenue development in the Software / Digital segment, the FP Group adjusted its revenue forecast for the full fiscal year on 22 August 2019. At the same time, the FP Group re-affirmed its EBITDA forecast and expectations for a strong year-on-year increase after adjusting for currency effects and expenses for the ACT project JUMP over 2019 as a whole. FP succeeded in meeting this target and significantly increasing adjusted EBITDA in fiscal year 2019. The JUMP transformation programme was further implemented as planned in fiscal year 2019 and cost savings are increasingly being realized. Rigorous cost management has also been implemented without jeopardising implementation of the ACT strategy. In addition, EBITDA was boosted by re-estimating the useful life of leased products for the purpose of reporting lessors in the statement of financial position and the first-time application of IFRS 16 to the FP Group as lessee. Despite significant investments in new products and in the global rollout of the uniform ERP / CRM landscape, adjusted free cash flow was up slightly year on year in the year under review, thus exceeding expectations. The FP Group therefore met its revised forecast for fiscal year 2019 in respect of all three performance indicators.

In view of all target figures, the Management Board judges the business performance in fiscal year 2019 to have been generally positive.

In view of all target figures, the Management Board assesses the course of business in the 2019 financial year as positive overall.

7. Report on events after the reporting date

For details of significant events after the end of the reporting period and their impact on the Group's business results and forecast development, see the corresponding disclosures under item 114 in the notes to the consolidated financial statements.

8. Risk and Opportunity Report

Risk and Opportunity Management System

The risk and opportunity management system of the FP Group serves to identify and seize or limit opportunities and risks at an early stage. The policy of the FP Group regarding risks and opportunities is aimed at securing the company's long-term existence and continuously improving competitiveness as well as minimising unnecessary costs by proactively managing risks that do not threaten the continued existence of the company.

Risk and opportunity management is an integral part of the management and existing structures of the FP Group in order to identify and assess any indications of these risks and opportunities at an early stage. It is derived from the strategic objectives. Detailed market and competition analyses and forecast scenarios, together with intensive examination of relevant value and cost drivers, serve to determine opportunities. A system for monitoring risks has been set up in line with section 91(2) of the Aktiengesetz (AktG – German Stock Corporation Act). This system is also used for the early detection of risks that could potentially threaten the continued existence of the FP Group. The FP Group regards risk management as a continuous and consistent process.

Major risks newly identified during the course of the year are also communicated to the Management Board immediately (ad hoc communication). The early warning system for risks and opportunities is evaluated by the auditor as part of the annual audit to ensure that it is suitable for identifying, assessing and communicating any risks that may potentially endanger the existence of the company with an adequate degree of probability and in a timely manner.

Organisation

Report officers are appointed to monitor, assess and report opportunities and risks. They comprise the following group of people: managing directors of domestic and foreign companies, divisional heads and representatives within the management systems implemented (quality management, data protection and privacy, etc.).

The report officers ascertain the opportunities and risks for their subject area and are responsible for realising opportunities and avoiding risks. To this end, they are invited by the Vice President Governance, Risk & Compliance every six months to report on opportunities and risks in their field. The report officers work out potential suitable measures for dealing with risks in their subject area.

In this process, the Vice President Governance, Risk & Compliance monitors the implementation of a uniform risk strategy and methodology for identifying, analysing and evaluating opportunities and risks as well as the subsequent seizing of opportunities and management of risks. It is supported in these efforts by a six-strong risk committee that regularly communicates on the identification, analysis and evaluation of opportunities and risks. Committee members assess all the information reported by the report officers, whereby the following areas of responsibility are defined, broken down by risk types:

- Risk type
- I Market-related risks
- II Operational risks
- III Financial risks
- IV Regulation, law and compliance
- V Reputational and brand risks
- VI Environmental and sustainability risks

The FP Group's risk strategy stipulates an innovative yet risk-averse approach in the traditional business area of Franking and Inserting as well as in Mail Services, while a healthy risk appetite is adopted in the investments made in the growing Software / Digital segment, which underpins the Group's vision for the future.

The Management Board has overall responsibility for the risk and opportunity management system of the FP Group. The Management Board is informed about the current risk situation of the FP Group by the Vice President Governance, Risk & Compliance and orders any further action to be taken if necessary. After the Management Board has approved the Group risk report, it is presented to the Supervisory Board.

Compliance Management System

The Management Board is responsible for compliance with the law and internal policies, and ensures compliance with these throughout the Group companies. Questions of compliance are regularly discussed between the Supervisory Board or the Chairman of the Supervisory Board and the Management Board. The corporate culture of the FP Group is characterised by trust and mutual respect, and by the will to adhere strictly to laws and internal regulations. Nonetheless, statutory violations due to individual misconduct can never be completely ruled out. Employees and third parties have the opportunity to report misconduct at the company to the Compliance Officer in person, via e-mail or by other means. Anonymous reports are also followed up. The company is very keen to minimise the risk of compliance violations as far as possible, to uncover misconduct and to deal with it systematically. Regulations and principles are set out, together with the responsible handling of insider information, in the code of conduct, which provides all employees with guidance regarding corporate integrity in business. Executives and employees receive training on the code of conduct and are able – and expected – to consult the Compliance Officer whenever they have any doubts. Embedding preventive elements into business procedures is a high priority in the work being done to move processes to the shared service centre as part of the ACT project JUMP. Internal Audit carries out risk-orientated audits of compliance with regulations.

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

The accounting-related internal control system is an integral component of a comprehensive company-wide control and risk management system. The objective of the internal control system, as far as the accounting process is concerned, is to implement adequate controls to sufficiently ensure that financial statements comply with regulations. The internal control system at the FP Group is predominantly supported by a functioning internal management system based on efficient processes, along with process-integrated, organisational security measures such as access restrictions in IT or payment guidelines. Process-integrated controls reduce the probability of errors and support the detection of errors that have already occurred. The FP Group's ICS is mainly based on process-integrated, organisational security measures such as separation of functions with corresponding access restrictions in the IT area or payment guidelines. Process-integrated controls reduce the probability of errors occurring or support the detection of errors that have occurred.

The Supervisory Board provides advice on risk management and monitors the effectiveness of the risk management system, the internal control system and the accounting process, and also monitors the auditing of financial statements and its impartiality.

The main features of the internal control system and the risk management system with regard to the accounting process can be described as follows:

As the parent company, Francotyp-Postalia Holding AG compiles the consolidated financial statements of the FP Group. This process is preceded by the financial reporting of the Group companies included in the consolidated financial statements. Both processes are monitored by means of a stringent internal control system, which ensures both true and fair accounting and compliance with the relevant legal stipulations. Cross-segment key functions are managed centrally and the individual subsidiaries possess a defined degree of autonomy when preparing their financial statements.

Key regulations and instruments in the preparation of the consolidated financial statements are:

- accounting guidelines at Group level;
- a clearly-defined separation of functions and allocation of responsibilities among the segments involved in the accounting process;
- involvement of external experts as far as necessary, to measure pension obligations, for example;
- use of suitable IT financial systems and the application of detailed authorisation concepts to ensure that authority is granted in line with the task while complying with principles of separation of roles;
- checks implemented within the system and further process checks on accounting in the companies; consolidation in the context of the consolidated financial statements and of other relevant processes at Group and company level;
- consideration of the risks recorded and evaluated in the risk management system in the annual financial statements, as far as is required under current accounting rules.

The management of the Finance segment, namely the top management, is responsible for enforcing these regulations and for using the instruments of the Group companies in the various countries. The consolidated financial statements are the responsibility of the member of the Management Board of Francotyp-Postalia Holding AG who is in charge of finance.

The FP Group guarantees that its annual and consolidated financial statements strictly comply with local and international accounting standards by employing qualified specialist staff, ensuring effective and regular additional training and adhering to the peer-review principle.

The annual financial statements of all major Group companies that are consolidated are subject to an external audit.

The duty of all subsidiaries to report their business figures to Francotyp-Postalia Holding AG on a monthly basis in a standardised reporting format means that plan / actual variances during the year are detected in good time, to enable appropriate action to be taken quickly.

Risk Management System with Regard to Financial Instruments

The FP Group has a centralised financial management, whereby FP Holding coordinates the consolidated financial requirements, secures liquidity and monitors currency, interest rate and liquidity risks across the Group. The goal of financial risk management is to limit financial risks from changes in market prices, exchange rates and interest rates through finance-oriented activities. Derivative financial instruments are used exclusively for the purpose of hedging underlying transactions. Currency risks result from the Group’s international activities, specifically in the US, Canada and the UK. FP Holding identifies these risks in cooperation with the Group companies and uses appropriate measures to manage them, e.g. entering into forward currency transactions. Interest rate risks result from medium- and long-term financial liabilities. In order to manage interest rate risks, FP Holding did not conclude any new interest rate derivatives in fiscal year 2019. The purpose of liquidity planning is to identify liquidity exposure risks at an early stage and to minimise it throughout the Group. A monthly rolling liquidity forecast is used to monitor and manage liquidity. Cash management measures, working capital and continuous monitoring and adjustment of financing options. For further information on risks from financial instruments, including currency and interest rate risks and the corresponding hedging activities, please refer to the disclosures in the notes to the consolidated financial statements in section IV (23) Financial instruments.

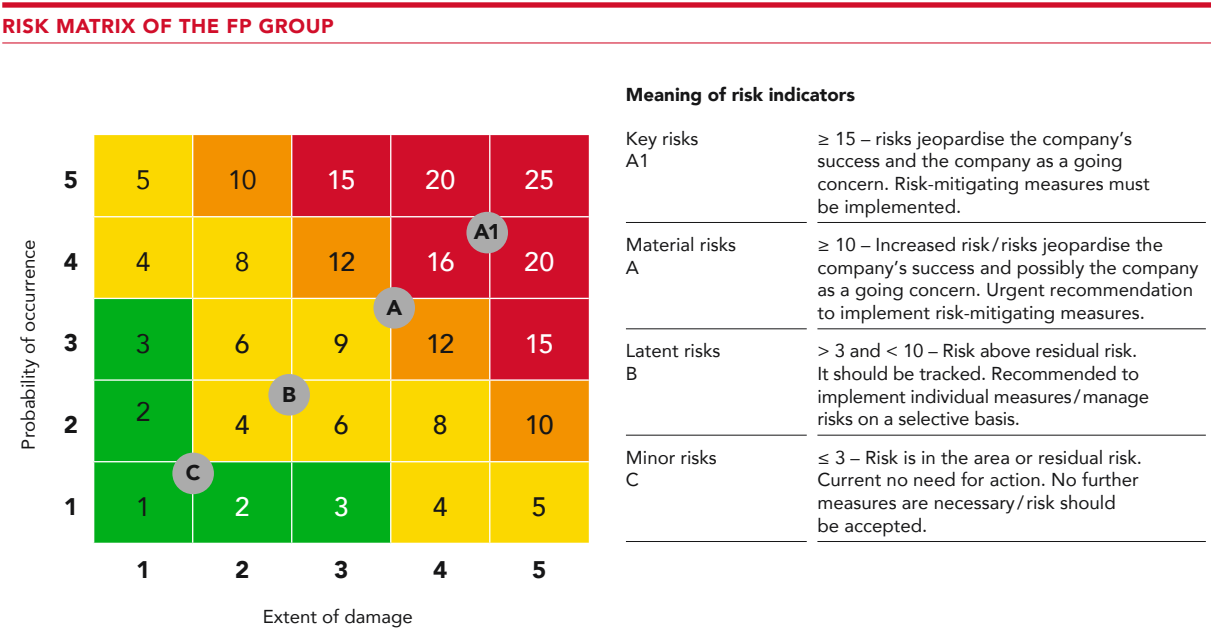
Risk Matrix of the FP Group

As has long been the case, the FP Group’s risk report details material risks, which are classified using the following nomenclature:

Explanation of Classes for Probability of Occurrence and Amount of Damage

EVALUATION OF THE EXTENT OF DAMAGE		
Category	Description (qualitative)	Extent of damage (quantitative)
1	Very low	Damage of less than 5% of forecast EBITDA
2	Low	Damage of between 5% and 7% of forecast EBITDA
3	Medium	Damage of between 7% and 15% of forecast EBITDA
4	High	Damage of between 15% and 35% of forecast EBITDA
5	Very high	Damage of more than 35% of forecast EBITDA

EVALUATION OF THE PROBABILITY OF OCCURRENCE		
Category	Description (qualitative)	Probability of occurrence (quantitative)
1	Very unlikely	0 to 19%
2	Unlikely	20 to 39%
3	Likely	40 to 59%
4	Very likely	60 to 79%
5	Almost certain	80 to 99%



Based on a “traffic light” system, red and orange risks attract particular focus in risk management. Both kinds are deemed to be material, with red risks even threatening the company’s continued existence. Active efforts are also made to reduce yellow and green risks where this makes good business sense, i.e. where the costs of further diminishing the risk are not expected to outweigh the reduction in the expected extent of loss.

Risks are assessed “net”, i.e. taking account of any action already taken to reduce them. This serves to flesh out the methodology used to the extent that this aspect of the risk assessment had not been specified definitively in the past. This means that, on the one hand, the de facto residual risk was reported as of the assessment date as a basic principle, i.e. taking existing, effective preventive measures into account. On the other hand, some risks were reported “gross”, such as the currency risk, although, in net terms, this was largely eliminated via hedging transactions. This report takes a strictly harmonised approach to the risk assessment in order to facilitate comparisons between risks in terms of their manageability as well.

8.1 Risks Faced By The FP Group

8.1.1 Market-related risks

Changes in customer needs as a result of the digital transformation
For the past 15 years, volumes of letter mail have been declining by some 4 % p.a. on all markets and the intensity of competition has been increasing; at the same time, there is a rise in the number of parcels and packages being shipped. More secure e-mail and signature solutions are replacing conventional mail services and the digital transformation of the economy is advancing.

In the Germany Sales and International Sales segments, the FP Group sells franking systems and provides consumables and services. These activities generate a significant proportion of the Group’s recurring revenue. There are conceivable scenarios in which the demand for franking machines and consumables falls much sooner than anticipated, preventing FP from meeting its revenue targets in this business area over the next few years. This development would have an adverse impact if it were to happen. The evaluation of this risk therefore takes up the potential loss from the possible EBITDA effect of the next three fiscal years and thus covers more than 35% of the planned Group EBITDA. FP currently sees such a scenario as having a 20-40% probability of occurrence, which is slightly less than in the previous year.

The FP Group reacts to this risk with market observation and by actively accompanying customers (ACT) through provision of digital products such as FP Sign and FP Parcel Shipping.

Although the challenge posed by the digital transformation presents major opportunities for FP, it also brings the strategic risk that the new areas of business in the Software/ Digital segment cannot be cultivated with the planned degree of success, e.g. because the products developed by FP do not meet market needs precisely enough or because they lose out to the competition.

8.1.2 Operational risks

Successful implementation of strategic and operational projects and measures
The strategic projects and measures drawn up in connection with ACT are crucial to the achievement of the growth targets. In the course of realising the ACT strategy, the FP Group is implementing the corresponding defined strategic projects in all segments in addition to the development in operating business. Running multiple activities and measures at the same time harbours the risk of implementation being delayed or made more cost-intensive due to resources potentially being limited or not all managers being experienced in managing large-scale projects.

After the risk was partially realised in the past fiscal year (delays to the implementation of a new ERP and CRM system), FP believes that the residual risk for the future is now under 35 % of forecast Group EBITDA, thus downgrading it by one loss class. Although the probability of this risk occurring has fallen, it remains high at between 40 % and 60 %. FP thus categorises the risk as material but not threatening its continued existence.

Employee adjustment risk
The company’s success depends to a significant degree on the commitment and abilities of its employees. There is a risk of employees not sufficiently adjusting to technological or other changes, including some that cannot be foreseen. The FP group limits these risks which impact all segments by further strengthening the HR segment, professionalising the analysis of requirements and with extensive internal communication. Other measures in the context of the ACT project JUMP include active change management, strengthening managers and employees by targeting the development of appropriate skills and establishing a culture of feedback and learning from mistakes. Thanks to these measures, this risk has now moved down a risk class compared with the previous fiscal year: although it is still regarded as material (orange), it is no longer perceived as a threat to the continued existence of the company (red). Its potential loss is estimated at between 15 % and 35 % and its probability of occurrence at between 40 % and 60 %.

Employee shortage risk
There is currently great demand on the labour market for specialists in all areas, in particular information technology (IT), research and development and technology sales as well as for activities in areas that support the creation of value, especially for recurring, transaction-related and standardised activities. There is a risk that vacancies in the aforementioned functional areas cannot be filled. The FP Group limits this risk which impacts all segments by professionalising and intensifying personnel planning and recruiting processes in the context of expanding employer branding and by taking new paths, for example internal training for specialist areas and vocational training that are in particularly high demand.

Whereas the employee shortage risk was perceived as a threat to the company’s continued existence (red) in the last annual report, it is now merely regarded as material (orange). This is based on it having a lower loss potential, specifically between 7 % and 15 % of forecast Group EBITDA. In assessing the potential extent of loss, the project risks reported in this risk report as separate risks as well as the demotivation risks, which relate to the employee adjustment risk, are not recorded again so that the same loss potential is not reported twice. At between 60 % and 80 %, the FP Group still believes that there is a high probability of a negative impact on EBITDA occurring in the order of magnitude outlined above.

Successfully attracting additional highly qualified specialists for developing digital products will also have long-term strategic significance for the Group’s transformation, which is not fully reflected in an assessment based on short- and medium-term EBITDA forecasts.

Employee demotivation, burnout and departure risk
FP began rolling out the ACT project JUMP in November 2018. This involves implementing efficient and stable organisational structures to provide support for the transformation of the FP Group in a cost-efficient manner. Some staff began to feel the effects in the course of 2019, and implementation will pick up more speed in the coming fiscal year. This restructuring will lead some employees to feel uncertain about their own future, role or working conditions in the FP Group; others will be given additional responsibilities as part of the HR restructure. This risks a loss of motivation amongst some staff, which could impact negatively on productivity and, in particular, on their keenness to proactively embrace initiatives in the interests of the company. In addition, it may result in employees whose experience and expertise are valuable to the company leaving FP or – in isolated cases – having to call in sick due to the added burden being placed on them.

The FP Group limits this risk which impacts all segments by implementing professional change management as well as active and extensive communication. This risk was reported as part of the employee adjustment risk in the 2018 annual report.

The employee adjustment risk had been categorised as a threat to the company’s continued existence (red) in the previous year. Following a reassessment, each of the individual sub-risks are not deemed to be as severe. If the employee demotivation, burnout and departure risk had been reported separately as early as the previous fiscal year, it would have been assessed as being material but not a threat to the company’s continued existence. Its potential loss is estimated at between 15 % and 35 % and its probability of occurrence at between 40 % and 60 %.

8.1.3 Financial risks

Potential impact of Brexit on future net assets, financial position and results of operations

The UK market is of great importance to FP’s core business of Franking and Inserting. When last year’s risk report was being prepared, therefore, the FP Group regarded the risk of a “hard Brexit” as threatening the continued existence of the company. Uncertainty over the Brexit arrangements has not abated since then. However, FP has instigated a number of measures that are reducing the residual risk facing the Group. For instance, FP UK Ltd. has already obtained an advanced form of customs registration that simplifies the administrative process in international trade (i.e. outside the EU single market). Although this kind of registration is not mandatory for FP’s current supply chains, it will ensure that they remain intact if there is a hard Brexit. FP has also significantly increased all its inventories of franking machines and sales materials in the UK so that the Group will initially not be affected by any customs duties or other trade barriers that might be imposed.

The consequences of a potential Brexit-induced recession in the UK would have a more severe impact. The risk remains that a hard Brexit will increase uncertainty for businesses and consumers, reduce investment in the UK, entail risks for the financial market and in general lead to greater uncertainty about the future of the EU. A further massive decline in confidence in the economy, increasing caution with regard to investment decisions and significant depreciation of the pound sterling could damage the company’s future net assets, financial position and results of operations.

Whereas FP estimated the potential loss at over 35 % of forecast Group EBITDA in the previous year, the Group now believes that the cumulative impact of all the Brexit ramifications described here could have an effect on EBITDA amounting to between 7 % and 15 % of the Group EBIDTA forecast for 2020. Half of this amount will affect the UK market and the other half all the rest of FP’s sales markets if Brexit triggers a general economic recession that extends beyond the UK’s own borders.

Uncertainty over what happens next with Brexit is already prompting a noticeable reluctance to invest in the country, which is why the likelihood of this risk occurring remains unchanged at its high level. Overall, therefore, the risk is assessed as material.

8.1.4 Risks from the SARS-CoV2 pandemic

The SARS-CoV–2 pandemic poses enormous challenges for society, the economy and the nation. At present, the full extent of the economic consequences cannot yet be foreseen, but there will be a considerable slump in economic output, at least temporarily. The decisive factor here will be how long the lockdown required or is repeated in the individual countries for health policy purposes will last in the individual countries, but also what political measures will be taken to stabilize the economy. In the short term, at least until mid-2020, it is highly probable that a significant decline in demand or a reluctance to invest can be expected in some areas due to higher levels of sick leave, disruption to distribution channels and production capacities. At the same time, the significant increase in home office and remote activities in the working environment will lead to a surge in digitization. This may lead to an increased demand for digital solutions. FP’s Franking/ Inserting and Mail Services product areas are significantly influenced by the development of letter volume. It is not yet possible to quantify the extent to which the general decline in letter volume will be affected by the SARS-CoV–2 pandemic, but the rate is likely to increase. Temporarily, the economic effects in particular will have a negative impact on letter volume.

The effects described above affect FP’s business models to varying degrees.

8.1.4.1 Franking and inserting product area

The franking and inserting product area is characterized by a relatively robust business model with a high proportion of recurring revenues, which generally reacts rather slowly to economic influences. This is due to the high proportion of rental and leasing business in total revenue from franking and inserting machines and a high after-sales share in consumables and service.

- With existing rental and leasing agreements, it can be assumed that the sales trend will initially remain relatively stable. However, when contracts expire or new contracts are concluded with competitor’s and new customers, the general economic uncertainty may lead to restraint.
- In the case of the sale of franking machines, which is the preferred model in some countries, it can be assumed that machines will be used for much longer and that any necessary replacement investments (exchange for a new generation of machines) will be postponed due to the reluctance to invest. A decline in sales will materialize

much faster in this area.

- In addition, particularly in the segment for small franking machines, it is possible that some customers will switch to other types of franking in the course of cutting costs as much as possible and refrain from concluding new contracts or postpone them (rent / leasing and sales). In addition, as mail volumes decline, customers are likely to switch to smaller machines when purchasing new equipment.
- Consumables (ink cartridges, spare parts, labels and envelopes etc.) are generally not included in the rental contracts. A decline in business activity and thus in letter correspondence has a direct impact on this important and high-margin pillar of sales. In addition, a large part of the workforce in many companies currently works from the home office and is therefore less well connected to the logistical infrastructure for physical incoming and outgoing mail in their companies than usual. Against this backdrop, it seems possible that business letters will temporarily be handled more electronically. In this respect, it is likely that this FP business segment will be affected slightly more than the economy as a whole.
- The increasing digitalisation experience described above may lead to a sustained surge in digitalisation, which may accelerate the decline in letter volumes in the medium term. While FP, due to its specialisation in small franking machines, could also benefit from this if customers switched to smaller franking machines when letter volumes declined, an accelerated decline in the overall market would affect the industry as a whole, including FP.
- The economic situation generally increases the risk of insolvencies and thus of extraordinary rental / leasing and service contract terminations. However, with a diversified broad customer base of over 200,000 customers, the risk is widely spread. Here, the possible effects of the pandemic roughly correspond to the effects on the economy in general.

In this respect, FP currently assumes that the impact of the SARS-CoV–2 pandemic on business will be roughly equivalent to the effects expected for the economy as a whole with regard to capital goods.

Our franking machines are produced exclusively in Germany. The supply chains are largely secured in the short to medium term by corresponding inventories, especially of single-source components. The total number of components and suppliers have been significantly reduced in the latest machine generation, the PostBase Vision. Nevertheless, in the medium term there is a certain dependency on suppliers, which, if production is interrupted or closed down due to illness or quarantine, could also temporarily affect FP’s production with a time lag. Since production is largely carried out in the manufacturing plant, FP itself is also susceptible to a certain degree of sickness-related downtime. This can be partially offset by the proven flexible use of temporary staff. The risk situation of our production is thus roughly equivalent to that of the entire manufacturing industry.

8.1.4.2 Mail Services product area

The Mail Services product area covers the collection, franking and sorting (consolidation) of our customers’ outgoing mail. Here, too, a decrease in the volume of letter correspondence due to economic influences and, if necessary, increased digitalisation as explained above for consumables as a result of the pandemic has a direct impact on sales. In comparison to the overall economy, this area is likely to be affected slightly more than average.

On the production side, the sorting and franking of mail in the Mail Services division is highly automated, but the company still depends on a workforce familiar with the machines and processes. Here too, a high level of illness or quarantine can affect production. This can be counteracted to a limited extent, as described above, by using temporary staff. Due to a lower level of qualification than in the production of franking machines, this can be done faster and more flexibly.

In the Mail Services product area, there is only limited dependence on suppliers: mail is collected from our customers by various courier services. Here, sickness-related absences could lead to delays. For delivery to the customer, the mail is handed over to Deutsche Post AG or private mail service providers. Like freesort, these companies are among those specified by the German Federal Network Agency, with responsibilities for maintaining the functionality of network infrastructures. Therefore, exceptions to exit restrictions or contact prohibitions can be used here to maintain operations and constraints can be expected to a lesser extent.

8.1.4.3 Software solutions product area

The Software / Digital product area comprises the hybrid mail services business and solutions for secure digital communication.

Hybrid Mail Services provides partially or fully digitalized input and output management services. These services can largely be maintained without any problems in the current situation, as essential interfaces, especially to customers, have already been digitized. In addition, as with the Mail Services, some of these services are provided as designated providers for network infrastructures. Temporarily, however, declining effects on letter volumes (due to the economic situation or, in the case of some larger customers, due to business restrictions or insolvencies) may lead to limitations on the demand side. By contrast, the hybrid services segment could benefit from a medium-term surge in digitisation.

On the production side, both IoT and FP Sign digital communication solutions are highly dependent on a limited number of FP development experts. The members of the development teams can replace each other to a large extent; there is sufficient redundancy in this respect. However, IoT applications are usually developed very individually and the customer expects a so-called “proof of concept” within a short time. A significant reduction in development capacity as a result of increased sick leave could therefore temporarily affect FP’s ability to develop a properly functioning solution on time. In addition, a reduction in development capacity could also slow down the generally planned further development of the product and solution portfolio and thus also the planned growth in this area.

8.1.4.4 General risks

In principle, it must be assumed that the difficult economic situation resulting from the SARS Cov2 pandemic will lead to an increase in defaults on receivables. It is difficult to foresee the extent of these losses. Due to our specialisation in small franking machines, FP’s customer structure is dominated by small and medium-sized companies. If the risk of insolvency in this segment is estimated to be higher than for large corporations, then FP will be affected more than the economy as a whole.

FP has put the Group’s future liquidity position through a stress test in view of the corona crisis. This involved running through various scenarios. The scenario currently adopted assumes that the lockdown will not be lifted until September 1, 2020 and that revenue will only increase gradually thereafter. At the end of 2020, revenue in this scenario will not have reached the pre-crisis level. The intensity of the assumed decline in revenue is based on the effects of the pandemic on our order intake and revenue observed in the second half of March. At the personnel and operating cost level, the scenario takes into account internal measures, the feasibility of which is largely certain. In the aforementioned scenario, there will be no liquidity bottleneck for FP until the end of the year, even without taking up additional credit outside the current ancillary line. After consultation with its banks, FP assumes that the ancillary line could be increased by at least a further 30 million euros in the short term. In total, FP has been granted credit lines of 200 million euros, of which, however, a large portion is tied to specific purposes.

8.1.4.5 Conclusion

At the time of reporting, the quantitative assessment of the risk and possible effects on FP is subject to a high degree of uncertainty. Franking and inserting machines are capital goods. FP is directly affected by the reluctance of companies to invest, which is typical in times of crisis. In the existing business, the decline in volume of business mail, which is common in difficult economic times, has a negative effect on sales of consumables for franking machines and letter logistics services. The reduction in volume is currently being further intensified by the widespread use of home offices, as business mail is being processed decentrally and digitally. Therefore, we currently assume that an EBITDA impact of more than 35 % of planned EBITDA will occur with a probability of 20–40 %.

8.1.5 Overall statement on the Group’s risk situation

The table below provides an overview of the FP Group’s risk situation as at the reporting date and of changes in risks compared with the previous year. The following six risks constitute material risks for the FP Group as things stand:

OVERVIEW ON RISKS IN THE FP GROUP				
	Extent of loss	Probability of occurrence	Risk group	Trend ¹
Market-related risks				
Changes in customer needs as a result of the digital transformation	5	2	A	↘
Operational risks				
Successful implementation of strategic and operational projects and measures	4	3	A	↘
Employee demotivation, burnout and departure risk	4	3	A	↗ ²
Employee adjustment risk	4	3	A	↘
Employee shortage risk	3	4	A	↘
Financial risks				
Potential impact of Brexit on future net assets, financial position and results of operations	3	4	A	↘
Overall risk				
Risks from the SARS-CoV2 pandemic	5	2	A	new

1) Development of risk quotient year on year
2) The employee demotivation, burnout and departure risk is being reported separately for the first time this year, having previously formed part of the employee adjustment and employee shortage risk. Had it been analysed separately in the previous year, it would have increased in 2019.

Overall statement on the Group’s risk situation

Changes to **customer requirements** prompted by the digital transformation remains the biggest challenge facing the FP Group. There are conceivable scenarios in which the demand for franking machines, consumables and maintenance services falls much sooner than FP is currently anticipating. This development would have a sustainable impact if it were to happen. Although the digital transformation presents major opportunities for FP, it also brings the strategic risk that the new areas of business in the Software / Digital segment cannot be cultivated with the planned degree of success, e.g. because the products developed by FP do not meet market needs precisely enough or because they lose out to the competition.

The Group’s risk situation is dominated by **personnel risks**, particularly the employee shortage risk at present. The company’s successful transformation into a provider of digital solutions and the implementation of the strategic ACT projects, which also includes major IT projects – both these challenges rely on the FP Group’s IT and IT project development

experts. At the same time, these parts of the company must also keep their day-to-day business going. This employee shortage risk is joined by the staff demotivation and departure risk, which results from the restructuring that is still ongoing and which is being compounded by uncertainty over the company’s future direction in the wake of changes – also still ongoing – to its shareholder structure.

FP has identified this concentration of risk and is counter-ing it with a variety of measures to professionalise personnel management. A new Head of HR joined in autumn 2019. Targeted efforts are being made to raise the profile and attractiveness of the FP brand on the job market. Managers are being given specific training on the right way to respond to employees’ mental health issues.

The framework conditions influencing these personnel risks (one-off projects, product developments, restructuring) will persist beyond the end of fiscal year 2020. However, FP is aiming to reduce them significantly by the end of the year and is confident in its ability to do so.

Despite the situation with resources, the risk threatening the **implementation of strategic projects** and the achievement of the planned savings has reduced because some of the potential loss identified in the previous year has now already been incurred. What is left, therefore, is merely the residual loss caused by a potential further delay, an event that is deemed slightly less likely to occur this year than in the previous year. The risk has thus moved down a risk class from red to orange. At the time of reporting, it also appears conceivable that in 2020 individual project components that require the support of external consultants to a particular extent could be temporarily suspended in order to conserve liquidity.

As well as the specific risk situation facing the FP Group in particular, the increased risk of a recession at present is also a factor. FP believes that the overall risk here poses a significant threat as the company has significant commitments in the UK: the country might well be hit particularly hard by a recession on account of **Brexit**, the timing of which is likely to coincide with a global economic downturn. The mere uncertainty over what happens next with Brexit – even if a disorderly withdrawal is ultimately averted – is already prompting a noticeable reluctance to invest in the country.

Whilst a material devaluation risk was reported in the previous financial year, it is now no longer material. As in the previous year, the economic situation for the CGU freesort did not develop as planned in the 2019 financial year. On the basis of risk-adjusted planning, 100 % of the goodwill of the CGU freesort was impaired as of 31 December 2019. At the same time, FP made a special write-down on the capitalised development costs of the FP Sign digital signature solution as of the balance sheet date. As a result, the remaining devaluation potentials are in the range of only 7–15 % of the forecast Group EBITDA with a devaluation probability of only 20–40 % and thus in the yellow category.

The **global IT risk** from the previous year’s report is no longer regarded as material following the latest assessment. FP’s areas of business remain dependent on a well-functioning IT setup to a disproportionately high extent. However, the likelihood of lengthy downtime or the irreversible loss of data despite all available backup measures is not deemed high enough to push this risk up into the “material” category after considering all factors. Although IT downtime scenarios harbouring significantly higher loss potential are conceivable, the probability of them occurring is correspondingly lower, giving all scenarios a yellow rating.

By concluding currency hedging transactions and by purchasing in the US dollar region, the FP Group systematically reduces its **currency risks** to less than 5 % of its forecast Group EBITDA. FP has also pursued this policy in previous years. In the past, this risk was reported “gross”, i.e. without factoring in hedging transactions; this year, it is being reported “net”. In this respect, the risk has not changed – it is merely no longer classed as material.

Although the **loyalty risk**, i.e. the risk that employees will deliberately damage the company, remains, FP no longer regards it as a material risk at present.

Overall, the risks are manageable, and the Group’s continued existence is not under any threat as things stand. The FP Group does currently not anticipate that the risk situation will change fundamentally. From an organisational viewpoint, the company has laid all the necessary foundations to ensure that it is informed of potential new risk situations at an early stage and can react quickly.

8.2 Opportunities for the FP Group

The FP Group primarily used qualitative considerations to determine opportunities for fiscal year 2020, supplementing these with quantitative indicators.

With the ACT strategy, details of which were published at the end of 2016, the FP Group subjected its opportunities in a changing market to a fundamental review and reassessment. In 2019, FP took another look at the assumptions it had made concerning the market and trend environment, while also assessing its success with implementing the individual elements of the strategy. This analysis reaffirmed the FP Group’s view that the ACT strategy was the right course to pursue. During the coming fiscal year, therefore, the opportunities that present themselves for continuing to implement the strategy will therefore be addressed with even sharper focus than the simultaneity of the various implementation pathways has permitted to date in view of the staffing shortages encountered. In this respect, the upcoming opportunities for 2020 will follow on directly from those arising in the previous year.

As part of the strategy, FP will further expand its existing customer base of around 200,000 predominantly small and medium-sized companies. At the same time, with each existing customer and each new customer there is an opportunity to accompany them through the digitalisation process and offer them secure digital communication products in addition to traditional mail processing. Overall, this leads to better, sustainable customer retention and higher, sustainably profitable growth per customer.

The ACT strategy takes these opportunities into account. It comprises the three components of Attack, Customer Journey and Transformation. The transformation of the FP Group also involves the fundamental modernisation and re-design of the structural and procedural organisation for the purpose of increasing efficiency, quality and speed. Following careful planning and preparation, its implementation as part of the ACT project JUMP began in November 2018.

In line with the development of this project and other ongoing ACT projects, these opportunities have been taken into account in the strategic Group planning, the forecast for 2019 and 2020 and medium-term targets for the period up to 2021.

To meet expectations of the FP Group, the company must press ahead with continuous growth and implement the change associated with ACT even more quickly, by recognising new opportunities at an early stage and successfully exploiting them.

8.2.1 Opportunities in the Franking and Inserting Segment

Despite a decline in the global average number of postal consignments delivered worldwide, the postal market still offers growth opportunities for FP in the franking machine business. FP focuses on systems for smaller and medium volumes of letters and is thus meeting the changed demand.

This in principle means that opportunities exist for the FP Group to participate in this growth (attack). However, concentration on small and medium volumes of mail also opens up opportunities for the FP Group in established postal markets. This particularly applies to markets in which the FP Group is not yet present or strongly represented.

Market studies conducted in connection with the development of ACT have shown that the FP Group has major growth opportunities in the US and France in particular. With this in mind, FP is gradually building up its presence on the French franking machine market. However, the company also sees potential in its traditional markets of the US, Canada and Germany, especially due to the shift towards the A segment.

Having launched a new product generation under the Post-Base Vision brand in 2019, FP now boasts a new franking machine. Armed with this, the FP Group intends to further expand its favourable market position in its main sales areas in 2020, underpinned by the stability brought by a current market share of over 12 % (previous year: 11.5 %) of the franking systems installed worldwide.

In addition, FP will continue to boost sales via discoverFP, which can be used as an additional, passive and therefore cost-saving and resource-saving distribution channel. DiscoverFP will also sell third-party products that are closely linked to the FP Group’s core business. In addition, FP will start offering more complementary products from other manufacturers (e.g. multifunction printers for commercial use) as part of the service it provides to its existing customers, enabling it to make even more use than it has to date of the customer contacts it enjoys in its own business to generate additional income. In return, a sales partnership of this kind will also enable FP to acquire additional leads from its partner, which may expand its own customer base.

8.2.2 Opportunities Software / Digital

At the same time, the company is continuing to market software solutions such as FP Sign, a platform-based solution for the secure, confidential and legally binding digital signing of contracts and exchange of documents. Digitalisation is advancing in many areas.

At the same time, the company is focusing on digital technologies in order to benefit from the trend towards increasing digital transformation in the medium and long term. It is becoming apparent that the expertise available within the FP Group (cf. section on Research and Development) can be used for new services that go well beyond franking systems or digital products and services. The development of products and services pertaining to the Internet of Things (IoT) in particular was driven forward further in fiscal year 2019. This results in valid opportunities for the FP Group to generate revenue and earnings in this business area.

8.2.3 Opportunities arising from the ACT project JUMP

The existing structural and procedural organisation is being fundamentally realigned across the Group in the course of the implementation of the ACT project JUMP. At the same time, information technology (ERP / CRM) is being standardised and modernised throughout the Group. Following the successful implementation, the FP Group is expecting large increases in quality and efficiency as well as cost savings. The effects to be expected on the basis of this project planning have been evaluated in detail and have been incorporated into the forecast for the fiscal year 2020 and the outlook.

8.2.4 Overall statement on opportunities

As part of the analysis of risks and opportunities, 30 opportunities were reported in autumn 2019, representing a total volume of some EUR 12 million and requiring funds worth EUR 8 million.

Despite a decline in the average number of postal consignments delivered worldwide, there are many countries where the postal market is growing. Unlike the competition, the FP Group focuses on systems for smaller and medium volumes of letters and is thus meeting the changed demand. Market studies have shown that the FP Group has major growth opportunities in the US and France in particular.

Specifically, FP’s US business offers significant potential for acquiring new customers via telesales. This is because the company maintains extensive lists of leads, which have not yet been able to be worked through due to the delays to introducing the new CRM system. In time terms, the opportunities it presents will continue to extend beyond the end of fiscal year 2020.

In addition, FP will promote sales via discoverFP, which is an additional, passive and thus cost and resource-saving distribution channel. Being passive in nature, it will save on both costs and resources. At the same time, awareness of the FP brand is to be increased further with targeted measures. DiscoverFP will also sell third-party products that are closely linked to the FP Group’s core business.

All in all, the relationship between the opportunities and risks arising from the transformation of the FP Group has changed little year on year. In terms of the time horizon, they will need to be actively

9. Forecast

	2020 forecast
Revenue	Sharp fall on 2019
EBITDA	Sharp fall on 2019
Free cash flow (adjusted)*	Sharp fall on 2019
Quality indicator – Germany and International	Slight improvement compared with 2019
Improvement indicator	Slight improvement compared with 2019

* Adjusted for investments in finance lease assets and M&A and payments for JUMP.

The forecast for macroeconomic conditions, which takes account of the SARS-CoV–2 pandemic, is based on information provided by the International Monetary Fund (IMF) and the German Council of Economic Experts (GCEE).

In light of the developments resulting from the spread of the SARS-CoV–2 pandemic, the following premises, which had been key assumptions underlying the ACT strategy and had underpinned the original forecasts for fiscal year 2020, **are suspended until further notice**:

- Positive macroeconomic development on key FP markets
- Continuity of political, economic and tax conditions in the US
- Stability in the European Economic Area
- Stable development of exchange rates for foreign currencies
- Scheduled smooth progress of the UK’s departure from the European Union, especially continuity of trading conditions and stable development in the pound sterling exchange rate
- Moderate downturn or stagnation in mail volumes on traditional mail markets
- Gaining market share in the core Franking and Inserting segment
- Stabilisation and expansion of the Mail Services segment
- Growth in the Software / Digital segment through developing and expanding activities in the markets for digital document signatures and high-security solutions for the Internet of Things (IoT).

The SARS-CoV–2 pandemic is posing immense challenges for society, the economy and the government. Although the full extent of the economic consequences cannot yet be predicted, the FP Group is forecasting a significant slump in economic output in all the company’s markets and business areas for 2020, at least temporarily. Everything will depend on how long the lockdown required on health policy grounds will last in the individual countries but also on what political measures are taken across the world to stabilise the economy.

In the short term, FP believes it is highly likely that all the company’s vertical markets will see a marked fall in demand and a reluctance to invest at least until midway through fiscal year 2020 due to increased sickness levels and disrupted distribution channels and production capacities. Its core franking and inserting business and its Mail Services segment are heavily influenced by the trend in mail volumes. The severity of the overall fall in mail volumes triggered by the SARS-CoV–2 pandemic cannot be quantified at present. The economic effects will have an adverse impact on mail volumes and the FP Group’s business activities, at least temporarily, and the modest fall that has been observed in recent times is likely to accelerate.

The company wishes to point out that statements relating to the future are based on assumptions and estimates. Actual future developments and results may vary substantially from these assumptions and estimates.

9.1 Expected Macroeconomic and Industry-Specific Conditions

The economic climate has an influence on future industry growth and therefore also on the future business performance of the FP Group. Companies are more inclined to invest in a positive economic climate, which could have a positive impact on the franking and inserting business. In a robust economy, companies are more willing to innovate, which is favourable for the Software / Digital segment in particular.

At the start of 2020, the International Monetary Fund (IMF) had forecast healthy development for the global economy this year and faster growth in global gross domestic product (GDP) compared with 2019.

For the euro zone and Germany, the IMF anticipated a stable, slightly rising growth rates in 2020. In the USA, the FP Group’s most important foreign market, GDP growth in 2020 should weaken slightly compared to the previous year.

The spread of the SARS-CoV–2 pandemic has now rendered these forecasts invalid. The IMF believes that the pandemic has already put the global economy into recession. According to the IMF, the global economy is already in recession because of the pandemic. The economy in the USA and in other richer countries is already declining, and the global recession will be much more severe in 2020, at –3 %, compared to the global financial crisis of 2008 / 09. The OECD, an organisation of industrialised countries, is expecting the SARS-CoV–2 pandemic to trigger a recession in many economies.

In a special report, the GCEE predicts that the SARS-CoV–2 pandemic will hit the global economy extremely hard. The spread of the virus has stopped the nascent economic recovery in its tracks. The German economy will contract significantly in 2020, with its actual performance dependent on the extent and duration of the health policy measures and the subsequent recovery. There is extensive uncertainty surrounding future developments due to the unprecedented nature of the situation and the scant data.

9.2 Expected Business Performance of the FP Group

The FP Group’s ACT strategy is based on growth in the core business with franking systems, the offering of new solutions and services to accompany existing and new customers in the digitalisation of processes relating to inbound and outbound business communication as well as the development of new digital products and business models beyond the traditional customer base and market segments.

Before the SARS-CoV–2 pandemic erupted, the company was planning to continue growing its franking system activities in the world’s most attractive markets, the US and France, in fiscal year 2020 based on its ACT strategy. Its overall competitive position was also to be further improved.

The company has created the right framework conditions for this; with the complete PostBase family, FP can offer products for small and medium-sized mail volumes, thus meeting the changing demand. With the market launch of the new product generation under the PostBase Vision brand in mid-2019, the FP Group has been able to further consolidate its good position in the market. At the same time, the company also intended to keep up its investment in high-security solutions for the IoT and digital document signatures in the Software / Digital segment in fiscal year 2020. As well as focusing on developing profitable growth, the implementation of the ACT project JUMP and the rollout of the globally uniform ERP / CRM landscape was also to be progressed further in fiscal year 2020.

The economic consequences of the SARS-CoV–2 pandemic are not predictable in their full impact. However, the FP Group is expecting a significant slump in economic performance in all of the Company’s markets and business segments, at least temporarily.

In the short term, FP believes it is highly likely that all the company’s vertical markets will see a marked fall in demand and a reluctance to invest at least until midway through fiscal year 2020 due to increased sickness levels and disrupted distribution channels and production capacities. Its core franking and inserting business and its Mail Services segment are heavily influenced by the trend in mail volumes. A significant delay to customer projects is likely in the new digital business areas. The severity of the overall fall in mail volumes and demand in all the FP Group’s segments triggered by the SARS-CoV–2 pandemic cannot be quantified at present. The economic effects will have an adverse impact on mail volumes and the FP Group’s business activities, at least temporarily.

Faced with the current pandemic situation, the FP Group has moved immediately to instigate comprehensive measures to ready the company for the upcoming challenges and the post-crisis period. FP will focus particularly on preserving and increasing available Group liquidity so as not to jeopardise the company’s strategic and operational objectives in the long term.

9.3 Expected Development of Performance Indicators

The forecast for fiscal year 2020 takes account of the latest developments connected with the SARS-CoV–2 pandemic. Instead of the 5 % to 8 % increase in revenue originally forecast for 2020 and EBITDA of between EUR 30 and EUR 34 million, the FP Group is now expecting a marked year-on-year fall in revenue, EBITDA and adjusted free cash flow for fiscal year 2020.

The anticipated development of financial performance indicators for the 2020 fiscal year is based on the assumption of constant exchange rates.

The non-financial performance indicators are likely to improve slightly in 2020. A slight positive development compared to the previous year’s figure is expected for both the quality indicator and the improvement indicator.

10. Takeover-related disclosures

10.1 Explanatory Report by the Management Board on Disclosures Pursuant to Sections 289a(1), 315a(1) HGB

Restrictions relating to voting rights or the transfer of shares

Each share entitles the holder to cast one vote at the Annual General Meeting. There are no restrictions relating to voting rights or the transfer of shares.

Direct or indirect investments in capital exceeding 10 % of the voting rights

As at 31 December 2019, the following direct and indirect shareholdings in the capital existed, which exceeded 10 % of the voting rights:

Name/ Company	Direct/indirect holding of more than 10 % of the voting rights
Mr Klaus Röhrig, Austria	Indirectly
Mr Rolf Elgeti, Germany	Indirectly

The above information is based in particular on notifications of voting rights pursuant to the German Securities Trading Act (WpHG), which Francotyp-Postalia Holding AG received and published.

Voting rights notifications published by Francotyp-Postalia Holding AG can be accessed on the Internet at: <https://www.fp-francotyp.com/en/voting-rights-notifcation/34d7329ef8d9abe0>.¹⁾

Shares with special rights

Francotyp-Postalia Holding AG has issued no shares with special rights.

Control of voting rights of employee shareholders

There are no controls over voting rights.

Statutory regulation in the Articles of Association on appointing and dismissing Management Board members and amending the Articles of Association
In accordance with article 6(2) of the Articles of Association of Francotyp-Postalia Holding AG, the Supervisory Board is responsible for determining the number of Management Board members, appointing them, and revoking their appointment. In accordance with article 6(3) of the Articles of Association, the Supervisory Board can appoint a Super-

visory Board committee to sign, amend and terminate employment contracts of Management Board members.

The Articles of Association stipulate in article 23(1) that the Annual General Meeting passes resolutions by a simple majority of the votes cast, and, where the statute requires a majority of capital in addition to a majority of votes, by a simple majority of capital represented at the time the resolution is passed, insofar as the law or the Articles of Association do not require a larger majority. Abstentions count as votes not cast. Furthermore, in accordance with article 15(2) of the Articles of Association, the Supervisory Board can make amendments to the Articles which relate only to wording.

Powers of the Management Board with regard to the possibility to issue or buy back shares

Authorisations for authorised and contingent capital
On 11 June 2015, the Annual General Meeting of FP Holding adopted resolutions to create new authorised capital (Authorised Capital 2015 / I) of EUR 8,080,000 and to cancel the existing authorisation of the Management Board to increase share capital (Authorised Capital 2011) with a corresponding amendment of the Articles of Association. With the approval of the Supervisory Board, the share capital of the company can be increased on one or more occasions by up to a total of EUR 8,080,000 by issuing new bearer shares against cash and / or non-cash contributions up to 10 June 2020. Shareholders have subscription rights to the new shares. In accordance with section 186(5) of the Aktiengesetz (AktG – German Stock Corporation Act), the new shares can also be purchased by one or more banks or a syndicate of banks, with the obligation to offer these to shareholders for subscription.

The Management Board is authorised, with the approval of the Supervisory Board, to disapply shareholder’s subscription rights on one or more occasions.

On 11 June 2015, the Annual General Meeting also resolved to contingently increase the share capital of the company by an amount of up to EUR 6,464,000 by issuing up to 6,464,000 new bearer shares, each accounting for a pro rata amount of share capital of EUR 1.00 (Contingent Capital 2015 / I).

The contingent capital serves to grant shares to the holders or creditors of warrant or convertible bonds, profit participation certificates or participating bonds (or combinations of these instruments) that were issued by the company or one of its direct or indirect Group companies as defined by section 18 AktG by 10 June 2020. This is only carried out to the extent that options or conversion rights from the above bonds are utilised or option or conversion obligations arising from these bonds are met, unless other means of settling the obligation are used. New shares are issued at the option or conversion price to be determined based on the above authorisation. The new shares participate in profits from the

beginning of the fiscal year in which they arise as a result of options or conversion rights being exercised or conversion obligations being fulfilled.

The Management Board is authorised, with the approval of the Supervisory Board, to determine the further details for the implementation of the contingent capital increase. The Supervisory Board is authorised to amend the wording of the Articles of Association in accordance with the implementation of the contingent capital increase.

On 11 June 2015, the Annual General Meeting resolved to adjust Contingent Capital 2010 / I. The contingent capital was reduced by EUR 388,500, as the 2010 stock option plan was reduced by 388,500 options to 656,500 options. Article 4(5) of the Articles of Association on Contingent Capital 2010 was amended as follows: “The share capital of the company is contingently increased by up to EUR 656,500 through the issue of up to 656,500 new bearer shares.”

On 11 June 2015, the Annual General Meeting resolved to contingently increase the share capital of the company by up to EUR 959,500 by issuing up to 959,500 bearer shares (Contingent Capital 2015 / II). The contingent capital increase is exclusively intended to serve subscription rights granted up to 10 June 2020 on the basis of the authorisation of the Annual General Meeting on 11 June 2015 in accordance with the 2015 stock option plan. The contingent capital increase will only be implemented to the extent that the bearers of the issued subscription rights exercise their rights to subscribe to shares in the company and the company does not grant any treasury shares to serve subscription rights. The new shares participate in profits from the beginning of the fiscal year in which subscription rights are exercised.

In 2017, the FP Group exercised the adjusted Contingent Capital 2010 / I and increased the share capital by 86,100 shares to 16,301,456 no-par value bearer shares.

By way of resolution of the Annual General Meeting on 11 June 2015, the Management Board was authorised, with the approval of the Supervisory Board, to issue, on one or more occasions and in full or in partial amounts, warrant or convertible bonds, profit participation certificates, participating bonds or combinations of these instruments (collectively referred to as “bonds”) with a total nominal amount of up to EUR 200,000,000 up to 10 June 2020, and to grant the bearers or creditors (collectively referred to as “bearers”) of the respective bonds options or conversion rights to acquire bearer shares of the company accounting for a total pro rata amount of share capital of up to EUR 6,464,000 in accordance with the further conditions of the bonds and to establish the corresponding option or conversion obligations. The bonds and the options and conversion rights / obligations can be issued with a duration of up to 30 years or as

1) This cross reference is not part of the audit of the financial statements by KPMG AG Wirtschaftsprüfungsgesellschaft.

perpetual instruments. Bonds can also be issued in whole or in part against contributions in kind.

The individual issues can be divided into different types of bonds with equal rights. The Management Board is authorised, with the approval of the Supervisory Board, to disapply shareholders' subscription rights to bonds.

The Annual General Meeting of Francotyp-Postalia Holding AG on 10 June 2015 authorised the Management Board, with the approval of the Supervisory Board, to acquire treasury shares up to a total of 10 % of the share capital at the time of this resolution. The shares acquired under this authorisation, together with other treasury shares held by the company or attributable to it in accordance with the sections 71d and 71e AktG, must not account for more than 10 % of the share capital at any time. The authorisation can be exercised in full or in part, and on one or more occasions. The authorisation remains in effect until 10 June 2020. The authorisation of the Management Board to acquire and use purchased treasury shares resolved by the Annual General Meeting on 1 June 2010 ended when the new authorisation became effective.

Contingent capital increase and 2010 and 2015 stock option plans

For further explanation, please refer to the disclosures in the notes to the consolidated financial statements in section IV (18) Equity.

Authorisation to acquire treasury shares

On 11 June 2015, the Annual General Meeting authorised the company to purchase treasury shares in the amount of up to 10 % of the share capital existing at the time of the Annual General Meeting's resolution and to use these shares for any purposes permitted by law up to 10 June 2020.

The shares may also – disapplying the pre-emptive rights of shareholders in the context of business combinations or in the case of company acquisitions or investments – be offered and transferred to these entities, provided that the company acquisition or the investment is in the company's best interest and the amount to be paid for the treasury shares is not disproportionately low. Treasury shares can also be issued or sold in exchange for cash payments to third parties or to individual members of the Management Board or for introduction on a foreign stock market on which the shares were not authorised for trading until this date. This can be done in place of a cash bonus at a price that is not significantly below the stock market price at the time of sale. Treasury shares can also be used or redeemed to serve the 2010 and 2015 stock option plans.

On 9 October 2017, the Management Board resolved and announced the implementation of a share buyback programme. The buyback programme started on 13 October 2017 and ended on 12 January 2018. In the future, the treasury shares are to be used to service subscription rights that have been or will be issued and exercised under stock option plans. This allows the company to avoid issuing new shares and diluting the stakes of shareholders. The purpose of the stock options is to ensure a lasting link between the interests of management and executives and the interests of the shareholders in a long-term increase in enterprise value. The chances of a long-term return are closely linked to the company's performance.

The share buyback took place in accordance with the safe harbour regulations of Articles 5, 14 and 15 of the Market Abuse Regulation in conjunction with the provisions of Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and the Council with technical regulatory standards for the conditions that apply to buyback programmes and stabilisation measures ("Delegated Regulation").

Shares in Francotyp-Postalia Holding AG were purchased at market prices in accordance with trading conditions pursuant to Art. 3 of Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016. In particular, shares in Francotyp-Postalia Holding AG were not acquired at a price above that of the last independently conducted acquisition or (if higher) above that of the highest current independent offer on the stock exchange on which the purchase took place. Moreover, Francotyp-Postalia Holding AG did not acquire more than 25 % of the average daily stock turnover on the stock exchange on which the purchase took place in a single trading day. The average daily stock turnover was calculated on the basis of the average daily trading volume during the 20 trading days before the respective purchase date.

Francotyp-Postalia Holding AG appointed a bank to purchase shares in Francotyp-Postalia Holding AG. The bank decided independently and without any influence from Francotyp-Postalia Holding AG on the time at which to acquire shares in accordance with Article 4 (2b) of Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016. Francotyp-Postalia Holding AG thus had no influence on the bank's decisions in this respect. In particular, the bank had an obligation to comply with the trading conditions of Article 3 of Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016 and the guidelines set out in this share buyback programme.

By the end of the programme on 12 January 2018, a total of 398,493 shares had been purchased at an average price of EUR 4.6667.

Significant agreements of the parent company subject to a change of control following a takeover offer and indemnification agreement of the parent company in the event of a takeover offer

A key agreement of the parent company Francotyp-Postalia Holding AG, which falls under the condition of a change of control following a takeover offer, is the current syndicated loan agreement, which includes a right of termination in the event of a change of control. No further agreements have been entered into with either third parties or subsidiaries.

In the event of a change of control, there are agreements with the members of the Management Board whose comply with the recommendation in section 4.2.3 paragraph 5 of the German Corporate Governance Code in the version dated 7 February 2017.

10.2 Non-Financial Group Declaration in accordance with Section 315b HGB

With regard to non-financial information, please refer to the comments in our separate non-financial report, which is available online at <https://www.fp-francotyp.com/nachhaltigkeitsbericht>. This contains the combined non-financial declaration¹⁾ in accordance with the requirements of the CSR Policy Implementation Act (CSR-RUG – German CSR Directive Implementation Act).

11. Remuneration Report

The report follows the recommendations of the German Corporate Governance Code (GCGC) in the version of February 7, 2017 and includes details in accordance with the requirements of the German Commercial Code (HGB), the German Accountancy Standard (GAS) and the International Financial Reporting Standards (IFRSs). The remuneration report forms part of the management report.

11.1 General Remuneration System

The remuneration of the Management Board members is determined by the Supervisory Board based on a performance assessment. The criteria for determining the appropriate level of remuneration include the duties of the Management Board member in question, his or her personal performance, the economic situation, the success and the future prospects of the company as well as the customariness of remuneration taking into consideration the peer group and the remuneration structure that otherwise prevails in the company. In the process, the Supervisory Board takes into consideration the development of Management Board remuneration in relation to the remuneration of management as a whole and of the personnel over time, whereby the Supervisory Board determines for the purposes of the comparison how management and the relevant personnel are defined.

The total remuneration of the Management Board comprises the following components:

- Monetary remuneration components (fixed / variable)
- Pension commitments
- Other commitments in the event of the termination of employment
- Fringe benefits

Total remuneration includes the additional components of a bonus commitment for sustainable development of "earnings per share" and a participation via virtual company shares.

11.2 Fixed Components

11.2.1 Fixed remuneration

Basic remuneration is paid out every month in the form of a salary. The basic remuneration of Rüdiger Andreas Günther (CEO / CFO) amounts to EUR 400,000 per year, rising to EUR 430,000 per year with effect from 1 July 2019. Patricius de Gruyter's (CSO) and Sven Meise's (CDO / COO) basic remuneration amounts to EUR 310,000 per year.

1) The non-financial declaration is not part of the audit by KPMG AG Wirtschaftsprüfungsgesellschaft.

11.2.2 Fringe benefits

Fringe benefits include payments in kind or the monetary value of payments in kind and other fringe benefits such as the provision of a company car, contributions to insurance policies and accommodation.

11.3 Variable Components

11.3.1 Variable remuneration

The variable remuneration (“bonus”) for the CEO / CFO contains both short- and long-term elements. The bonus has minimum targets (“floor”), targets that correspond to a degree of attainment of 100 % and targets up to a maximum amount of 175 % (“cap”). The bonus is not adjusted due to fluctuations in exchange rates or economic or political events. The bonus targets are based on the budget that the Management Board and the Supervisory Board agreed at the Supervisory Board meetings in November and December 2018 and that is designed to support the company’s long-term successful development. Targets for the following performance indicators (“KPIs”) were set for fiscal years 2019 to 2022: revenue in the Franking and Inserting segment; revenue in the Software / Digital segment; anticipated income from the JUMP programme (gross excluding costs); EBIT-DA (after considering all bonus payments to be made by the company to all members of the Management Board and before IFRS 16 effects); and adjusted free cash flow (applying an overall assessment over the four-year period). The first four of these KPIs carry equal weight and each contribute 22.5 % to the calculation of the variable remuneration component. The final KPI, adjusted free cash flow, is weighted at 10 % in the bonus calculation. If the degree of attainment of each KPI is between the floor (0 %) and 100 % or between 100 % and the cap, the relevant value will be included pro rata in the calculation of the variable remuneration component.

The following rule applies to the payment of the bonus for the CEO / CFO: 60 % of the bonus for a completed fiscal year is paid together with the salary for the month following that in which the Annual General Meeting passes its resolution on the appropriation of the unappropriated surplus. A further 20 % of the bonus is paid in the following year together with the salary for the month following that in which a resolution is passed on the annual financial statements. The remaining 20 % will be paid out in the year after that. Payment of the two 20 % tranches is dependent on the minimum target (“floor”) being reached in respect of at least one of the first four targets listed above in the fiscal year prior to the corresponding tranche being paid out. In terms of the long-term target of adjusted free cash flow, the degree to which the target has been met is ultimately assessed at the end of the four-year period based on the aggregate adjusted free cash flow values over this period. Advance payments are made in the individual years based on a degree of target at-

tainment of 100 %. The amounts are adjusted at the end of the period under consideration based on the actual degree of target attainment and are offset against the advance payments. Any extra payments due to or overpayments owed from the CEO / CFO will be made when the variable remuneration component is calculated for fiscal year 2022. Should the CEO / CFO not have enough variable remuneration against which amounts to be repaid can be offset, they will be offset against other components of their remuneration (fixed salary, earnings per share or payments from virtual shares). Should these amounts also be insufficient for offsetting the amounts to be repaid, the CEO / CFO shall repay the amount that has not been offset within a month of the Annual General Meeting passing its resolution on the appropriation of the unappropriated surplus for fiscal year 2022.

The Supervisory Board reserves the right to set specific performance targets for the CEO / CFO, which can then be rewarded with an extraordinary bonus.

Amongst other things, the variable remuneration for the activities of the CDO / COO and CSO include a short-term variable remuneration component (“annual bonus”) and a long-term variable remuneration component (“long-term bonus”).

The annual bonus depends on financial performance indicators obtained after taking into account any bonus payments payable by the company. The budget approved by the Supervisory Board for the fiscal year in question and the degree to which the target was achieved are important factors for determining the annual bonus. The short-term variable remuneration of the CDO / COO depends on the free cash flow and net profit generated. Due to the limited time and scope of his influence, the CSO was promised a pro rata annual bonus for fiscal year 2018, based on 100 % goal achievement. The Supervisory Board, in consultation with the member of the Management Board, defines the principles of and the methods for determining and / or calculating the annual bonus separately for the following years. A crucial factor for the Supervisory Board when determining the annual bonus is that the annual bonus of all members of the Management Board is coherent.

Payment of the long-term bonus depends on the long-term growth of the company and is based on the relevant fiscal years during the entire term of the contract. An overall assessment is made after the contract period. This involves settling the credit balance accrued during the period of the contract against the malus components accrued. The total amount paid out may not be negative. If the calculation results in a negative figure, then the long-term bonus paid out is zero. The recognised long-term bonus is due in the month following the month in which the annual accounts are finalised for the last month of the employment contract term.

Ahead of the payment of the expected long-term bonus, the CDO / COO and CSO receive an individual annual advance payment. If it is clear that the long-term bonus will not be paid, there will be no advance payment. The Management Board member is obliged to promptly refund to the company any difference between the advance payments and the defined long-term bonus.

The long-term bonus of the CDO / COO is determined on the basis of whether the Group targets and the individual sustainability goals are achieved. The two components of the target (Group targets and individual targets) have a share of 70 % (Group targets) and 30 % (individual targets) respectively. The target components are linked by addition, which means that underfulfilment of individual targets (Group or individual targets) can be compensated by overfulfilment of the other targets (Group or individual targets) in the same year.

The Group targets are formed on the basis of the “EBITDA” and “revenue” performance indicators after taking into account any bonus payments payable by the company. “EBIT-DA” and “revenue” each account for 50 % in the calculation of the Group targets and are linked by addition. The performance indicators to be achieved result from the budget approved by the Supervisory Board.

The individual targets for the CDO / COO are based on the following two features, each of which account for 50 % when determining the target achievement of the individual targets and are linked by addition:

- a) New digital products: development of a sustainable business model with new digital products such as FP Sign, IoT or similar products;
- b) Increase in revenue in the “freertos” and “IAB” divisions.

The Supervisory Board will, in consultation with the member of the Management Board, define the principles, sustainability goals and methods for determining and / or calculating the long-term bonus for the following years. A crucial factor for the Supervisory Board when determining the long-term bonus is that the long-term bonus of the Management Board members is coherent.

For all members of the Management Board, total remuneration includes the additional component of a bonus commitment for a non-recurring premium in the case that consolidated financial statements prepared and audited during the contractual term, but no later than 2023, reports annual earnings per share of at least EUR 1.00 for a fiscal year, taking into account the premium payments to all Management Board members.

11.3.2 Long-term share-based remuneration

Long-term share-based remuneration is granted in the form of vested stock options. The Annual General Meeting of Francotyp-Postalia Holding AG on 11 June 2015 resolved to issue pre-emptive rights to members of the management boards of affiliated companies as defined in section 15 AktG and to executives of the FP Group, whereby these pre-emptive rights entitle the holders to subscribe to stock options up to a maximum of the statutory limit of 10 % of the share capital (2015 stock option plan). For further explanation, please refer to the disclosures in the notes to the consolidated financial statements in section IV (18) Equity.

Management Board members are credited with virtual shares in Francotyp-Postalia Holding AG at an strike price on 1 January (CEO / CFO) and 1 March (CDO / COO and CSO) of each year for the duration of their appointment. The CEO / CFO receives 60,000 virtual shares each time (starting from 1 January 2020), with the CDO / COO and CSO receiving 30,000. The strike price is calculated as an arithmetic mean of the Xetra daily closing prices of the last 90 trading days prior to the allocation date. As a prerequisite for being allocated the virtual shares, the CEO / CFO must acquire 25 % and the CDO / COO and CSO 15 % of the number of virtual shares allocated to them as real shares and hold them for four years, starting on the day on which they purchased the shares (lock-up period). If fewer real own shares were acquired during the fiscal year, the number of virtual shares to be allocated is reduced proportionately. After four years have passed (holding period per tranche), the CEO / CFO can, during a period of a further two years and at a time to be determined by them, demand that the company redeem all virtual shares allocated to them with the respective tranche at an exercise price; the CDO / COO and CSO may do the same within a further four-year period. The exercise price is calculated from the arithmetic mean of the Xetra daily closing prices of the last 90 trading days, starting on the date on which the return was declared. The exercise price must be at least 10 % higher than the strike price. If the exercise price is lower, the claim for redemption no longer applies. Upon redemption of the virtual shares, the members of the Management Board are entitled to the difference between the strike price and the exercise price, multiplied by the number of virtual shares of the tranche, in cash. Claims resulting from this remuneration are limited to an amount of EUR 600,000 per tranche for the CEO / CFO and EUR 300,000 per tranche for the CDO / COO.

11.4 Commitments in Connection with the Termination of Activities on the Management Board

If the appointment to the Management Board is revoked in accordance with section 84(3) AktG or the member of the Management Board resigns his or her position, their employment contract shall be terminated. If the appointment is revoked for good cause that is not covered by section 626 German Civil Code (BGB) for the summary cancellation of the contract of employment, the contract of employment shall end after a notice period of three months from the end of the month in which the Board member is notified of the appointment being revoked.

In the case of the CEO / CFO's Management Board contract, in the event of their contract being revoked, this member of the Management Board is also entitled to a lump sum on the day of the legal termination. This will amount to 100 % of their last total annual remuneration (fixed annual salary plus bonus) but cannot exceed the remuneration entitlement for the remainder of the contract. In the event of revocation, the CDO / COO's contract provides for a lump sum of nine months' remuneration due on the day of the legal termination, but not exceeding the remuneration entitlement for the remainder of the contract. If the CSO's contract is revoked, they will receive a lump sum of 50 % of their last total annual remuneration (fixed annual salary, annual bonus and credits / malus of the long-term bonus) due on the day of the legal termination, but not exceeding the remuneration entitlement for the remainder of the contract.

RÜDIGER ANDREAS GÜNTHER, CEO / CFO, 11.01.2016–31.12.2019

	2018	2019	2019 (min.)	2019 (max.)
Fixed remuneration	400	415	415	415
Additional benefits	20	20	20	20
Total	420	435	435	435
Short-term variable remuneration	332 ¹	426 ¹	0	910
Long-term variable remuneration				
SOP Tranche 2015 (GCGC)	35	35	35	35
Long-term bonus	180 ^{2,3}	2		
Total	547	461	35	945
Pension cost	20	21	21	21
Total remuneration	987	917	491	1.401

- 1) The short-term variable remuneration ("bonus") contains both short- and long-term elements in accordance with the service contract dated 28 May 2019. The amount comprises an addition to provisions in the amount of EUR 426 thousand. The previous year's figure resulted from payments made in the amount of EUR 332 thousand, utilisation of provisions in the amount of EUR 332 thousand, additions to provisions of EUR 340 thousand and income relating to other periods of EUR 8 thousand from the reversal of a provision.
- 2) The remuneration does not include a separate long-term bonus in accordance with the service contract. The amount of EUR 180 thousand from the previous year resulted from an addition to provisions.
- 3) An overall assessment is made after the contract period. This involves settling the credit balance accrued during the period of the contract against the malus components accrued. The total amount paid out at the end of the period of the contract may not be negative. If the calculation results in a negative figure, then the long-term bonus paid out is zero.

In the event of premature termination of the employment contract without good cause, payments to members of the Management Board including fringe benefits may not exceed the value of one year's remuneration (severance pay cap) and may not remunerate more than the remaining term of the service contract. The severance pay entitlement and severance pay cap is to be calculated based on the corresponding total remuneration for the last full fiscal year.

11.5 Remuneration of members of the Management Board and Supervisory Board in fiscal year 2019

11.5.1 Remuneration of members of the Management Board

Please refer to the disclosures in the notes to the consolidated financial statements in section V. Total remuneration of the Management Board and the Supervisory Board for information on the total remuneration of the Management Board according to GAS 17.

The following presentation of Management Board remuneration complies with the recommendations of the German Corporate Governance Code (GCGC) in its version dated 7 February 2017. As a result, the benefits granted in the year under review and the maximum and minimum achievable values are also indicated.

PATRICIUS DE GRUYTER, CSO, 01.06.18–31.12.19

	2018	2019	2019 (min.)	2019 (max.)
Fixed remuneration	181	310	310	310
Additional benefits	10	17	17	17
Total	190	327	327	327
Short-term variable remuneration	64 ¹	110 ¹	0	176
Long-term variable remuneration				
Virtual share options		4	4	4
Long-term bonus	88 ²	150 ²	0 ³	300
Total	152	264	4	480
Pension cost	2	4	4	4
Total remuneration	344	595	335	811

- 1) This amount comprises payments made in the amount of EUR 64 thousand, utilisation of provisions in the amount of EUR 64 thousand and additions to provisions of EUR 110 thousand.
- 2) This amount results from payments made in the amount of EUR 50 thousand, utilisation of provisions in the amount of EUR 50 thousand and additions to provisions of EUR 150 thousand. In the previous year, it resulted from additions to provisions in the amount of EUR 88 thousand.
- 3) An overall assessment is made after the contract period. This involves settling the credit balance accrued during the period of the contract against the malus components accrued. The total amount paid out at the end of the period of the contract may not be negative. If the calculation results in a negative figure, then the long-term bonus paid out is zero.

SVEN MEISE, CDO / COO, 01.02.15–31.12.19

	2018	2019	2019 (min.)	2019 (max.)
Fixed remuneration	310	310	310	310
Additional benefits	25	28	28	28
Total	335	338	338	338
Short-term variable remuneration	197 ¹	200 ¹	0	200
Long-term variable remuneration				
SOP Tranche 2015 (GCGC)	12	12	12	12
Virtual share options	4	12	12	12
Long-term bonus	91 ²	144 ²	0 ³	300
Total	304	365	24	524
Pension cost	22	23	23	23
Total remuneration	661	726	385	885

- 1) This amount comprises additions to provisions in the amount of EUR 200 thousand. In the previous year, this amount comprised payments made in the amount of EUR 97 thousand, utilisation of provisions in the amount of EUR 97 thousand, income relating to other periods of EUR 3 thousand from the reversal of a provision and additions to provisions of EUR 200 thousand.
- 2) This amount results from additions to provisions in the amount of EUR 141 thousand. In the previous year, it resulted from payments made in the amount of EUR 43 thousand, utilisation of provisions in the amount of EUR 43 thousand, the reversal of a provision amounting to EUR 56 thousand and additions to provisions of EUR 150 thousand.
- 3) An overall assessment is made after the contract period. This involves settling the credit balance accrued during the period of the contract against the malus components accrued. The total amount paid out at the end of the period of the contract may not be negative. If the calculation results in a negative figure, then the long-term bonus paid out is zero.

FP does not operate an annually recurring stock option plan but a regular multi-annual stock option plan.

The following cash outflows are associated with Management Board remuneration:

	Rüdiger Andreas Günther, CEO/CFO, 11.01.2016–31.12.2019		Patricius de Gruyter, CSO, 01.06.2018–31.12.2019	
	2018	2019	2018	2019
Fixed remuneration	400	415	181	310
Additional benefits	20	20	10	17
Total	420	435	190	327
Short-term variable remuneration	332	0	0	64
Long-term variable remuneration				
Long-term bonus	90	0	0	50
Other	0	0	0	0
Total	422	0	0	114
Pension cost	20	20	0	4
Total remuneration	862	862	190	445

	Sven Meise, CDO/COO, 01.02.2015–31.12.2019	
	2018	2019
Fixed remuneration	310	310
Additional benefits	25	28
Total	335	338
Short-term variable remuneration	97	0
Long-term variable remuneration		
Long-term bonus	43	0
Other	0	0
Total	140	0
Pension cost	22	23
Total remuneration	497	360

Of the share-based payments granted in fiscal years 2015 and 2016 from the 2015 stock option plan, a total of EUR 243 thousand (242,500 options) related to the Management Board. No further options were granted under this 2015 stock option plan in the reporting year. The exercise periods for the options are in fiscal year 2019 and 2020.

The amounts stated in the above table as pension cost are subsidies for pensions and part of the fixed remuneration paid to Management Board members.

The additional benefits essentially consist of the value of the use of a company car as determined in compliance with tax law.

As in the previous year, provisions of only insignificant amounts were recognised for pension obligations to active Management Board members in fiscal year 2019 (2019: EUR 4 thousand; 2018: EUR 3 thousand).

EUR 1,354 thousand was set aside for pension obligations to former Management Board members of Francotyp-Postalia Holding AG as at 31 December 2019 (previous year: EUR 1,129 thousand). EUR 19 thousand (previous year: EUR 17 thousand) was added to provisions in fiscal year 2019, EUR 1 thousand of which for service cost and EUR 18 thousand for interest cost.

11.5.2 Remuneration of the Supervisory Board

By resolution of the Annual General Meeting, the remuneration of Supervisory Board members is laid down in the Articles of Association. The remuneration of Supervisory Board members takes into account their responsibilities and duties, as well as the chairmanship and deputy chairmanship of the Supervisory Board and also membership of any Supervisory Board committees. No variable remuneration is provided for.

In addition to the reimbursement of cash expenses and any VAT incurred in relation to Supervisory Board work, each member of the Supervisory Board receives fixed remuneration of EUR 30 thousand per fiscal year, payable in the last month of the fiscal year. From fiscal year 2009, the fixed remuneration for the Chairman is 150 % of the remuneration for a normal Supervisory Board member and 125 % for the Deputy Chairman.

The fixed remuneration of the Supervisory Board for fiscal year 2019 amounted to EUR 110 thousand (previous year: EUR 113 thousand). The total amount is divided into EUR 45 thousand for Mr Klaus Röhrig, EUR 30 thousand for Mr Robert Feldmeier, EUR 31 thousand for Mr Botho Oppermann and EUR 4 thousand for Dr Mathias Schindl.

11.6 Share ownership of the Management Board and Supervisory Board

As the total ownership of all Management Board and Supervisory Board members exceeds 1 % of the shares issued by the company, FP lists the total ownership separately according to the Management Board and Supervisory Board:

SHAREHOLDER		
	Number of shares	%
(Direct)		
Rüdiger Andreas Günther	34,877	0.21 %
Sven Meise	14,416	0.09 %
Patricius de Gruyter	10,000	0.06 %
Botho Oppermann (Deputy Chairman of the Supervisory Board)	300,000	1.84
(Indirect)		
Klaus Röhrig (Chairman of the Supervisory Board) via Active Ownership Investments Limited	130,000	0.80
Klaus Röhrig (Chairman of the Supervisory Board) via Active Ownership Fund SICAV-FIS SCS and Active Ownership Corporation S.á.r.l	1,550,000	9.51

12. Francotyp-Postalia Holding AG (Condensed Version – HGB)

Francotyp-Postalia Holding AG (FP Holding) is the parent company of the FP Group and has its headquarters in Berlin, Germany. Its business address is Prenzlauer Promenade 28, 13089 Berlin.

Through its subsidiaries and second-tier subsidiaries, FP Holding indirectly offers digital solutions for corporations and authorities and products and services for efficient mail processing and the consolidation of business mail

FP has subsidiaries based in ten different countries and is represented by its own trading network in an additional 40 countries. With a company history spanning 97 years, FP possesses special competencies in the areas of actuating elements, sensor systems, cryptography and connectivity. FP’s global market share for franking systems stands at twelve percent, while the company boasts high-security solutions for the Internet of Things (IoT) and digital document signatures in the digital segment.

FP Holding largely performs the tasks of a traditional management holding company. As it has no operating business itself, the financial position of the company depends on the results of the subsidiaries. The main key figures relevant to FP Holding are income from investments and the net profit/loss for the year.

Quantitative information on non-financial performance indicators is currently not applied for management purposes.

FP Holding’s annual financial statements are prepared in line with the German Commercial Code (HGB). The consolidated financial statements comply with International Financial Reporting Standards (IFRSs). This results in some differences with regard to recognition and measurement methods. This mainly relates to intangible assets, provisions, financial instruments, lease transactions and deferred taxes.

12.1 Results of Operations

SHAREHOLDER (in EUR million)			
in EUR million	2019	2018	Change %
Revenue	3.1	2.8	10.7 %
Other operating income	0.9	0.9	–3.3 %
Cost of materials	0.4	0.5	–22.6 %
Staff costs	7.1	6.7	5.5 %
Other operating expenses and amortisation, depreciation and write-downs	7.7	7.4	3.4 %
Income from investments	23.6	5.7	312.8 %
Net interest income	0.3	0.7	–55.7 %
Taxes on income and earnings	–3.6	0.7	--
Earnings after taxes	9.1	–3.8	--
Net profit/loss	9.1	–3.8	--

12.1.1 Revenue

While FP Holding’s service functions remained unchanged, the increase in FP Holding’s revenue in fiscal year 2019 resulted from increased Group allocations for consulting services to domestic subsidiaries.

12.1.2 Other operating income

Other operating income in the year under review essentially comprised income relating to other periods from the reversal of provisions.

12.1.3 Cost of materials

The fall in the cost of materials from purchased services in the year under review resulted mainly from lower maintenance costs, travel expenses and other staff costs year on year. Higher expenses for commercial and technical training had an adverse impact in fiscal year 2019.

12.1.4 Staff costs

The increase in staff costs in fiscal year 2019 mainly resulted from the recruitment of new employees in connection with the further professionalisation of FP Holding in line with the FP Group’s ACT strategy, as well as general salary increases.

12.1.5 Other operating expenses and amortisation, depreciation and write-downs

The slight increase in other operating expenses during the year under review was mainly due to a rise in other staff costs (EUR 0.2 million), advertising expenses (EUR 0.1 million) and higher Group allocations (EUR 0.1 million). Legal and consulting costs fell by EUR 0.2 million in the year under review. Expenses for consulting services in the ACT project JUMP impacted other operating expenses in the amount of EUR 1.8 million (previous year: EUR 2.3 million). Amortisation and depreciation remained unchanged in fiscal year 2019.

12.1.6 Income from investments

The marked rise in income from investments in fiscal year 2019 was mainly down to higher profit transfers due to a positive operating performance year on year and a significant rise in profit distributions from foreign affiliates (EUR +7.4 million). These profit transfers were also boosted in the year under review by re-estimating the useful life of leased products across the Group for the depreciation of non-current assets, which amounted to EUR 3.1 million. In addition, FP Holding’s income from investments had been eroded substantially in the previous year by non-recurring effects, primarily staff-related costs for the ACT project JUMP in the amount of EUR 5.4 million.

12.1.7 Net interest income

The decline in net interest income in fiscal year 2019 resulted mainly from tax-related non-recurring expenses from reclassifying provisions for ongoing tax audits of EUR 0.3 million.

12.1.8 Taxes on income and earnings

Expenses from taxes on income and earnings of EUR –3.6 million (previous year: income of EUR 0.7 million) resulted primarily from the positive tax result in the current period and the adjustment of deferred taxes through profit and loss, partly due to corrections to tax accounting being amended retrospectively. Tax charges for previous years in connection with ongoing audits also impacted negatively on taxes on income and earnings in fiscal year 2019.

12.1.9 Net profit

FP Holding posted a net profit of EUR 9.1 million in fiscal year 2019 (previous year: net loss of EUR –3.8 million), chiefly due to the marked rise in income from investments.

12.2 Financial position

LIQUIDITY ANALYSIS (in EUR million)		
	1.1.–31.12.2019	1.1.–31.12.2018
Cash flow from operating activities	4.9	5.9
Cash flow from investing activities	–3.8	–0.3
Free cash flow	1.1	5.6
Cash flow from financing activities	–1.1	–5.6
Change in cash and cash equivalents	0.0	0.0

The fall in cash flow from operating activities in fiscal year 2019 is mainly attributable to the increase in intra-Group receivables (EUR +5.2 million) and decrease in intra-Group liabilities (EUR –3.3 million).

The cash outflow from investing activities increased in fiscal year 2019, primarily due to the rise in borrowing to affiliated companies in the amount of EUR 3.8 million.

The fall in the cash outflow from financing activities in the year under review was due to a reduced dividend payment of EUR –0.5 million (previous year: EUR –1.9 million) and lower repayments of liabilities to banks of EUR –0.6 million (previous year: EUR –3.7 million).

As of 31 December 2019, FP Holding had unused credit lines amounting to EUR 109.5 million. FP Holding was able to meet its payment obligations at all times in fiscal year 2019.

12.3 Net Asset Situation

CONDENSED STATEMENT OF FINANCIAL POSITION OF FP HOLDING (in EUR million)		
	2019	2018
Non-current assets total	80.0	76.6
Current assets	43.0	37.5
Prepaid expenses and deferred tax assets	0.6	1.4
Assets	123.6	115.5
Shareholders equity	67.4	58.7
Provisions	9.1	8.6
Liabilities and deferred tax liabilities	47.2	48.2
Liabilities	123.6	115.5

12.3.1 Non-current assets

Net current assets increased in fiscal year 2019, primarily due to the rise in borrowing to affiliated companies in the amount of EUR 3.8 million.

12.3.2 Current assets

The increase in current assets in the year under review was mainly caused by higher intra-Group receivables (EUR +5.2 million). This change was linked to intra-Group financing for subsidiaries.

12.3.3 Equity

Equity increased significantly in fiscal year 2019, primarily on account of the net profit of EUR 9.1 million. FP Holding’s equity ratio rose from 50.9% to 54.5% in the year under review.

12.3.4 Provisions

The slight rise in provisions in fiscal year 2019 was mainly due to increased provisions for tax payments and interest on taxes in the amount of EUR 2.7 million (previous year: EUR 2.1 million). The additions to provisions for tax payments and interest on taxes were made in light of the expected tax expenses for fiscal year 2019 and adjustments to risk provisions for audits in previous years. Other provisions fell slightly to EUR 5.5 million in the year under review (previous year: EUR 5.7 million). They were impacted positively by lower provisions for consulting costs for the ACT project JUMP in the amount of EUR 0.5 million (previous year: EUR 1.4 million) and negatively by higher provisions for bonuses as at the reporting date (EUR +0.5 million).

12.3.5 Liabilities and deferred tax liabilities

The decline in liabilities and deferred tax liabilities of EUR –1.0 million in fiscal year 2019 largely stemmed from a fall in intra-Group liabilities (EUR –3.3 million). This change was linked to intra-Group financing for subsidiaries. The slight fall in liabilities to banks during the year under review (EUR –0.6 million) also had a positive effect, whilst the net amount of deferred taxes of EUR 2.6 million as at the reporting date (previous year: EUR –0.7 million) exerted a negative impact.

12.4 Comparison of the actual/forecast business performance of FP Holding

The forecast for fiscal year 2019 envisaged a modest increase in income from investments and a lower net loss. The expectation for the net loss was mainly based on generating a higher income from investments than in the previous year.

In fiscal year 2019, FP Holding generated much-higher income from investments of EUR 23.6 million (previous year: EUR 5.7 million) and thus exceeded its forecast figure. The main reasons for this marked deviation were higher profit transfers due to a positive operating performance year on year and a significant rise in profit distributions from foreign affiliates (EUR +7.4 million). These profit transfers were also boosted in the year under review by re-estimating the useful life of leased products across the Group for the depreciation of non-current assets, which amounted to EUR 3.1 million.

FP Holding thus achieved a net profit of EUR 9.1 million in the year under review, meaning that it exceeded its forecast for this performance indicator too.

12.5 Overall statement on business performance

As planned, fiscal year 2019 was shaped by implementation of the ACT strategy, in particular the ACT project JUMP.

The FP Group continued its positive further development in fiscal year 2019. The JUMP transformation gained momentum as planned in the reporting year and cost savings are increasingly being realised. Adapting the FP Group’s structure and organisation and instigating optimisation measures based on a new target operating model, FP Holding’s position as a management holding company will also be adjusted by expanding important strategic and support functions.

FP Holding successfully met or exceeded its forecast for fiscal year 2019 in respect of both its performance indicators. The Management Board judges the business performance in fiscal year 2019 to have been generally positive.

12.6 Risks and opportunities

The business performance of FP Holding is largely subject to the same risks and opportunities as the FP Group. FP Holding’s share in the risks of the investments and subsidiaries is basically in proportion to its level of ownership. Risks and opportunities are outlined in the “Risk and opportunities report”. Additional financial burdens may also arise from investments as a result of legal or contractual contingent liabilities (particularly financing).

12.7 Forecast

Because of FP Holding’s links with the Group companies, we refer to our statements in the report on expected developments in the Group management report, which particularly reflect the expectations for the parent company.

The forecast for fiscal year 2020 takes account of the latest developments connected with the SARS-CoV–2 pandemic. FP Holding is expecting a sharp fall in its income from investments and net profit for the year.

The company wishes to point out that statements relating to the future are based on assumptions and estimates. Actual future developments and results may vary substantially from these assumptions and estimates.

CONSOLIDATED FINANCIAL STATEMENT

102	Consolidated Statement of Comprehensive Income
104	Consolidated Statement of Financial Position
106	Consolidated Cash Flow Statement
108	Consolidated Statement of Changes in Equity

Please note that there may be rounding differences compared with exact mathematical figures (monetary units, percentages, etc.).

Consolidated Statement of Comprehensive Income
for the Period from 1 January to 31 December 2019

in EUR thousand	III and IV Notes	01.01.– 31.12.2019	01.01.–31.12.2018 adjusted ¹⁾	01.01.–31.12.2018 adjusted
Revenue	(1)	209,088	204,206	204,206
Decrease in inventories of finished goods and work in progress		-43	-326	-326
		209,044	203,880	203,880
Other own work capitalised	(2)	18,596	14,074	14,074
Other income	(3)	2,851	1,874	1,887
Cost of materials	(4)			
a) Expenses for raw materials, consumables and supplies		35,250	34,929	34,929
b) Cost of purchased services		66,384	66,712	66,712
		101,634	101,641	101,641
Staff costs	(5)			
a) Wages and salaries		51,118	55,593	55,593
b) Social security contributions		8,205	7,922	7,922
c) Expenses for pensions and other benefits		863	989	1,216
		60,186	64,504	64,731
Amortisation, depreciation and write-downs	(11, 12)	27,416	17,335	17,335
Expenses from impairment losses and income from reversals of impairment losses on trade receivables	(6, 15)	1,864	844	1
Other expenses	(7)	33,496	35,544	36,400
Net interest income	(8)			
a) Interest and similar income		2,199	2,848	2,848
b) Interest and similar expenses		1,801	1,437	1,390
		397	1,411	1,458
Other financial result	(8)			
a) Other financial income		766	1,106	1,106
b) Other finance costs		121	1,045	1,045
		645	61	61
Shares in profit and loss of companies accounted for according to the equity method		-994	0	0
Income taxes	(9)	-4,239	-514	-356
Consolidated net income		1,703	919	896

in EUR thousand	III and IV Notes	01.01.– 31.12.2019	01.01.–31.12.2018 adjusted ¹⁾	01.01.–31.12.2018 adjusted
Other comprehensive income				
Foreign currency translation of financial statements of foreign entities ³⁾		1,481	1,088	1,088
of which taxes		3	26	1,088
Provisions for pensions and partial retirement obligations in accordance with IAS 19 (rev. 2011) ²⁾		-1,732	-72	-15
of which taxes		671	22	8
Cash flow hedges – effective part of changes in fair value ³⁾		-122	-233	-233
of which reserve for hedging costs		57	-181	-181
of which taxes		52	82	82
Cash flow hedges – Reclassification to profit or loss		-243	-40	-40
of which taxes		105	18	18
Other comprehensive income after taxes		-616	743	800
Total comprehensive income		1,087	1,662	1,696
Consolidated net income		1,703	919	896
of which attributable to the shareholders of FP Holding		1,703	919	896
Total comprehensive income		1,087	1,662	1,696
of which attributable to the shareholders of FP Holding		1,087	1,662	1,696
Earnings per share (basic in EUR)	(10)	0.11	0.06	0.06
Earnings per share (diluted in EUR)		0.11	0.06	0.06

1) For details of the adjustments to the comparative period 2018, see section I. Adjustment of comparative period 2018 due to correction of errors (IAS 8) and change in presentation (IAS 1).

2) Item that is not reclassified to profit or loss.

3) Items that can be reclassified to profit or loss.

Consolidated Statement of Financial Position as at 31 December 2019

ASSETS					
in EUR thousand	IV Notes	31.12.2019	01.01.2019 adjusted ¹⁾	31.12.2018 adjusted ²⁾	01.01.2018 adjusted ²⁾
NON-CURRENT ASSETS					
Intangible assets	(11)				
Intangible assets including customer lists		23,701	20,283	20,283	21,578
Goodwill		4,622	10,448	10,448	8,494
Development projects in progress and advance payments		10,438	10,057	10,057	5,074
		38,762	40,788	40,788	35,146
Property, plant and equipment	(12)				
Land, land rights and buildings		2,765	2,806	2,806	2,784
Technical equipment and machinery		4,137	4,900	4,900	4,659
Other equipment, operating and office equipment		3,878	3,906	3,906	4,274
Leased products		18,307	17,585	17,585	18,384
Finance lease assets		0	0	450	1,208
Advance payments and assets under construction		134	263	263	446
		29,220	29,460	29,910	31,755
Right-of-use assets	(26)	11,182	12,665	0	0
		11,182			
Other assets					
Associates	(23)	642	36	36	199
Finance lease receivables	(13, 23)	17,256	13,089	13,073	11,234
Other non-current assets		192	246	246	153
		18,089	13,371	13,355	11,586
Tax assets					
Deferred tax assets	(20)	1,503	1,907	1,907	2,054
Current tax assets		2,821	2,446	2,446	2,446
		4,324	4,353	4,353	4,500
		101,576	100,637	88,406	82,987
CURRENT ASSETS					
Inventories	(14)				
Raw materials, consumables and supplies		5,156	4,560	4,560	3,892
Work in progress		378	769	769	747
Finished goods and merchandise		6,823	5,864	5,864	5,994
		12,357	11,194	11,194	10,633
Trade receivables	(15, 23)	18,142	18,951	18,951	19,527
Other assets					
Finance lease receivables	(13, 23)	6,875	5,118	5,114	4,037
Income taxes receivable	(20)	1,573	157	157	5,813
Derivative financial instruments	(23)	0	19	19	110
Other current assets	(16, 23)	15,238	12,500	12,500	13,271
		23,685	17,794	17,790	23,230
Securities	(23)	0	671	671	676
Cash and cash equivalents	(17, 23)	30,508	30,235	30,235	34,234
		84,692	78,846	78,842	88,300
		186,269	179,483	167,248	171,288

LIABILITIES					
in EUR thousand	IV Notes	31.12.2019	01.01.2019 adjusted ¹⁾	31.12.2018 adjusted ²⁾	01.01.2018 adjusted ²⁾
EQUITY					
	(18)				
Issued capital		16,301	16,301	16,301	16,301
Capital reserves		34,743	34,743	34,743	34,746
Stock option reserve		1,520	1,428	1,428	1,318
Treasury shares		-1,863	-1,863	-1,863	-1,625
Loss carried forward		-15,654	-16,096	-16,110	-18,851
Net income after non-controlling interests		1,703	919	919	4,649
Total other equity		-4,760	-4,144	-4,144	-4,887
		31,991	31,289	31,274	31,651
NON-CURRENT LIABILITIES					
Provisions for pensions and similar obligations	(19)	20,591	18,786	18,786	19,199
Other provisions	(21)	3,374	1,369	1,369	1,139
Financial liabilities	(22, 23)	46,157	47,878	39,089	43,138
Other liabilities	(22, 23)	27	28	28	70
Deferred tax liabilities	(20)	2,367	229	223	1,827
		72,517	68,291	59,496	65,372
CURRENT LIABILITIES					
Tax liabilities	(20)	2,713	3,261	3,261	5,091
Other provisions	(21)	9,580	11,937	11,937	7,965
Financial liabilities	(22, 23)	4,092	3,618	193	412
Trade payables	(22, 23)	14,581	13,969	13,969	11,210
Other liabilities	(22, 23)	50,796	47,118	47,118	49,586
of which telepostage EUR 27,119 thousand (previous year: EUR 24,081 thousand)		81,762	79,903	76,478	74,264
		186,269	179,484	167,248	171,288

1) For details of the adjustments as of January 1, 2019, please refer to section I. Application of new and revised IFRS regulations in the notes to the consolidated financial statements.

2) For details of the adjustments as of January 1, 2018 and December 31, 2018, please see Section I. Adjustment of the comparative period 2018 due to correction of errors (IAS 8) and change in presentation (IAS 1).

Consolidated Cash Flow Statement
for the Period from 1 January to 31 December 2019

in EUR thousand	Notes	01.01.– 31.12.2019	01.01.–31.12.2018 adjusted ²⁾	01.01.–31.12.2018 as reported
1. Cash flow from operating activities				
Consolidated net income		1,703	919	896
Net income tax recognised in profit or loss	(9)	4,239	514	356
Net interest income recognised in profit or loss	(8)	–397	–1,411	–1,458
Amortisation, depreciation and write-downs on non-current assets	(11, 12)	27,416	17,335	17,335
Decrease (–)/increase (+) in provisions and tax liabilities	(19, 20, 21)	–1,501	3,625	4,104
Loss (+)/gain (–) on the disposal of non-current assets		–562	169	169
Decrease (+)/increase (–) in inventories, trade receivables and other assets which are not part of the investment or financing activities (excluding finance leasing)	(14, 15, 16)	–3,020	1,322	1,175
Increase in finance lease receivables	(13)	–5,925	–2,916	–2,916
Increase in trade payables and other liabilities ¹⁾ not attributable to investing or financing activities	(22)	1,688	1,101	997
Other non-cash income		1,821	226	226
Interest received	(8)	2,199	2,848	2,848
Interest paid	(8)	–1,498	–1,149	–1,150
Income taxes received	(9)	–3,667	–3,855	–3,855
Cash flow from operating activities		23,047	24,241	24,241
2. Cash flow from investing activities				
Payments for the capitalisation of development costs	(2, 11)	–13,773	–7,404	–7,404
Payments for capitalised interest for development costs		–171	–89	–89
Proceeds from disposals of items of fixed assets	(11, 12)	792	337	337
Payments for investments in intangible assets	(11, 12)	–728	–1,538	–1,538
Payments for investments in property, plant and equipment	(11, 12)	–6,491	–9,027	–9,027
Payments for investments accounted for according to the equity method		–1,000	0	0
Payments for investments in the acquisition of operations (IAS 7)	(11)	0	–3,509	–3,509
Cash flow from investing activities		–21,372	–21,230	–21,230

in EUR thousand	Notes	01.01.– 31.12.2019	01.01.–31.12.2018 adjusted ²⁾	01.01.–31.12.2018 as reported
3. Cash flow from financing activities				
Payments for distribution to shareholders	(18)	–477	–1,908	–1,908
Bank loan repayments	(22)	–407	–4,046	–4,046
Payments for lease liabilities (2018: finance lease liabilities)	(22)	–3,859	–232	–232
Proceeds from the sale of treasury shares	(18)	0	–241	–241
Proceeds from the assumption of bank loans	(22)	0	5	5
Cash flow from financing activities		–4,743	–6,422	–6,422
Cash and cash equivalents ¹⁾				
Change in cash and cash equivalents	V.	–3,068	–3,411	–3,411
Change in cash due to currency translation		434	474	474
Cash at beginning of period	V.	21,153	24,090	24,090
Cash at end of period	V.	18,518	21,153	21,153

1) Postage credit balances managed by the FP Group of EUR 11,990 thousand (previous year: EUR 9,754 thousand) are deducted from cash and other liabilities. Securities held as current assets are included in cash and cash equivalents in the amount of EUR 0 thousand (previous year: EUR 671 thousand).

2) For details of adjustments to the 2018 prior-year period, see section I. Adjustment of the 2018 prior-year period due to Error correction (IAS 8) and change in presentation (IAS 1).

Consolidated Statement of Changes in Equity
for the Period from 1 January to 31 December 2019

						Total other equity								Total
in EUR thousand	Issued capital	Capital reserves	Stock option reserve	Treasury shares	Consolidated net income		Currency translation adjustment	Net investments in foreign operations	Adjustment due to IAS 19	Difference amount from acquisition of shares of other shareholders	Reserve from cash flow hedges	Reserve from hedging transaction	Equity attributable to FP Holding	
IV Notes (18)														
As at 1 Jan. 2017 (adjusted)	16,301	34,746	1,318	-1,625	-12,894		-1,303	96	-3,318	-439	77	0	32,959	32,959
Change in accounting policies: First-time adoption of IFRS 9 and IFRS 15					695								695	695
As at 1.1.2018 (as reported)	16,301	34,746	1,318	-1,625	-12,199		-1,303	96	-3,318	-439	77	0	33,654	33,654
Adjustment 01.01.2018 from IAS 8 according to IAS 19 ¹⁾	0	0	0	0	-2,003		0	0	0	0	0	0	-2,003	-2,003
As at 1 Jan. 2018 (adjusted) ¹⁾	16,301	34,746	1,318	-1,625	-14,202		-1,303	96	-3,318	-439	77	0	31,651	31,651
Consolidated net income 1.1.–31.12.2018 (adjusted) ¹⁾					919								919	919
Foreign currency translation of financial statements of foreign entities	0	0	0	0	0		1,173	-85	0	0	0	0	1,088	1,088
Adjustment of provisions pensions and early retirement according to IAS 19 (adjusted) ¹⁾	0	0	0	0	0		0	0	-72	0	0	0	-72	-72
Cash flow hedges	0	0	0	0	0		0	0	0	0	-147	-126	-273	-273
Other comprehensive income 1.1.–31.12.2018 (adjusted) ¹⁾	0	0	0	0	0		1,173	-85	-72	0	-147	-126	743	743
Total comprehensive income 1.1.–31.12.2018 (adjusted) ¹⁾	0	0	0	0	919		1,173	-85	-72	0	-147	-126	1,662	1,662
Distributions	0	0	0	0	-1,908		0	0	0	0	0	0	-1,908	-1,908
Stock option settlement	0	-3	110	5	0		0	0	0	0	0	0	112	112
Acquisition of treasury shares	0	0	0	-243	0		0	0	0	0	0	0	-243	-243
As at 31.12.2018 (adjusted) ¹⁾	16,301	34,743	1,428	-1,863	-15,191		-130	11	-3,390	-439	-70	-126	31,274	31,274
As at 31.12.2018 (as reported)	16,301	34,743	1,428	-1,863	-13,211		-130	11	-3,333	-439	-70	-126	33,311	33,311
Changes in accounting and valuation methods: First-time adoption of IFRS 16 ²⁾	0	0	0	0	15		0	0	0	0	0	0	15	15
As at 1 Jan. 2019 (adjusted)	16,301	34,743	1,428	-1,863	-15,176		-130	11	-3,390	-439	-70	-126	31,289	31,289
Consolidated net income 1.1.–31.12.2019					1,703								1,703	1,703
Foreign currency translation of financial statements of foreign entities	0	0	0	0	0		1,474	7	0	0	0	0	1,481	1,481
Adjustment of provisions pensions and early retirement according to IAS 19	0	0	0	0	0		0	0	-1,732	0	0	0	-1,732	-1,732
Cash flow hedges	0	0	0	0	0		0	0	0	0	-422	57	-365	-365
Other comprehensive income 1.1.–31.12.2019	0	0	0	0	0		1,474	7	-1,732	0	-422	57	-616	-616
Total comprehensive income 1.1.–31.12.2019	0	0	0	0	1,703		1,474	7	-1,732	0	-422	57	1,087	1,087
Distributions	0	0	0	0	-477		0	0	0	0	0	0	-477	-477
Stock option settlement	0	0	92	0	0		0	0	0	0	0	0	92	92
As at 31 Dec. 2019	16,301	34,743	1,520	-1,863	-13,951		1,344	18	-5,122	-439	-492	-69	31,991	31,991

1) For details of adjustments as of 1 January 2018 and for the comparative period 2018, see section I. Adjustment of comparative period 2018 in the notes to the consolidated financial statements due to error correction (IAS 8) and change in presentation (IAS 1).

2) For details of adjustments as of January 1, 2019, please refer to section I. Application of new and revised IFRS regulations in the notes to the consolidated financial statements.

NOTES

111	General Information
134	Segment Reporting
138	Notes to the consolidated statement of comprehensive income
147	Notes to the consolidated statement of financial position
178	Other Disclosures
190	Assurance from the legal representatives
192	Appendix
196	Independent auditor’s report

I. General information

(1) General information on the company

Francotyp-Postalia Holding AG, headquartered in Berlin (hereinafter also referred to as “FP Holding” or the “company”), is entered in the commercial register of the Charlottenburg Local Court under HRB 169096 B. The consolidated financial statements cover the company and its subsidiaries (together the “FP Group”).

The international FP Group has a history dating back 97 years. Its business activities focus on products and services for efficient mail processing, the consolidation of business mail and digital solutions for businesses and authorities. In the digital segment, the FP Group boasts high-security solutions for the Internet of Things (IoT) and digital document signatures.

The Management Board of Francotyp-Postalia Holding AG approved the consolidated financial statements for submission to the Supervisory Board on 13 May 2020. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and to state whether it adopts them.

(2) Declaration of Compliance

FP Holding has prepared its consolidated financial statements as at 31 December 2019 in accordance with the International Financial Reporting Standards (IFRS), as adopted by and as applicable in the EU, and the supplementary provisions in accordance with section 315e(1) of the German Commercial Code (HGB).

(3) Accounting principles

Francotyp-Postalia FP Holding acts as the parent company under which the FP Group is consolidated. The fiscal year is the calendar year for all Group companies.

The consolidated financial statements and the Group management report for the year ending 31 December 2019 will be submitted to and published in the electronic Federal Gazette.

The consolidated financial statements have been prepared in euro. For the purposes of clarity and comparability, all amounts are shown in thousands of euro (EUR thousand) unless otherwise stated. The commercial rounding of individual items and percentages can result in minor arithmetic differences.

(4) Consistency of accounting policies and adjustments to disclosures in the notes for the previous year

Apart from the exceptions described in Note I.5 of the consolidated financial statements, the accounting policies applied are the same as in the previous year.

(5) Adoption of new and revised IFRSs

The FP Group applies new and revised IFRSs only from the date on which they become effective. The FP Group’s commentary on the new or revised IFRSs in accordance with IAS 8.28 is as follows.

As at 1 January 2019, the FP Group applied IFRS 16 for the first time. Several other amendments and changes to IFRS took effect as at 1 January 2019. However, these had no material impact on the consolidated financial statements.

IFRS 16 Leases

The FP Group applied IFRS 16 “Leases” for the first time as at 1 January 2019. Where the FP Group acts as lessor to third parties, the standard is applied for the first time without adjustments as at the transition date of 1 January 2019, with IFRS 16.C14 applied.

Where the FP Group acts as lessee, IFRS 16 is applied for the first time using the modified retrospective method in accordance with IFRS 16.C5(b). Accordingly, the data of the comparative period did not have to be restated and continued to be presented in accordance with IAS 17 and IFRIC 4. Effects of the first-time application are recognised in equity as at the transition date.

The effects of the first-time application of IFRS 16 as at 1 January 2019 are therefore based exclusively on leases in which the Group acts as lessee or as lessee and lessor at the same time in subleases.

A. Effects of the first-time application of IFRS 16 at the transition date of 1 January 2019.

The effects at the transition date of 1 January 2019 relate to the following balance sheet items:

EUR thousand		1 Jan. 2019
Finance lease assets		–450
Right-of-use assets		12,665
Finance lease receivables		20
Financial liabilities: Finance lease liabilities	–471	
Financial liabilities: Lease liabilities	12,685	
Net effect in financial liabilities	12,214	12,214
Deferred tax liabilities		6
Effect on equity (loss carried forward)		–15

B. Explanations

I. Existence of a lease

Until 31 December 2018, the FP Group based its assessment of whether a contract contained a lease on IAS 17 and the interpretation rules of IFRIC 4. For arrangements concluded on or after 1 January 2019, the company now determines whether they contain a lease as defined by IFRS 16.9.

For arrangements concluded before 1 January 2019, the FP Group carries over the previous assessment as to the existence of a lease for recognition from 2019 onwards, applying the practical expedient provided by IFRS 16.C3.

II. Separating lease and non-lease components

In accordance with IFRS 16.12 et seq., leases must be checked for non-lease components alongside the lease components. The consideration is to be allocated on the basis of the relative stand-alone selling prices of the components.

III. The FP Group as lessee

Identified leases in which the FP Group acts as lessee were previously examined to determine whether they were operating leases or finance leases.

Under IFRS 16, all leases are recognised in the statement of financial position. A right-of-use asset is recognised on the assets side and a lease liability (under financial liabilities) on the liabilities side. The right-of-use asset is initially measured at cost, equating to the present value of the lease liability plus any initial direct costs, payments made before the commencement date and estimated asset retirement obligations and less any incentives received by the Group from the lessor.

Subsequently, the right-of-use asset is measured less depreciation and any impairment losses. Depreciation is recognised on a straight-line basis over the term of the lease. If the lease transfers ownership of the underlying asset the FP Group by the end of the lease term, the right-of-use asset is depreciated on a straight-line basis over the useful life of the underlying asset. In the event of remeasurements of the lease liability, the right-of-use asset is adjusted accordingly.

The lease liability is initially measured at the present value of the lease payments. It is subsequently increased to reflect interest using the Group's respective incremental borrowing rate and reduced to reflect the lease payments made.

As at the transition date of 1 January 2019, leases existing before 1 January 2019 and identified in accordance with IAS 17 and IFRIC 4 were recognised as a right-of-use asset and lease.

As at 31 December 2018, certain rental agreements for printers were classified as finance leases (finance lease assets as at 31 December 2018: EUR 450 thousand; corresponding finance lease liability: EUR 471 thousand). On first-time application as at 1 January 2019, these items were recognised under right-of-use assets and lease liabilities (recognition within financial liabilities).

All identified right-of-use assets were initially measured at the present value of the corresponding lease liability. The present value was determined according to the remaining lease term and the lease payments due in this period, using the matched-term incremental borrowing rate of the FP Group at the date of the first-time application of IFRS 16. Initial direct costs were excluded from the measurement of right-of-use assets as at the date of first-time application.

In total, the first-time application of IFRS 16 as at 1 January 2019 therefore resulted in the recognition of a right-of-use asset of EUR 12,665 thousand, finance lease receivables of EUR 20 thousand and lease liabilities of EUR 12,685 thousand. The finance lease receivables relate to subleases.

The application of IFRS 16 means that, instead of the rental expense recognised for former operating leases (under “other expenses”), expense from the depreciation of right-of-use assets (included under “amortisation, depreciation and write-downs”) and interest expense from the lease liabilities (included under “interest and similar expenses”) must now be recognised.

The application of IFRS 16 had no material effects on earnings in the reporting year.

The FP Group does not recognise leases of intangible assets (IFRS 16.3f.). The company makes use of the option not to recognise short-term leases or leases of low-value assets, but instead to recognise the lease payments as an expense on a straight-line basis over the lease term (IFRS 16.6).

Incremental borrowing rates

As at 1 January 2019, the weighted average incremental borrowing rate for measuring lease liabilities in the statement of financial position was 0.5 %.

Reconciliation of obligations from operating leases with lease liabilities as at 1 January 2019

The obligations from operating leases, which were reported in the consolidated financial statements as at 31 December 2018 in accordance with IAS 17, are reconciled as follows with the lease liabilities recognised as at the date of initial measurement:

Other financial obligations from operating leases as at 31 Dec. 2018	13,453
Interest effect of discounting	–108
Term effect	1,905
Contracts not relevant for measurement in accordance with IFRS 16 (primarily contracts in which the underlying asset is intangible or of low value)	–765
Contract components not relevant for measurement in accordance with IFRS 16 (e.g. service rates, incidental costs)	–1,407
Other	–864
Reclassification of finance lease liability as at 1 Jan. 2019 to lease liabilities	471
Lease liabilities in accordance with IFRS 16 as at 1 Jan. 2019	12,685

IV. The FP Group as lessor

Both under IAS 17 until 31 December 2018 and under IFRS 16, leases must be classified as either operating leases or finance leases.

The content of the rules for classification has not changed. The first-time application of IFRS 16 to the FP Group as lessor did not result in any changes for the FP Group overall.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

The amendments constitute a limited adjustment of the assessment criteria relevant for the classification of financial assets. Under certain circumstances, prepayment features with negative compensation may be recognised at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss.

This will have no material impact.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatment. For recognition and measurement, estimates and assumptions need to be made, e.g. whether an estimate is made separately or together with other uncertainties, a probable or expected value for the uncertainty is used and whether changes have occurred in comparison with prior periods. A detection risk is insignificant for the recognition of uncertain balance sheet items. They are recognised under the assumption that the tax authorities will examine the matter in question and will have full knowledge of all relevant information when doing so.

Disclosures on the stated estimates, assumptions and judgments must be made in the notes to the financial statements. In addition, disclosures are to be provided on the potential effect of the uncertainty as a tax-related contingency in line with IAS 12.88.

This will have no material impact for fiscal year 2019.

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

The amendments include clarification that IFRS 9 is applicable to long-term interests in associates and joint ventures not accounted for according to the equity method.

This will have no material impact.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

According to IAS 19, pension obligations are to be remeasured on the basis of updated assumptions when there is a plan amendment, curtailment or settlement.

The amendment clarifies that after such an event the service cost and the net interest for the rest of the period are to be determined using updated assumptions.

This will have no material impact.

Improvements to IFRS 2015 – 2017

With the Annual Improvements to IFRSs (2015–2017), four IFRSs were amended.

In IFRS 3, it is clarified that an entity has to apply the principles for successive business combinations when it obtains control of a business that was previously a joint operation. The interest it previously held must be remeasured.

In IFRS 11, it is clarified that when an entity obtains joint control of a business that was previously a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividend payments are to be recognised in the same way as the income based on the dividends.

Finally, the amendments to IAS 23 clarify that, if an entity has borrowed generally for the acquisition of qualifying assets, the costs of borrowing specifically for the acquisition of qualifying assets do not have to be included in the calculation of the capitalisation rate until completion.

This will have no material impact.

The Group is not planning early adoption of the following new or amended standards and interpretations that become effective in subsequent fiscal years. Unless stated otherwise, their impact on the consolidated financial statements of the FP Holding is currently being examined.

IAS 8.30, ENDORSED BY THE EU		
Standard	Note	Impact on the consolidated financial statements
Amendments to IAS 1 and IAS 8 – Definition of Material	With the amendments in IFRS, a standard and more clearly defined definition of the materiality of financial statement information is created and supplemented with accompanying examples. In this connection, there is a harmonisation of definitions from the Conceptual Framework, IAS 1, IAS 8 and the IFRS Practice Statement 2 Making Materiality Judgements. The amendments must be applied for the first time as at 1 January 2020. Earlier adoption is allowed.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.
Amendments to References to the Conceptual Framework in IFRS Standards	The amended Conceptual Framework consists of a new general change on the status and purpose of the conceptual framework and of eight completely new chapters. It now includes chapters on the reporting entity and presentation and disclosure; the recognition chapter was supplemented with derecognition. In addition, contents were changed. For example, the distinction of income in revenues on the one hand and gains on the other was discontinued. Together with the amended Conceptual Framework, references to the Conceptual Framework were adjusted in various standards.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.

IAS 8.30, ENDORSEMENT BY THE EU IS STILL PENDING

Standard	Note	Impact on the consolidated financial statements
IFRS 17 – Insurance Contracts	IFRS 17 supersedes IFRS 4 and thus for the first time establishes uniform principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. According to the IFRS 17 measurement model, groups of insurance contracts are measured on the basis of the expected value of discounted cash flows with an explicit risk adjustment for non-financial risk and a contractual service margin that results in the recognition of profit as services are provided. Instead of premium income, the changes from the liability for insurance coverage for which the insurer receives a fee and the portion of the premiums that cover the acquisition costs are recognised in each period as “insurance revenue”. Cash flows from savings components are not recognised in the income statement as revenue or income/expense. Financial insurance income and expense result from discounting effects and financial risks. They can be recognised either in profit or loss in the income statement or in other comprehensive income for each portfolio. Changes in assumptions not relating to interest rates or financial risk are not recognised directly in the income statement but posted against the contractual service margin and thus allocated over the term of the services to be provided. Changes in estimates are recognised directly only for onerous groups of insurance contracts. IFRS 17 provides for an approximation method for short-term contracts, whereby the liability for insurance coverage is, as before, recognised by way of unearned premiums. Under IFRS 17, liabilities from claims incurred but not yet settled must be discounted at current interest rates. For large parts of the life insurance business with participation features, IFRS 17 modifies the general measurement model in that changes in the shareholders’ portion of the development of the sources of income underlying the participation features are recognised in the contractual service margin and allocated over the remaining duration of the provision of services. Subject to adoption in EU law, entities are required to apply IFRS 17 to reporting periods beginning on or after 1 January 2021. Earlier adoption is allowed. If retroactive application is not possible, the contractual service margin can be determined at the date of transition using a modified retroactive method or by comparing the expected value of the discounted cash flows and risk adjustment with the fair value at the date of transition.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.
Amendments to IFRS 3 – Definition of a Business	With the amendment, IASB clarifies that a business covers a set of activities and assets which at a minimum contains an input and a substantive process that together significantly contribute to the ability to create outputs. In addition, in respect to the outputs, the focus is on providing goods and services to customers; the reference to an ability to reduce costs is removed. The regulations also include an optional “concentration test” which allows simplified identification of a business. Subject to EU endorsement, the amendments are to be applied to business combinations with acquisition dates on or after 1 January 2020. Earlier adoption is allowed.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments address a noted inconsistency between the requirements of IFRS 10 and IAS 28 (2011) in the case of a sale or contribution of assets to an associate or joint venture. According to IFRS 10, a parent company must recognise the profit or loss from the sale of a subsidiary in full in the income statement if it loses control of the subsidiary. In contrast, the currently applicable IAS 28.28 requires that the gains and losses on sale transactions between an investor and an investment accounted for using the equity method – be it an associate or joint venture – be recognised only to the extent of unrelated investors’ interests in this entity. In the future, the full gain or loss from a transaction is only to be recognised if the assets sold or contributed constitute a business as defined in IFRS 3. This applies regardless of whether the transaction is designed as a share or asset deal. If the assets do not constitute a business, however, the gain or loss may only be recognised pro rata. The IASB has deferred the initial application date of the amendments indefinitely.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.
Amendment to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform	The amendments result from existing uncertainty in connection with the IBOR reform. According to the existing regulations on hedge accounting, in many cases the pending changes of the reference interest rates would have resulted in an end of hedging relationships. For a transitional period, accounting continuation of existing hedge accounting relationships is now possible. The amendments provide for some mandatory exceptions from previous hedge accounting requirements, e.g. on assessing the highly probable criterion in the case of expected transactions in the context of cash flow hedges. Subject to adoption in EU law, the amendments are to be applied to reporting periods beginning on or after 1 January 2020. Early application of the amendments is permitted, but requires EU endorsement.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.

(6) Consolidated group

The consolidated financial statements of FP Holding include all companies which can be controlled by FP. The FP Holding controls a company if it is exposed to variable returns from its investment and has rights to these and the ability to affect these returns through its power over the company. If control ends, these companies are deconsolidated.

The consolidated group changed in fiscal year 2019. FP Shared Service Europe GmbH, Hennigsdorf, was founded as a subsidiary of Francotyp-Postalia GmbH by partnership agreement dated 5 March 2019. It was entered in the commercial register on 13 March 2019.

In addition to Francotyp-Postalia Holding AG, the 2019 consolidated financial statements include eleven (previous year: ten) German and ten (previous year: ten) foreign subsidiaries (see following table).

LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 313 HGB ^{1), 2)}

No.	Name and registered office of the company	31 Dec. 2019 Share in % ³⁾
	Consolidated companies	
1	Francotyp-Postalia FP Holding, Berlin, Germany	
2	Francotyp-Postalia GmbH, Berlin, Germany	100.00
3	freesort GmbH, Langenfeld, Germany	100.00
4	internet access GmbH lilibit Berlin Gesellschaft für Kommunikation und Digitaltechnik, Berlin, Germany	100.00
5	FP Direkt Vertriebs GmbH, Berlin, Germany	100.00
6	Francotyp-Postalia Vertrieb und Service GmbH, Berlin, Germany	100.00
7	FP InovoLabs GmbH, Berlin, Germany	100.00
8	Francotyp-Postalia Unterstützungseinrichtung GmbH, Berlin, Germany	100.00
9	FP Produktionsgesellschaft mbH & Co. KG, Wittenberge, Germany	100.00
10	FP Produktionsverwaltung GmbH, Wittenberge, Germany	100.00
11	Mentana-Claimsoft GmbH, Fürstenwalde, Germany	100.00
12	Francotyp-Postalia N.V./S.A., Antwerp, Belgium	99.97
13	Francotyp-Postalia GmbH, Vienna, Austria	100.00
14	Ruys Handelsvereniging B.V., Zoetermeer, Netherlands	100.00
15	FP Finance B.V., Zoetermeer, Netherlands	100.00
16	Italiana Audion s. r. l, Milan, Italy	100.00
17	Francotyp-Postalia Ltd., Dartford, UK	100.00
18	Francotyp-Postalia Inc., Addison, Illinois, USA	100.00
19	Francotyp-Postalia Canada Inc., Concord, Canada	100.00
20	Francotyp-Postalia Sverige AB, Bromma, Sweden	100.00
21	Francotyp-Postalia France SAS, Nanterre, France	100.00
22	FP Shared Service Europe GmbH, Hennigsdorf, Germany	100.00

No.	Name and registered office of the company	31 Dec. 2019 Share in % ³⁾
	Associates	
23	FP Systems India Private Limited, Mumbai, India	99.998
24	FP Direct Ltd., Dartford, UK	100.00
25	JUCONN GmbH, Unterföhring, Germany	15.00

- 1) Three equity investments (previous year: two equity investments) not material to the financial position and results of operations of the Group were not consolidated, and were instead accounted for at fair value as associates.
- 2) For Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb und Service GmbH, FP Direkt Vertriebs GmbH, FP InovoLabs GmbH, Mentana-Claimsoft GmbH, freesort GmbH, internet access GmbH lilibit Berlin Gesellschaft für Kommunikation und Digitaltechnik and Francotyp-Postalia Unterstützungseinrichtung GmbH, it was decided to make full use of the exemptions provided by section 264(3) HGB in conjunction with section 325. FP Produktionsgesellschaft mbH & Co. KG likewise made use of the exemptions provided by section 264b HGB in conjunction with section 325. These companies are also exempt from the obligation to prepare a 2019 management report in accordance with section 264(3) HGB in conjunction with section 289 HGB or section 264b HGB. The corresponding resolutions were submitted to the operator of the electronic Federal Gazette, the respective announcement was arranged.
- 3) Including directly and indirectly attributable shares.

Associates

The total operating earnings of the associates amount to around 7.1 % (previous year: –0.2 %) of consolidated net income. The estimated effect of the full consolidation of the companies on the Group’s total assets is around 0.0 % (previous year: 0.0 %) of the Group’s total assets.

With effect from 1 January 2019, FP InovoLabs GmbH acquired 15 % of the shares in Juconn GmbH, Unterföhring, with the aim of boosting the development of digital products, especially FP Secure IoT Gateways, and offering customers the entire IoT value chain. Through the share acquisition, FP, represented by CDO / COO Sven Meise, took the chairmanship of Juconn GmbH’s Supervisory Board and thus has a significant influence on the company. The purchase price was EUR 2,000 thousand. The payment of the premium of EUR 1,000 thousand included therein is linked to six conditions, which include revenue targets, the development and implementation of digital platforms, and the establishment or participation in further joint ventures. Based on slower business development and scaling than originally anticipated at the time of acquisition, the FP Group adjusted the provisional carrying amount by EUR –400 thousand within the measurement period in the third quarter of 2019. In addition, the impairment test in accordance with IAS 36 resulted in impairment of the implied goodwill of EUR 903 thousand.

The share in Juconn GmbH’s net income for the year allocated to FP InovoLabs GmbH is offset against the carrying amount of the investment. In fiscal year 2019, the pro rata loss amounted to EUR 91 thousand. The company is included

in the consolidated financial statements pro rata (at equity). The table below shows summarised financial information for Juconn GmbH as at the end of the reporting period:

in EUR thousand	
Current assets	436
Non-current assets	48
Current liabilities	384
Non-current liabilities	100
Revenue	120
Loss from continuing operations	–606
Post-tax profit or loss from discontinued operations	0
Other comprehensive income	0
Total comprehensive income	–606

(7) Consolidation principles

Acquisition accounting is performed in accordance with the principles of IFRS 10. All unrecognised gains and losses of the acquiree are identified upon first-time consolidation and all identifiable intangible assets are reported separately. All assets and liabilities are thus remeasured at fair value. The cost of the equity investments is then offset against the remeasured, pro rata equity. Any surplus is capitalised as goodwill. Incidental costs of acquisition incurred in business combinations are expensed.

(8) Currency translation

The functional currency of FP Holding is the euro (EUR).

Foreign currency transactions in the financial statements of FP Holding and its German subsidiaries are translated at the exchange rates in effect at the transaction dates. Foreign currency monetary items are reported using the closing rate as at the end of the reporting period. Foreign exchange differences are recognised in the consolidated statement of comprehensive income of the Group company in question and reported under finance costs.

The foreign companies of the FP Group are independent units and prepare their annual financial statements in their own national currency. Their assets and liabilities are translated into euro using the closing rate when preparing the consolidated financial statements. The equity of the subsidiaries that do not prepare their accounts in euro is translated at the

historical rate. The effects of the foreign currency translation of equity are recognised in other comprehensive income. The items of the consolidated statement of comprehensive income are translated at weighted average rates for the year. Foreign currency translation differences arising from different exchange rates for items in the statement of financial position and the consolidated statement of comprehensive income are shown in other comprehensive income. If Group companies are deconsolidated, the foreign currency translation difference in question is reversed to profit or loss.

Currency translation differences from monetary items that are part of a net investment in a foreign operation are recognised in other comprehensive income at Group level in accordance with IAS 21.15 in conjunction with IAS 21.32. In the event of a subsequent disposal of the respective net investment or the repayment of loans, the equity amounts in question are taken to profit or loss.

	Closing rate		Average rate	
EUR 1 =	31 Dec. 2019	31 Dec. 2018	2019	2018
US dollar (USD)	1.12275	1.14510	1.1196	1.1810
Pound sterling (GBP)	0.84995	0.89685	0.8778	0.8847
Canadian dollar (CAD)	1.45200	1.55960	1.4856	1.5293
Swedish krona (SEK)	10.44450	10.25125	10.5893	10.2584

(9) Accounting policies

In preparing the 2019 consolidated financial statements, the Management Board applied the going concern principle to all companies included in the consolidated financial statements.

Revenue

The FP Group recognises revenue from contracts with customers in accordance with IFRS 15 and as a lessor in connection with the transfer of right-of-use assets in accordance with IFRS 16. See the disclosures on leases for information on the recognition of revenue as a lessor.

Revenue in accordance with IFRS 15

Contracts that do not include the transfer of a right-of-use asset

The FP Group generates revenue from contracts with customers in three segments: Production, Sales Germany and International Sales. Revenue is recognised in accordance with IFRS 15 if the customer has obtained control over the goods and services that the FP Group is required to provide. Control is transferred either at a point in time or over time.

The FP Group provides sales and services in the three segments. The sales primarily relate to the sale of franking and inserting machines and consumables. The services relate to customer service and Teleporto services with regard to sold or leased franking or inserting machines. The Sales Germany segment also provides services for the consolidation of business mail and software services for businesses and authorities.

Services can be ordered individually or via fixed-term service contracts. Service contracts generally have original durations of twelve months and roll over if the customer does not cancel on time. The service contracts can contain various services, such as customer services, provision of postage credit or updating of postal charge tables.

Each sale or individual service is a distinct performance obligation. The revenue for sales and individually ordered services is recognised on delivery or performance of the service. The revenue for services from fixed-term service contracts is recognised evenly over the term of the contract. The even recognition over the terms of these contracts directly reflects the even provision of the services and is therefore an appropriate depiction of revenue recognition over time.

Depending on the payment arrangement, customers make advance payments for service periods of subsequent months. Contract liabilities are recognised in this respect. The time between performance of the service and receipt of payment is therefore a few months at most. The transaction price is therefore not adjusted for the time value of the money.

If the FP Group provides services in advance, contract assets are recognised.

The amount of the revenue depends on contractually defined fixed prices less trade discounts and rebates. The transaction price is allocated to distinct performance obligations of a contract on the basis of the relative stand-alone selling prices. The FP Group uses observable prices and estimates to determine stand-alone selling prices for the purposes of allocation to performance obligations. This requires the use of judgement. FP bases the estimate on market data and cost information.

The average payment term is 30 days.

The guarantee essentially includes of assurance of freedom from error and exists over the statutory term.

Contracts that include the transfer of a right-of-use asset

In the FP Group, performance obligations that have to be recognised in accordance with IFRS 15 also occur in leases that grant customers the right to use franking or inserting machines. The components of these leases that constitute right-of-use assets and the components of these leases that do not constitute right-of-use assets are recognised separately. The right-of-use asset is recognised in accordance with IFRS 16, while the other components are within the scope of IFRS 15. Here too, the consideration of the overall contract is allocated to the components and performance obligations on the basis of the relative stand-alone selling prices.

Other operating income

Other operating income is recognised when service is rendered or goods are delivered, i.e. when risk has transferred to the customer.

Government grants

Government grants as defined by IAS 20.7 are recognised when the underlying conditions for it have been met and it is reasonably assured that the grant will be received. IAS 20 distinguishes between property-related grants for non-current assets and grants related to income.

Grants for non-current assets are deducted from the carrying amount of the asset and recognised in profit or loss over the term of the depreciable asset at a reduced depreciation amount. If they are grants for internally generated assets, the grants reduce own work capitalised and the carrying amount by the same amount.

Grants that compensate the Group for expenses incurred are recognised in other income in the periods in which the expenses are recognised and not offset against the corresponding expenses.

Interest income and expenses

Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the company and the amount of the income can be measured reliably. Interest expenses are recognised in the period in which they arise net of any transaction costs and discounts using the effective interest method.

Goodwill

Goodwill represents the excess of the cost of acquisitions over the Group's share in the fair value of the net assets of the acquiree at the respective dates. The respective goodwill is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is tested at the level of cash-generating units.

Negative goodwill from capital consolidation is recognised in profit or loss in other operating income in accordance with IFRS 3.

Intangible assets

The recoverability of **purchased intangible assets** is calculated in accordance with IAS 36. Here, the present value of cash flows relating solely to the asset being measured is calculated. The discount rate for the cash flows after tax is based on the concept of the weighted average cost of capital (WACC).

Customer relationships capitalised in the context of purchase price allocation are measured using an earnings-based approach, whereby the value of customer relationships is shown by discounting the resulting cash flows. The cost of revenue generation is deducted from any revenue anticipated from customer relationships.

Except for capitalised development costs, the costs of **internally generated intangible assets** are recognised in profit or loss in the period in which they are incurred.

Development costs for internally generated intangible assets are capitalised if their production is technically so advanced that they can be used or sold, the Group has the intention to complete the asset and use or sell it, the FP Group is able to use or sell the intangible asset, the nature of benefits can be demonstrated, the technical and financial resources are available to complete the asset and the expenditure attributable to the intangible asset during its development can be measured reliably. Development costs include all costs directly attributable to the development process. Grants received for development costs are deducted from the carrying amount. **Borrowing costs** that can be directly allocated to a development project that is a qualifying asset within the meaning of IAS 23 are capitalised as part of production costs for the period of production. They are recognised solely in connection with capitalised development costs. The amount of capitalised borrowing costs is determined from the weighted average of the borrowing costs applicable to the borrowings granted by lenders.

From the start of commercial production of the corresponding products, capitalised development costs are written down over the period of their expected use. An impairment test is performed annually during the development phase and after capitalisation. Impaired capitalised development work is written down.

As in the previous year, straight-line depreciation is essentially based on the following useful lives:

Intangible assets	Useful life
Industrial property rights (including licences, software, internally generated intangible assets, customer lists)	2 to 10 years
Internally generated intangible assets	2 to 6 years
Goodwill	Indefinite

Property, plant and equipment

Property, plant and equipment is measured at cost less depreciation due to use and amortisation. Their cost includes the purchase price, incidental costs and subsequent costs of acquisition. Reductions in the purchase price are deducted. Financing costs are included for the period of production whenever qualifying assets are concerned. Costs for the maintenance and repair of property, plant and equipment are expensed as incurred. Processing costs for property, plant and equipment are recognised as a subsequent cost in accordance with the criteria of IAS 16.12 et seq. if these costs increase the future benefit of the property, plant and equipment (IAS 16.10). Straight-line depreciation is recognised for finite-lived property, plant and equipment. When property, plant and equipment is shut down, sold or given up, the profit or loss from the difference between the sales proceeds and the residual carrying amount is recognised under other operating income or expenses.

Straight-line depreciation is based on the following useful lives:

Buildings	2 to 25 years
Technical equipment and machinery	2 to 19 years
Operating and office equipment	2 to 23 years
Leased products	5 to 7 years
Vermietete Erzeugnisse	5 bis 7 Jahre

In the reporting year, the useful life of leased products was re-estimated with regard to the latest generation of franking machines. It was changed from five to seven years. The change affected machines that still had a residual carrying amount as at 1 January 2019 and the new additions of the reporting year. This resulted in a decrease in depreciation in the reporting year of EUR 3,125 thousand.

Impairment on intangible assets and property, plant and equipment is recognised in accordance with IAS 36 if the recoverable amount, i.e. the higher of the asset’s value in use and its fair value less costs to sell, has fallen below the carrying amount. If the recoverable amount of an individual asset cannot be estimated, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount and the carrying amount are then also compared at the level of the cash-generating unit. If the reasons for impairment losses recognised in previous years no longer apply, the write-downs are reversed; this does not apply to goodwill.

Inventories

In the measurement of inventories, a simplified measurement method was applied in the form of average prices.

Inventories are measured at the lower of cost and net realisable value. The cost of raw materials, consumables and supplies and merchandise comprises the purchase price and incidental costs less purchase price reductions. The cost of finished goods and work in progress includes the direct costs and the overheads attributable to the production process, including appropriate depreciation of production facilities assuming normal capacity utilisation. Financing costs are not included for the period of production as there are no qualifying assets. Net realisable value is the estimated selling price in the ordinary course of business less the costs still required to complete and sell the assets.

Impairment losses in inventories are shown in the cost of materials whenever merchandise, raw materials, consumables and supplies are concerned and in changes in inventories whenever they pertain to finished goods and work in progress.

Financial instruments

Financial instruments are contracts that give rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. They include on the one hand primary financial instruments such as trade receivables and payables and financial receivables and liabilities. On the other, they also include derivative financial instruments used to hedge the risks of changes in exchange rates and interest rates.

Financial assets and financial liabilities are shown in the consolidated statement of financial position from the time at which the Group becomes party to the contractual provisions of the instrument.

Financial investments and other financial assets

i. Classification

The FP Group classifies its financial assets into the following measurement categories:

- Those that are consequently measured at fair value (either recognised directly in other comprehensive income or in profit or loss).
- Those that are measured at amortised cost.

The classification of financial instruments is based on the business model in which the instruments are held and the composition of the contractual cash flows. The business model is determined at portfolio level and is oriented to the intention of the management and past transaction patterns. The cash flows are examined on the basis of the individual instruments. For assets measured at fair value, gains and losses are either recognised in profit or loss or in other comprehensive income. Investments in equity instruments that are not held for trading depend on whether the Group has irrevocably decided to recognise the equity instrument at fair value through other comprehensive income at the time of initial recognition.

The Group reclassifies debt instruments only if the business model for managing those assets changes. As at each reporting date this is reviewed by the management.

ii. Recognition

A regular way purchase or sale of financial assets is recognised as at the trading date, i.e. the date the Group has a commitment to buy or sell the asset. Financial assets are derecognised if the rights to the receipt of cash flows from the financial assets expire or are transferred and the Group has transferred all material risks and opportunities.

iii. Measurement

At initial recognition, the FP Group measures a financial asset at fair value plus, in the case of a financial asset subsequently not measured at fair value through profit and loss, the transaction costs directly attributable to the acquisition of that asset. Transaction costs of financial assets measured at fair value through profit or loss are recognised in the income statement as expense.

Financial assets with embedded derivatives are considered in their entirety if it is determined that their cash flows represent only repayment and interest payments.

The subsequent measurement of **debt instruments** depends on the Group’s business model to manage the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments in three measurement categories:

- At amortised cost: Assets that are held for collecting contractual cash flows and for which these cash flows present only repayment and interest payments are measured at amortised cost. Interest income from these financial assets is recognised in financial income using the effective interest method. Gains and losses from derecognition are recognised directly in the income statement and – together with the foreign currency gains and losses – posted under other financial income / other finance costs.
- FVOCI: Assets that are held to collect the contractual cash flows and sell the financial assets, and for which the cash flows represent only repayment and interest payments are measured at fair value through other comprehensive income. Changes in fair value are recognised in other comprehensive income, except for impairment gains or losses, interest income and gains and losses in foreign currency, which are recognised in profit or loss. For the derecognition of the financial asset, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity in the income statement and recognised as other financial income / other finance costs. Interest income from these financial assets is recognised in financial income using the effective interest method. Gains and losses in foreign currency are recognised in other financial income / other finance costs and impairment losses are included in a separate item in the income statement.

- FVPL: Assets that do not meet the criteria of the “measured at amortised cost” or “FVOCI” categories are measured in the “at fair value through profit or loss” (FVPL) category. Gains or losses from a debt instrument that is subsequently measured at FVPL are netted in profit and loss under other financial income / other finance costs in the period in which they are recognised.

Subsequently, the FP Group measures all **equity instruments** held at fair value. Dividends from those instruments continue to be recognised in profit and loss under other income if the FP Group’s right to receive payments is justified. For equity instruments, IFRS 9 optionally allows a measurement at fair value though other comprehensive income (FVOCI). The FP Group currently does not apply this option for measurements not recognised though profit or loss. In these cases, subsequent reclassification of the OCI effects in profit and loss is excluded. Changes in equity instruments designated as FVPL as well as other inflows and outflows are recognised in profit and loss.

Impairment losses (and reversals) on equity instruments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

iv. Impairment

The FP Group assesses the expected credit losses associated with its debt instruments measured at amortised cost or at fair value through other comprehensive income on a forward-looking basis. The impairment model depends on whether the credit risk significantly increases.

The recognition of expected credit losses uses a third-stage model to allocate impairment:

Level 1: expected credit losses within the next twelve months

Level 1 contains all contracts with any material increase in the credit risk since the initial recognition and generally contains new contracts and those whose payments are less than 31 days past due. The share in the lifetime credit losses of the instrument which is due to a default within the next twelve months is recognised.

Level 2: expected lifetime credit losses – not credit-impaired

If a financial asset is subject to a significant increase in its credit risk after initial recognition, but is not credit-impaired, it is allocated to Level 2. Impairment is recognised as the expected credit losses anticipated over the lifetime of the financial asset.

Level 3: expected lifetime credit losses – credit-impaired

If a financial asset is credit-impaired or in default, it is assigned to Level 3. The lifetime credit losses of the financial asset are recognised as impairment. Objective evidence that a financial asset is credit-impaired includes it being past due by more than 91 days and further information on material financial difficulties of the debtor.

The determination if a financial asset has experienced a substantial increase of the credit risk is based on an assessment of the default probabilities which is to be implemented at least once a month, which takes account not only of external rating information but also internal information on the credit quality of the financial asset. For debt instruments which are not receivables from financial services, a substantial increase of the credit risk is determined on the basis of past due information or default probabilities.

A financial asset is transferred to Level 2 if the credit risk has increased significantly in comparison to the time of the initial recognition. The credit risk is assessed on the basis of the default probability. For trade receivables the simplified approach is used, where these receivables are allocated to Level 2 at initial recognition. As a result no assessment on a significant increase in the credit risk is required.

Expected credit losses are calculated on the basis of the following factors:

- a) Neutral and probability-weighted amount;
- b) Time value of the money; and
- c) Adequate and reliable information (providing this is available without undue cost or effort) at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are calculated as the probability-weighted present value of all defaults over the expected lifetime of the financial assets.

The assessment of these risk parameters includes all publicly available relevant information. In addition to historical and current information on losses, reasonable and supportable forward-looking information on factors are included. This information covers macro-economic factors (e.g. growth of gross domestic product, unemployment rate) and forecasts of future economic conditions.

A finance instrument is derecognised if there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof, e.g. after conclusion of insolvency proceeding or after court decisions.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires that the credit losses expected over the term are recognised from the point at which the receivables are recognised for the first time. Further information can be found in the notes under IV.15. Impairments on other financial assets and cash and cash equivalents are insignificant for the Group.

Impairment on **trade receivables** was recognised if there was objective evidence that the amounts due were not fully recoverable (e.g. opening of insolvency proceedings or significant delays in payment by the debtor).

Derivatives and hedging transactions

The effective part of changes of fair value of derivatives classified as hedging transactions under cash flow hedges is recognised in the reserve for cash flow hedges as part of equity. The profit or loss relating to the ineffective part is recognised directly in the income statement under other financial income / other finance costs.

In the context of designated hedges there can be ineffectiveness as a result of deferrals of the hedged items and effects of the credit default risk on the fair value of the hedging instruments.

When options are used to hedge expected transactions, the FP Group classifies only the intrinsic value of the options as a hedging instrument.

Gains or losses from the effective part of the change in the intrinsic value of the options are recognised in the reserve from cash flow hedges as part of equity. Changes in the time value of options which relate to the hedged item are recognised in other comprehensive income in the reserve for hedging costs as part of equity.

If forward transactions are used to hedge expected transactions, the FP Group classifies only the change in the fair value of the forward contract from the spot element as a hedging instrument. The spot element is determined using the relevant spot exchange rate. The difference between the contractually agreed forward exchange rate and the spot exchange rate is defined as forward element and discounted if material. Gains and losses from the effective part of the spot element of the forward transaction are recognised in the reserve for cash flow hedges as part of equity. The change of the forward element of the hedging instrument which relates to the hedged item is recognised in other comprehensive income in the reserve for hedging costs as part of equity.

Cumulative amounts recognised in equity are reclassified during periods in which the hedged item affects profit or loss.

If a hedging instrument expires, is sold or terminated or the hedging transaction no longer meets the criteria for the accounting of hedging transactions, any accrued gains or losses from hedging and deferred hedging costs accumulated at that time will remain in equity until the expected transaction occurs. If the transaction is no longer expected to occur, the cumulative gains and losses and deferred hedging costs shown in equity are reclassified directly to profit or loss.

Financial liabilities and equity instruments

Financial liabilities are divided into the following categories:

- financial liabilities at amortised cost and
- financial liabilities at fair value through profit or loss.

On first-time recognition, financial instruments are measured at fair value plus transaction costs, if appropriate. The effective interest method is used to calculate the amortised cost.

Financial liabilities at amortised cost are initially measured at fair value less any transaction costs directly attributable to borrowing. The loans are not designated as at amortised cost. After first-time recognition, interest-bearing loans are measured at amortised cost.

Financial liabilities measured at fair value through profit and loss include financial liabilities held for trading and other financial liabilities that are classified as at fair value through profit and loss on first-time recognition. Financial liabilities are classified as held for trading if they are acquired with a view to subsequent disposal in the near future. Financial liabilities measured at fair value through profit and loss also include liabilities from derivatives transactions. Gains and losses from financial liabilities held for trading are recognised in profit or loss.

Finance lease liabilities are stated at the present value of the lease payments.

Shareholders’ equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The issued capital was classified as equity, whereby the costs (net of any related income tax benefit) directly attributable to the acquisition of treasury shares are deducted from equity.

Amounts otherwise contributed to equity by shareholders are shown in the capital reserves. Expenses directly incurred by the issue of new shares in the earlier IPO of FP Holding were deducted from capital reserves in accordance with IAS 32.35.

The stock option reserve reports the amounts recognised in staff costs for the 2010 and 2015 stock option programmes. This is based on the fair value of the options expected to vest, which is distributed over their term.

When the Group acquires treasury shares, these are deducted from equity. The calculated value of treasury shares is openly deducted from equity. The difference of the purchase price is offset against capital reserves. The purchase, sale, issue or cancellation of treasury shares is not recognised in profit or loss.

Provisions

Provisions for pensions and similar obligations are recognised using the projected unit credit method based on actuarial principles. This process not only considers the pensions and vested benefits known at the end of the reporting period, but also the expected future increases in pensions and salaries when estimating relevant influencing factors. These benefits earned in return for work performed are discounted using the interest rate at the end of the period. Plan assets are deducted from these defined benefit obligations at fair value. This gives rise to the net liability for defined benefit obligations, which is recognised as a provision.

The net liability is calculated at the end of each reporting period on the basis of actuarial opinions prepared by qualified actuaries.

The interest rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Currencies and terms consistent with the post-employment benefit obligations are taken into account in selecting the relevant bonds.

Pension plans that the FP Group implements through insurance contracts are accounted for as defined benefit plans if the vested entitlements are not covered by the insurance premiums.

Contributions under defined contribution plans are expenses in the period in which the payments in question are rendered.

Termination benefits are granted if an employment relationship is terminated before the employee reaches pension age or if an employee voluntarily leaves the company in return for severance pay. The Group recognises severance pay if it is evidently obliged to terminate the employment of current employees according to a formal plan that cannot be revoked, or if it is evidently obliged to pay severance whenever an employee leaves voluntarily.

Provisions for semi-retirement are measured at the respective present value of the outstanding settlement amounts and top-up amounts (accrued pro rata in the vesting period). In accordance with IAS 19.102 et seq., the provision was netted against plan assets measured at fair value in the form of insurance used to cover semi-retirement commitments.

The Group recognises a provision for profit-sharing and bonuses when there is a contractual obligation or a constructive obligation as a result of past business practices.

Provisions for warranty expenses are recognised when the products in question are sold in accordance with the management’s best estimate of the expenses necessary to fulfil the Group’s obligation.

Accounting for leases in which Francotyp-Postalia is the lessor

The FP Group leases out franking and inserting machines in the Sales Germany and International Sales segments. The leases generally have fixed terms of between two and six years. If the customers do not cancel on time, the leases roll over automatically. In addition to the transfer of the right of use, the leases can also contain service components.

Up to and including 2018, the rights of use contained in the leases were accounted for in accordance with IAS 17. From 2019 they are accounted for in accordance with IFRS 16. The components that do not constitute a right-of-use asset are accounted for in accordance with IFRS 15. On the first-time application of IFRS 15, the consideration of the overall contract was allocated to the components and performance obligations on the basis of the relative stand-alone selling prices. In this respect, the first-time application of IFRS 16 did not result in any change.

Under both IAS 17 and IFRS 16, a lease must be classified as a finance lease from 2019 if substantially all the risks and rewards of ownership are transferred to the lessee. In this respect, the IFRS interpretation criteria have not changed.

Therefore, leases in the FP Group are still classified as finance leases in the reporting year if the contract term is equal to or greater than 75 % of the economic life (useful life criterion). When determining the contract term, the FP Group considers the likelihood that contracts will be automatically extended.

For leases classified as finance leases, a receivable and revenue are recognised at contract inception in the amount of the present value of the minimum lease payments. The lease instalments subsequently received are divided into a repayment portion and an interest portion. The repayment portion reduces receivables in other comprehensive income. The interest portion is recognised in profit or loss. A market interest rate is used.

Leases that do not qualify as finance leases are accounted for as operating leases. For these contracts, the machines in question are recognised as leased products under non-current assets in property, plant and equipment, while the lease instalments are reported as revenue.

Depending on the payment arrangement, customers make advance payments for lease periods of subsequent months. If they do not represent revenue for the fiscal year, they are recognised as contract liabilities.

In line with the re-estimate of useful life in accordance with IAS 16, the FP Group re-estimated the economic life of the leased products in accordance with IFRS 16 in the reporting year and set it at seven years. In the reporting year, this resulted in a larger volume of contracts classified as finance leases in the US and Canadian rental markets. See section I.10 for the effects of the change in the estimate.

Accounting for leases in which Francotyp-Postalia is the lessee

Until 2018, leases in which the FP Group acts as lessee were examined to determine whether they were operating leases or finance leases.

Under IFRS 16, the FP Group recognises all leases as a lessee in the statement of financial position. A right-of-use asset is recognised on the assets side and a lease liability (under financial liabilities) on the liabilities side. The right-of-use asset is initially measured at cost, equating to the present value of the lease liability plus any initial direct costs, payments made before the commencement date and estimated asset retirement obligations and less any incentives received by the Group from the lessor.

Subsequently, the right-of-use asset is measured less depreciation and any impairment losses. Depreciation is recognised on a straight-line basis over the term of the lease. If the lease transfers ownership of the underlying asset the FP Group by the end of the lease term, the right-of-use asset is depreciated on a straight-line basis over the useful life of the underlying asset. In the event of remeasurements of the lease liability, the right-of-use asset is adjusted accordingly.

The lease liability is initially measured at the present value of the lease payments. In subsequent measurement, it is increased to reflect interest using the Group’s respective incremental borrowing rate and reduced to reflect the lease payments made.

(10) Judgements and estimates

When preparing the consolidated financial statements, certain items require judgements and estimates to be made for the recognition, measurement and reporting of recognised assets and liabilities and of income and expenses. The actual figures can differ from the estimates. Estimates and their underlying assumptions are examined on an ongoing basis. Revisions of estimates are recognised prospectively. Key areas for exercising judgement and making estimates are:

Revenue

For information on the use of judgement with regard to the allocation of transaction prices, see the notes on revenue under Section I. (9).

Leases

As a rule, FP classifies leases as lessor by comparing the term of the lease with the economic life. Under IFRS 16 (as well as IAS 17), a finance lease is indicated if the contract term is the major part of the economic life. The FP Group has interpreted “the major part” to mean 75 %.

Government grants

There is discretion with a potentially significant impact on the consolidated financial statements in the accounting treatment of **grants** as regards the estimated probabilities of future benefits in connection with compliance with grant conditions. Please also see the comments in section III, Note 2.

Deferred tax assets

Deferred tax assets are recognised for all unutilised tax loss carryforwards to the extent that it is likely that there will be future taxable profit available against which the losses can actually be used. The calculation of the amount of deferred tax assets requires significant management discretion based on the expected timing and amount of future taxable income together with future tax planning strategies.

Tax receivables and liabilities

The assessment and measurement of tax receivables and liabilities require a significant degree of management judgement due to the complexity of the legal provisions and divergent practices among the responsible tax authorities, especially in the context of cross-border transactions.

Changes in estimates in the fiscal year

As of 31 December 2019, with effect from the 2019 financial year, the FP Group has standardised the useful life of franking machines across the Group to 7 years, both for the purposes of lessor accounting in accordance with IFRS 16.63(c) (economic life) and for the purposes of the depreciation period in accordance with IAS 16.50 (useful life) (see also Section I. (9), Property, plant and equipment). The definition of 7 years applies to the current generation of franking machines. On the one hand, it takes into account the experience gained from a complete life cycle and, on the other hand, the printing of digital transformation on the market with franking machines.

The change in connection with IFRS 16.63(c) had the following effects in the reporting year:

	TEUR
Revenue	3,096
Other own work capitalised	704
Cost of materials	-1,269
Amortisation and depreciation	-60
Net interest income	146
Income taxes	-515
Consolidated net income	2,102
EBITDA	2,530
Leased products	-621
Finance lease receivables	3,081

The adjustment of the economic life as defined by IFRS 16 resulted in a larger volume of contracts classified as finance leases. This results in the above effect in revenue and follow-on effects in the other items above.

This effect is also expected for subsequent years. The finance lease classifications of previous years will have the opposite effect. The Group expects the effects to have balanced each other out after around five years (positive effect from new classifications vs. opposite effect from the classifications of previous years).

The changes to useful lives in accordance with IAS 16 resulted in a decrease in depreciation in fiscal year 2019 of EUR 3,125 thousand. Depreciation effects are expected ceteris paribus to remain roughly the same each year.

Key assumptions in the context of estimates and sources for estimation uncertainty include:

Impairment losses

The Group measures expected credit losses for all trade receivables on the basis of lifetime expected credit losses.

Development costs

Estimates are required whenever a development project reaches certain milestones in a current project. In order to assess whether the amounts to be capitalised are actually recoverable, the management makes assumptions regarding the forecast future cash flows from assets, the applicable discount rates and the period when the forecast future cash flows generated by the assets will be received.

Remeasurement of intangible assets in accounting for business combinations

Estimates are required for the remeasurement of fair values for intangible assets in accounting for business combinations in accordance with IFRS 3 (2008). The intangible assets of purchased entities must be identified in purchase price allocation and carried at fair value; they are separated from any (negative) goodwill.

Goodwill

In order to establish possible impairment of goodwill, the value in use of the asset or the fair value of the cash-generating units must be calculated. The calculation requires an estimate of future cash flows from the cash-generating unit and a suitable discount rate to calculate present value.

The recoverable amount of all cash-generating units with goodwill is derived on the basis of the respective value in use. If this is found to be higher than the carrying amount of the cash-generating unit, there is no need to determine the fair value less costs to sell.

The value in use is determined using discounted cash flow. This was based on cash flow forecasts derived from financial planning by the management. The figures used in these assumptions are based on external analyses of the postal market (including expected postage increases by Deutsche Post AG) and on management experience. Financial planning consists of earnings planning, the statement of financial position and the statement of cash flows and is prepared in detail for the first three years on the basis of sales planning, and then extrapolated using general assumptions for the next two years of planning. Perpetual maturity is assumed after the fifth year of planning.

In accordance with IAS 36, the discount rates were derived using a growth rate for cash flows after the end of the five year planning period. The discount rates are based on the concept of the weighted average cost of capital (WACC).

The recoverable amount is initially derived based on the discounting of cash flows using the costs of capital after taxes. The costs of capital before taxes are then calculated iteratively.

The basic assumptions on which the calculation of value in use of the cash-generating units are based, are subject to estimation uncertainty affecting EBIT and thus the cash flows to be discounted and the discount rate:

Mail volume: The future development of cash flows is dependent on the number of customers or the number of dispatches processed. The figures used are based on the evaluation of market potential and current customer contacts.

Gross profit margins: The gross profit margins used are based on currently realisable figures and management experience.

Discount rate: Assumptions on the individual components of WACC and the long-term growth rate.

Pensions and other post-employment benefits

The actuarial valuation is based on assumptions regarding interest rates, future wage and salary increases, mortality and future pension increases.

Provisions

The calculation of provisions for potential losses from contracts, warranties and legal disputes requires a great degree of management estimates.

Expenses for warranties are incurred in connection with subsequent improvements.

Legal disputes often involve complex legal issues, hence they entail considerable uncertainty. The estimate of expected expenses also includes the anticipated litigation costs. The FP Group regularly evaluates the current status of proceedings, also with the assistance of external lawyers.

For restructuring costs, a provision is made at the level of expected direct expenses.

The expected internal and external costs in connection with the outstanding audit cycles of FP Group companies or appeals following tax audits in Germany and abroad are accounted for by recognising corresponding provisions that take into account the complexity of the issues, including in the cross-border context.

Calculation of fair value

A number of accounting policies and disclosures require the Group to determine the fair value of financial and non-financial assets and liabilities.

As far as possible, the Group uses observable market data to determine the fair value of an asset or liability. Based on the inputs used in the measurement methods, the fair values are assigned to different levels of the fair value hierarchy:

- Level 1: Quoted (unadjusted) prices on active markets for identical assets or liabilities.
- Level 2: Measurement parameters other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Measurement parameters for assets or liabilities not based on observable market data.

If the inputs used to determine the fair value of an asset or liability can be classified into different levels of the fair value hierarchy, the fair value measurement in its entirety is assigned to the level of the fair value hierarchy based on the lowest input factor that is material overall for measurement of fair value.

The Group recognises reclassifications between different levels of the fair value hierarchy at the end of the reporting period in which the change occurred.

Further information on the assumptions in determining fair values can be found in the notes under IV. (23).

(11) Adjustment of comparative period 2018 due to error correction (IAS 8) and change in reporting (IAS 1)

The FP Group has adjusted the figures for the comparative period 2018. This is based on the retrospective recognition of an error correction pursuant to IAS 8 in conjunction with IAS 19 and a change in reporting within the consolidated statement of comprehensive income pursuant to IAS 1 in conjunction with IFRS 9.

The error correction relates to the accounting for a pension plan of a subsidiary in the Netherlands. This was previously classified as a defined contribution plan by the FP Group. As part of the ACT project JUMP and the preparation of the 2019 consolidated financial statements, the FP Group performed a Group-wide analysis of its pension plans. The above-mentioned plan in the Netherlands was then classified as a defined benefit plan under which the increases in obligations attributable to the years are covered by the annual purchases of insurance. As the pension plan has already been in place since 2000, the error correction is recognised in the 2019 consolidated financial statements as of the start of the comparative period on 1 January 2018.

The change in reporting pursuant to IAS 1 in conjunction with IFRS 9 leads to the aggregation of expenses from impairment losses and income from reversals of impairment losses on trade receivables. In the previous year, these were presented without offsetting in different items of the consolidated statement of comprehensive income.

The tables presented in the notes to the consolidated financial statements refer to for the comparative period 2018 and for the previous year's reporting date 31 December 2018 to the restated presentation of the consolidated statement of comprehensive income and the consolidated balance sheet.

The effects on the opening consolidated balance sheet as at 1 January 2018, the consolidated balance sheet as at 31 December 2018 and the consolidated statement of comprehensive income for the comparative period in 2018 are explained below.

The error correction and the change in presentation resulted in of the consolidated cash flow statement neither to adjustments the cash flows from operating activities nor the Cash flows from investing and financing activities.

1. Opening consolidated statement of financial position as at 1 January 2018

1 Jan. 2018			
EUR thousand	As reported	Adjustments due to error correc-tion	Adjusted
Total assets	170,620	668	171,288
Non-current de-ferred tax assets	1,386	668	2,054
Other assets	169,234	0	169,234
Shareholders' equity	33,654	-2,003	31,651
Loss carried forward	-16,848	-2,003	-18,851
Other equity	50,502	0	50,502
Total liabilities	136,966	2,671	139,637
Pension provisions	16,528	2,671	19,199
Other liabilities	120,438	0	120,438

The adjustments as at 1 January 2018 due to error correction result from the recogni-tion through other comprehensive income of pension provisions of EUR 2,671 thousand and the deferred tax assets on them in the amount of EUR 668 thousand.

The pension provisions are recognised for the first time only against the loss carried forward. Partial recognition in other comprehensive income was not implemented, as the effects on other comprehensive income as of January 1, 2018 can only be determined with disproportionate effort in view of the history of the obligations (since 2000).

2. Consolidated statement of financial position as at 31 December 2018

1 Jan. 2018			
EUR thousand	As reported	Adjustments due to error correction	Adjusted
Total assets	166,723	525	167,248
Non-current deferred tax assets	1,382	525	1,907
Other assets	165,341	0	165,341
Shareholders' equity	33,311	-2,037	31,274
Loss carried forward	-14,107	-2,003	-16,110
Consolidated net income	896	23	919
Total other equity	-4,087	-57	-4,144
Other equity	50,609	0	50,609
Total liabilities	133,412	2,562	135,974
Pension provisions	16,225	2,562	18,786
Other liabilities	117,187	0	117,187

The error correction results in a EUR 2,562 thousand increase in pension provisions and a EUR 525 thousand increase in deferred tax assets as at 31 December 2018. In addi-tion, the earnings effects of the error correction with regard to the 2018 period are rec-ognised in equity. This relates to an ef-fect of EUR 23 thousand on consolidated net income and an effect of EUR -57 thousand on other comprehensive income (earnings effect of EUR -34 thousand).

3. Consolidated statement of comprehensive income for the period from 1 January to 31 December 2018

1 Jan.–31. Dec. 2018					
EUR thousand ("–"=expense; "+" = income)	As reported	Adjustments due to error correction IAS 8	Adjustments due to change in reporting IAS 1	Total Adjustments	Adjusted
Other income	1,887		-13	-13	1,874
Staff costs, expenses for pensions and other benefits	-64,731	227	0	227	-64,504
Expenses from impairment losses and income from reversals of impairment losses on trade receivables	-1		-843	-843	-844
Other expenses	-36,400		856	856	-35,544
Net interest expense, interest and similar expenses	1,458	-47	0	-47	1,411
Income taxes, tax expense	-356	-158	0	-158	-514
Other items of the statement of compre-hensive income	99,039	0	0	0	99,039
Consolidated net income	896	23	0	23	919
Adjustments of provisions pensions and early retirement according to IAS 19	-15	-57	0	-57	-72
-of which taxes	8	14	0	14	22
Other	815	0	0	0	815
Other comprehensive income after taxes	800	-57	0	-57	743
Total comprehensive income	1,696	-34	0	-34	1,662
Basic EPS (EUR)	0.06	0.00		0.00	0.06
Diluted EPS (EUR)	0.06	0.00		0.00	0.06

The error correction in the 2018 consolidated statement of comprehensive income consists of four items: The personnel expenses item are reduced by EUR 227 thousand; the insur-ance premiums paid in this amount are recognised as set-tlement of the pension provisions. The interest accrued on pension provisions in fiscal year 2018 resulted in interest ex-pense of EUR 47 thousand. Deferred tax ex-penses to be rec-ognised in profit or loss were also incurred in the amount of EUR 158 thousand for the change in provisions. In addition, actuarial losses of EUR 57 thousand were recognised in other comprehensive income, taking account of deferred taxes.

The adjustments pursuant to IAS 1 in conjunction with IFRS 9 break down as follows: Income of EUR 13 thousand from the reversal of impairment losses was reclassified from oth-er income to expenses from impairment losses and income from reversals of impairment losses on trade receivables. From other expenses, EUR 227 thousand was reclassified to expenses from impairment and EUR 629 thousand to ex-penses from the derecognition of receivables (EUR 856 thou-sand in total).

II. Segment reporting

Based on the segments defined on the basis of internal management, Francotyp-Postalia is divided into the four segments **Production**, **Sales Germany**, **International Sales** and **Central Functions**. The segments report according to local accounting standards.

The **Production** segment essentially includes traditional product business, which consists of the development, manufacture and distribution of franking machines, and also inserting machines and after-sales business for foreign trading partners. The segment is also home to the business with high-security solutions for the Internet of Things (IoT), central corporate areas such as procurement, Group management and parts of accounting as well as the management of the international dealer network. In the year under review, there was only one production site in Wittenberge.

SEGMENT INFORMATION 2019						
	A	B	C	D		
EUR thousand	Production	Sales Germany	International Sales	Central Functions	Group reconciliation	Total
Revenue	106,929	111,915	91,494	3,574	−104,824	209,088
– with third parties	4,525	109,838	91,346	24	3,355	209,088
– inter- /intrasegment revenue	102,403	2,077	148	3,550	−108,179	0
EBITDA	26,649	3,877	13,310	−10,768	243	33,311
Amortisation, depreciation and write-downs	3,929	5,784	8,308	379	9,016	27,416
Net interest income	−1,464	−313	1,642	328	204	397
– of which interest expense	1,715	319	303	1,225	−1,760	1,801
– of which interest income	251	6	1,945	1,553	−1,556	2,199
Other financial result	12,771	2,482	−11	23,585	−38,182	645
Shares in profit and loss of companies accounted for according to the equity method	−994					−994
Consolidated earnings before taxes and profit transfer	33,033	262	6,633	12,766	−46,751	5,943
Income taxes	−36	35	−1,722	−3,632	1,116	−4,239
Profit transfer	−23,419	−36	0	0	23,455	0
Net income	9,578	261	4,911	9,134	−22,180	1,703
Segment assets	142,912	64,203	129,640	127,910	−278,397	186,268
Investment	12,821	2,743	11,466	378	−6,244	21,164
Segment liabilities	122,762	39,837	82,317	60,499	−151,137	154,278

Sales Germany bundles and manages the German sales teams. This segment leverages synergies and optimises the processing of the individual companies’ customer potential.

The **International Sales** segment is responsible for the global distribution of franking and inserting machines via its own subsidiaries on the key markets.

The **Central Functions** segment includes Francotyp-Postalia FP Holding (separate financial statements) and FP Shared Service Europe GmbH. Revenue was generated from services for other Group companies in the reporting year.

The “Group reconciliation” column eliminates transactions between and within segments and shows adjustments in local accounting to IFRS.

SEGMENT INFORMATION 2018						
	A	B	C	D		
EUR thousand	Production	Sales Germany	International Sales	Central Functions	Group reconciliation	Total
Revenue	99,159	114,141	88,173	2,817	−100,084	204,206
– with third parties	4,221	112,037	88,067	0	−120	204,206
– inter- /intra-segment revenue	94,937	2,103	106	2,817	−99,964	0
EBITDA	10,193	2,271	22,924	−10,717	−7,375	17,296
Amortisation, depreciation and write-downs	1,792	2,254	14,383	338	−1,432	17,335
Net interest income	−1,471	−454	2,374	742	221	1,412
– of which interest expense	1,907	492	330	1,014	−2,307	1,436
– of which interest income	436	38	2,704	1,756	−2,086	2,848
Other financial result	6,473	1,712	−5	5,798	−13,917	61
Consolidated earnings before taxes and profit transfer	13,403	1,275	10,910	−4,515	−19,639	1,434
Income taxes	−82	124	2,296	696	−3,521	−514
Profit transfer	−6,311	−37	0	0	6,348	0
Net income	7,010	1,362	13,179	−3,819	−16,812	919
Segment assets	133,762	65,066	119,653	119,281	−270,514	167,248
Investment	9,192	2,836	12,950	297	−4,299	20,976
Segment liabilities	122,595	38,478	65,205	60,552	−150,856	135,974

EUR thousand	Production	Sales Germany	International Sales	Central Functions	Group reconciliation	Total
2019	A	B	C	D		
Utilisation of the provision for restructuring	0	0	0	0	0	0
Income from reversal of provisions for restructuring	1,233	416	39	667	−2,355	0
2018	A	B	C	D		
Utilisation of the provision for restructuring	0	0	0	0	0	0
Income from reversal of provisions for restructuring	62	1,071	0	685	−1,818	0
Erträge aus der Auflösung von Rückstellungen	62	1.071	0	685	−1.818	0

EUR thousand	2019	2018
Revenue from segments A-C	310,338	301,473
Revenue from Central Functions segment	3,574	2,817
Effects of finance lease adjustment	2,911	–311
Effect from adjustment IFRS 15	45	–88
Effect from other revenue corrections	399	278
	317,267	304,169
Less inter-segment revenue	108,179	99,964
Revenue according to financial statements	209,088	204,206

REVENUE BY REGION 2019 IN EUR THOUSAND

	2019	2018
Germany	110,893	112,480
USA and Canada	59,131	50,450
Europe (not including Germany)	39,064	41,276
Other regions	0	0
Revenue according to financial statements	209,088	204,206

ASSETS BY REGION 2019 IN EUR THOUSAND

	31 Dec. 2019	Current	Non-current
Germany	205,835	84,267	121,568
USA and Canada	60,257	29,992	30,266
Europe (not including Germany)	198,572	65,701	132,871
Other regions	0	0	0
	464,665	179,960	284,705
Effects of IFRS remeasurement	30,842		
Effects of write-downs on customer relationships	–218		
Effects of IFRS 16 remeasurement	13,419		
Effects at consolidation level (including elimination of intragroup balances)	–322,439		
Assets according to financial statements	186,268		

ASSETS BY REGION 2018 IN EUR THOUSAND

	31 Dec. 2018	Current	Non-current
Germany	195,467	74,801	120,666
USA and Canada	57,260	30,862	26,398
Europe (not including Germany)	185,035	59,733	125,301
Other regions	0	0	0
	437,761	165,397	272,365
Effects of IFRS remeasurement	30,762		
Effects of write-downs on customer relationships	–225		
Effects of write-downs on internally generated software	0		
Effects at consolidation level (including elimination of intragroup balances)	–301,051		
Assets according to financial statements	167,248		

LIABILITIES BY REGION 2019 IN EUR THOUSAND

	31 Dec. 2019	Current	Non-current
Germany	113,788	57,409	56,378
USA and Canada	24,562	19,896	4,666
Europe (not including Germany)	167,066	146,773	20,293
Other regions	0	0	0
	305,415	224,078	81,338
Effects of adjustment of pension provisions	13,878		
Effects of adjustment of other provisions	–1,044		
Investments of segments A-C	13,468		
Other reconciliation adjustments to IFRS	8,518		
Effects at consolidation level (including elimination of intragroup balances)	–185,958		
Liabilities according to financial statements	154,278		

LIABILITIES BY REGION 2018 IN EUR THOUSAND

	31 Dec. 2018	Current	Non-current
Germany	109,882	63,148	46,734
USA and Canada	16,550	12,786	3,763
Europe (not including Germany)	160,399	141,940	18,459
Other regions	0	0	0
	286,831	217,875	68,956
Effects of adjustment of pension provisions	11,771		
Effects of adjustment of other provisions	–1,047		
Investments of segments A-C	0		
Other reconciliation adjustments to IFRS	9,266		
Effects at consolidation level (including elimination of intragroup balances)	–170,846		
Liabilities according to financial statements	135,974		

The FP Group generates revenue from transactions with a very broad customer base. In the reporting year, the share of revenue generated with each third-party customer or group of companies considered to be a single third-party customer was less than 10 % of the revenue of the FP Group.

III. Notes to the consolidated state-
ment of comprehensive income

(1) Revenue

The following table shows revenue disaggregated by performance type. Revenue both within the scope of IFRS 15 and within the scope of IFRS 16 is shown. The table also includes the reconciliation with revenue according to segment reporting.

Disaggregation for the reporting year:

2019																	
Figures in EUR thousand	IFRS revenue					Reconciliation with segment revenue					Segment revenue						
	Production	Sales Germany	Inter-national Sales	Central Functions	Total	Production	Sales Germany	Inter-national Sales	Central Functions	Total	Production	Sales Germany	Inter-national Sales	Central Functions	Total		
Product sales income (Franking and Inserting)	2,710	9,330	20,103	23	32,167	-748	273	-102	0	-577	1,963	9,603	20,001	23	31,590		
Service / customer service	117	11,691	14,582	0	26,390	0	-5	-4,406	0	-4,411	117	11,687	10,176	0	21,979		
Consumables	1,387	7,115	15,752	0	24,255	0	-305	0	0	-305	1,387	6,810	15,752	0	23,950		
Teleporto	0	6,221	2,157	0	8,378	0	12	-266	0	-254	0	6,233	1,890	0	8,124		
Mail Services	0	57,442	0	0	57,442	0	0	0	0	0	0	57,442	0	0	57,442		
Software / Digital	1,059	15,865	149	0	17,073	0	-20	0	0	-20	1,059	15,845	149	0	17,053		
Revenue in accordance with IFRS 15	5,273	107,665	52,743	23	165,704	-748	-45	-4,775	0	-5,567	4,525	107,620	47,968	23	160,137		
Finance leases	0	1,898	12,777	0	14,675	0	-186	-5,204	0	-5,390	0	1,712	7,573	0	9,285		
Operating leases	0	27	29,030	0	29,057	0	478	6,775	0	7,253	0	505	35,804	0	36,310		
Revenue in accordance with IFRS 16 (PY: IAS 17)	0	1,925	41,807	0	43,732	0	292	1,571	0	1,863	0	2,217	43,378	0	45,595		
Reduction in revenue due to currency effects from hedge accounting	0	0	-348	0	-348	0	0	348	0	348	0	0	0	0	0		
Revenue total	5,273	109,590	94,201	23	209,088	-748	247	-2,855	0	-3,355	4,525	109,838	91,346	23	205,732		

The reconciliation with revenue according to segment reporting shows a reduction of EUR 3,355 thousand. This effect primarily relates to the elimination of finance lease classifications under IFRS and the recognition of expenses from hedge accounting of EUR 348 thousand.

Due to the allocation of transaction prices according to IFRS 15 and consideration according to IFRS 16 in conjunction with IFRS 15, there are transfers between the individual performance types under IFRS that are eliminated in the reconciliation with segment revenue.

See the disclosures in section IV. (13) Finance lease receivables for further information on leases as lessor.

Disaggregation for the comparative period:

2018	IFRS revenue				Reconciliation with segment revenue				Segment revenue			
Figures in EUR thousand	Production	Sales Germany	International Sales	Total		Sales Germany	International Sales	Total	Production	Sales Germany	International Sales	Total
Product sales income	2,520	12,847	20,251	35,619		-17	0	-17	2,520	12,830	20,251	35,602
Service/ customer service	48	8,400	14,728	23,177		105	-3,392	-3,288	48	8,504	11,336	19,889
Consumables	1,268	7,037	14,821	23,127		0	0	0	1,268	7,037	14,821	23,127
Teleporto	0	6,644	2,503	9,147		0	-403	-403	0	6,644	2,101	8,745
Mail Services	0	61,784	0	61,784		0	0	0	0	61,784	0	61,784
Software	384	14,619	4	15,007		0	0	0	384	14,619	4	15,007
Revenue in accordance with IFRS 15	4,221	111,331	52,308	167,860		88	-3,795	-3,707	4,221	111,419	48,513	164,153
Finance leases	0	336	7,699	8,036		-846	-1,609	-763	0	-510	6,090	5,580
Operating leases	0	0	28,310	28,310		816	5,154	523	0	816	33,465	34,281
Revenue in accordance with IAS 17	0	336	36,009	36,346		282	3,545	3,828	0	619	39,555	40,174
Revenue total	4,221	111,667	88,317	204,206		370	-250	120	4,221	112,038	88,068	204,327

The following table shows the contract assets and liabilities:

EUR thousand	31 December 2019	31 December 2018	Recognition
Contract assets	60	0	Other assets
of which non-current	27	0	
of which current	33	0	
Contract liabilities	12,424	11,978	Other liabilities
of which non-current	27	0	
of which current	12,397	11,978	

The contract liabilities result from accounting-related advance payments for future services or transfers of use in subsequent months. The amount recognised as at 31 December 2018 was recognised in full as revenue in the reporting year.

As the original durations of the service contracts in the FP Group do not exceed one year as a rule, FP utilises the practical expedient provided by IFRS 15.121(a). The transaction price attributable to contracted performance obligations that were not yet fulfilled as at the reporting date is therefore not disclosed.

(2) Other own work capitalised

EUR thousand	2019	2018
Capitalised development costs	13,935	7,493
Rental machinery	4,397	6,206
Other	265	375
Total	18,597	14,074

The capitalised development costs primarily include investments in the Group’s new ERP/CRM landscape of EUR 5,678 thousand, PostBase Vision with discoverFP of EUR 3,705 thousand and the development of new IoT products of EUR 1,393 thousand. Of the previous year’s capitalised development costs, EUR 2,475 thousand related to PostBase 3.0, EUR 1,152 thousand to discoverFP and EUR 844 thousand to Next Generation PSD.

Own work capitalised for rental machinery relates to internally generated leased products. The finance lease assets are refinanced.

The “Other” item contains EUR 189 thousand for intragroup sales of franking machines, which are used for operations in the respective company.

In the previous year, it primarily contained software development in connection with the licences acquired for ERP/CRM and in connection with mapping tools for IFRS 15 and IFRS 16.

(3) Other income

EUR thousand	2019	2018
Cost subsidies and grants	1,430	7
Derecognition of liabilities	568	688
Prior-period income	238	626
Usage fees	231	220
Other income	169	159
Bonus credit	115	28
Book gains from the sale of non-current assets	80	41
Commission income	10	45
Damages	10	60
Total	2,851	1,874

The derecognition of liabilities of EUR 568 thousand (previous year: EUR 688 thousand) relates among other things to the derecognition of the TIXI.Com GmbH & Co. KG earnout of EUR 100 thousand (previous year: EUR 0 thousand). The cost subsidies and grants include the EU “Studies+” project at EUR 1,421 thousand. Income relating to other periods of EUR 238 thousand (previous year: EUR 626 thousand) result primarily from credit notes.

(4) Cost of materials

EUR thousand	2019	2018
Expenses for raw materials, consumables and supplies	35,250	34,929
Cost of purchased services	66,384	66,712
of which postage fees	52,664	56,116
Total	101,634	101,641

(5) Staff costs

EUR thousand	2019	2018
Wages and salaries	51,118	55,593
Social security contributions	8,205	7,922
Expenses for pensions and other benefits	863	989
of which defined contribution plans	686	708
of which defined benefit plans	155	151
Total	60,186	64,504

The decrease in personnel expenses in the reporting year by EUR 4,318 million is mainly due to personnel-related special expenses for the ACT project JUMP in the previous year in the amount of TEUR 5,662.

(6) Expenses from impairment losses and income from reversals of impairment losses on trade receivables

EUR thousand	2019	2018
Expense from recognition of impairment (level 3)	1,396	227
Derecognition of receivables	657	629
Income from the reversal of impairment losses (level 3)	-97	-13
Income from reversals of impairment losses from trade receivables	-89	1
Payments received on derecognised receivables	-3	
Total	1,864	844

Expense from the recognition of impairment (level 3) in the reporting year was based on an increase in individual default risks.

(7) Other expenses

EUR thousand	2019	2018
Professional fees, consulting	5,289	5,302
Marketing	3,982	3,577
Sales commission	3,213	3,706
Staff-related costs	2,975	2,467
Repairs and maintenance	2,916	2,520
Packaging and freight	2,746	2,679
Purchased IT services	2,521	1,263
Travel expenses	1,901	1,749
Messaging and postage	1,487	1,615
Rents /leases	1,415	5,380
Motor vehicle costs	597	639
Prior-period expenses	99	582
Other	4,355	4,064
Total	33,496	35,544

Material changes resulted from the change in how lease expenses are recognised in accordance with IFRS 16. This primarily resulted in a decline in other expenses of EUR 3,965 thousand resulted from higher purchased IT services (EUR 2,521 thousand compared with EUR 1,263 thousand in the previous year) and increased marketing costs of EUR 3,982 thousand (previous year: EUR 3,577 thousand).

(8) Financial result

EUR thousand	2019	2018
Other interest receivable and similar income	2,199	2,848
of which from finance leases	2,126	1,958
of which from bank balances	48	47
of which from third parties	25	844
Interest and similar expenses	1,802	1,437
of which from bank liabilities	1,007	926
of which interest on the net liability for pension obligations	304	288
of which from lease liabilities	63	25
Other	428	198
Net interest income	397	1,411
Other financial income	766	1,106
Other finance costs	121	1,045
Total	1,042	1,472

As in the previous year, other financial income and other finance costs essentially result from foreign currency translation, especially the measurement of statement of financial position items at the reporting date.

It also includes expenses and income from the development of foreign exchange hedges: income of EUR 749 thousand from the fair value measurement of foreign exchange swaps (previous year: expenses of EUR 210 thousand) and expenses of EUR 105 thousand from single derivatives (previous year: income of EUR 95 thousand).

(9) Taxes

EUR thousand	2019	2018
Current tax expense	789	2,013
of which prior-period	-448	-403
Deferred tax expenses	3,450	-1,499
of which occurrence and reversal of temporary differences	3,789	1,634
of which utilisation of loss and interest carryforwards and capitalisation of new loss carryforwards	-315	-3,283
of which due to change in tax rates	-24	149
Income taxes	4,239	514

There have only been minor audit findings from the German Group tax audit for the years 2013–2015 which started in 2018, which are accounted for in provisions for income taxes. International mutual agreement procedures for the avoidance of double taxation have been initiated against the significant corrections of transfer prices for deliveries of goods by the FP GmbH entity to its foreign sales companies in the USA and the Netherlands made in the context of the tax audit for the years 2009–2012.

Deferred taxes were measured using tax rates and tax regulations valid or enacted by the end of the reporting period. Combined income tax rates consisting of corporation tax, the solidarity surcharge and trade tax were used for the German subsidiaries. Due to the expected trade tax apportionment, the German tax rates are slightly changed in comparison to the previous year in a range between 27.14 % and 30.34 % (previous year: 27.14 % to 30.56 %).

Country-specific tax rates of 17.00 % to 28.00 % (previous year: 19.00 % to 29.58 %) were calculated for the foreign companies. The tax rate adjustments result in a difference of deferred taxes of EUR -17 thousand.

EUR thousand	2019	2018
Consolidated net income before taxes	5,943	1,433
Forecast tax expense (30.18 %)	1,793	432
Tax rate differences	–427	–673
Tax effect of non-deductible expenses and tax-free income	731	330
Tax effect from impairment of goodwill	2,066	
Current and deferred income tax for previous years	–552	158
Change in recognition / non-recognition of deferred taxes assets on loss carry-forwards and deductible temporary differences	631	263
Other deviations	–3	4
Income taxes	4,239	514
Tax expense in %	71.30 %	35.90 %

Adjusted for the effects of the amortisation of the goodwill of the freesort GmbH cash-generating unit and the investment in Juconn GmbH with an effect on earnings before taxes of EUR 6,645 thousand, the FP Group’s tax expense in fiscal year 2019 amounted to 33.2 %.

(10) Earnings per share

Based on an approval resolution passed at the Annual General Meeting of the company on 16 October 2006, the Management Board of Francotyp-Postalia Holding AG resolved on 20 November 2007 to carry out a programme to buy back shares of the company. 398,493 treasury shares were acquired in total.

After treasury stock was completely depleted in connection with fulfilling the subscription rights from the 2010 stock option plan, Contingent Capital 2010 / I was utilised and the share capital was increased by EUR 55,356 in fiscal year 2016 and by EUR 86,100 in fiscal year 2017 (Section IV. (18) Equity / Contingent Capital 2010 / I).

Based on an approval resolution passed at the Annual General Meeting of the company on 11 June 2015, the Management Board resolved and announced the implementation of a share buyback programme on 9 October 2017. The buyback programme started on 13 October 2017 and ran until January 2018. By the end of the programme, the company had purchased a total of 398,493 shares.

As at the previous year’s reporting date, the company held 397,393 treasury shares or 2.4 % of the share capital as at 31 December 2019.

	2019	2018
Ordinary shares outstanding as at 1 January	15,904,063	15,950,288
Effect of treasury shares	0	–46,225
Shares issued current year	0	0
Weighted average ordinary shares (basic) as at 31 December	15,904,063	15,904,295
Effect of issued stock options	74,252	90,472
Weighted average ordinary shares (diluted) as at 31 December	15,978,315	15,994,767
Consolidated net income	1,703	919
Basic result (in EUR / share)	0.11	0.06
Diluted result (in EUR / share)	0.11	0.06

IV. Notes to the consolidated statement of financial position

(11) Intangible assets

The development in individual items of non-current assets in the reporting period and the previous year is shown in the statement of changes in non-current assets at the end of the notes (annex to the notes). The additions of fiscal year 2019 totalling EUR 728 thousand, EUR 87 thousand of which recognised as advance payments, comprise licence purchases of EUR 448 thousand and software purchases of EUR 280 thousand.

Of the additions to internally generated intangible assets and development projects in progress totalling EUR 13,944 thousand, EUR 1,344 thousand was written down in the Sales Germany segment in fiscal year 2019, primarily with regard to the FP Sign project.

Goodwill

Goodwill of EUR 4,622 thousand (previous year: EUR 10,448 thousand) breaks down into EUR 2,643 thousand (previous year, EUR 2,643 thousand) for the IAB cash-generating unit and EUR 0 thousand (previous year: EUR 5,851 thousand) for the freesort cash-generating unit; both are allocated to the Sales Germany segment. It also includes EUR 683 thousand for the operations of TIXI.Com GmbH & Co. KG (FP InovoLabs cash-generating unit in the Production segment) and EUR 1,296 thousand for PostageInk.com LLC (Francotyp-Postalia Inc. cash-generating unit in the International Sales segment).

The cumulative impairment losses for the reported goodwill amounts to EUR 18,351 thousand for freesort (previous year: EUR 12,500 thousand) and EUR 1,275 thousand for IAB (previous year: EUR 1,275 thousand).

The following tables show the results and assumptions of the impairment tests on the goodwill in the associated cash-generating units:

2019			
	FP Inovo-Labs ¹⁾	Franco typ-Postalia Inc. ²⁾	IAB
Recoverable amount CGU (value in use)	25,121	46,520	30,742
Carrying amount	3,801	32,594	5,680
Difference	21,320	13,925	25,062
Impairment	0	0	0
Threshold figure EBIT ³⁾	25.2 %	80.4 %	39.4 %
EBITDA margin trend	Increasing	Slightly decreasing	Increasing
Growth rate perpetual maturity	1.0 %	1.0 %	2.0 %
Basic assumptions			
Revenue growth range	1.0 % – 37.5 %	1.0 % – 7.2 %	1.4 % – 8.0 %
Gross margins ⁴⁾	(–7.8 %) – 19.1 %	29.2 % – 32.9 %	10.8 % – 13.4 %
Discount rate (WACC)	6.18 %	6.56 %	6.18 %
Discount rate before taxes	8.14 %	8.60 %	7.96 %

- 1) Acquisition of the business operations of Tixi.com GmbH & Co. KG as of 1 June 2018.
- 2) Acquisition of business operations of PostageInk.com LLC effective August 1, 2018.
- 3) Recoverable amount equal to the carrying amount of the cash-generating unit
- 4) EBITDA in % of revenue

2018		
	Freesort	IAB
Recoverable amount CGU	16,158	31,931
Carrying amount	14,746	6,032
Difference	1,412	25,899
Impairment	0	0
Threshold figure EBIT ¹⁾	95.0 %	0.5 %
EBITDA margin trend	Slightly increasing	Increasing
Growth rate perpetual maturity	1.0 %	2.0 %
Basic assumptions		
Revenue growth range	1.9 % – 5.2 %	1.7 % – 10.4 %
Gross margins ²⁾	1.6 % – 2.5 %	8.6 % – 11.8 %
Discount rate (WACC)	6.99 %	6.99 %
Discount rate before taxes	9.53 %	9.06 %

- 1) Recoverable amount equal to the carrying amount of the cash-generating unit
- 2) EBITDA as % of revenue

The impairment test for goodwill is based on a number of discretionary assumptions, including regarding expected business performance and the regulatory environment.

As in previous years, the freesort cash-generating unit’s operations did not perform in line with planning in fiscal year 2019. On the basis of risk-adjusted financial planning for the years from 2020 onwards, impairment of the goodwill of the freesort cash-generating unit EUR 5,851 thousand was identified and recognised as at 31 December 2019.

2019	FP InovoLabs		Francotyp-Postalia Inc.		IAB	
	Parameter		Parameter		Parameter	
	As used	Sensitivity analysis	As used	Sensitivity analysis	As used	Sensitivity analysis
Discount rate	6.18%	6.68%	6.56%	7.06%	6.18%	6.68%
Impairment		–		–		–
Fluctuation in planned EBIT	100%	90%	100%	90%	100%	90%
Impairment		–		–		–
Growth rate	1.0%	0.0%	1.0%	0.0%	2.0%	0.0%
Impairment		–		–		–

Research and development costs

	2019	2018
Research and development costs	11,579	9,552¹
of which expenses	3,625	2,059¹
of which capitalised	7,954	7,493

1) Previous year’s figures adjusted from EUR 9,669 thousand to EUR 9,552 thousand and from EUR 2,176 thousand to EUR 2,059 thousand, respectively.

In the reporting year, EUR 171 thousand (previous year: EUR 89 thousand) borrowing costs were capitalised. An average capitalisation rate of 1.74 % (previous year: 1.65 %) was applied.

On intangible assets in development, write-downs of EUR 1,344 thousand (previous year: EUR 36 thousand) were recognised in the Sales Germany segment in fiscal year 2019.

The table below shows a sensitivity analysis of the key calculation parameters for the CGUs. It indicates whether and to what extent a sensitivity analysis of the parameters used in the impairment tests (see discount rate, fluctuation in planned EBIT and growth rate in the left-hand column) results in impairment (ceteris paribus):

(12) Property, plant and equipment

The development in individual items of non-current assets in the reporting period and the previous year is shown in the statement of changes in non-current assets at the end of the notes (annex to the notes to the consolidated financial statements).

The additions in 2019 fiscal year contain the following matters:

- Fitout of the business premises of the newly founded Shared Service Europe GmbH in Hennigsdorf, Germany: EUR 126 thousand in leasehold improvements and EUR 194 thousand in operating and office equipment
- Expansion of the production site in Wittenberge, Germany: EUR 185 thousand in operating and office equipment
- Further concentration of the IAB location in Adlershof, Berlin, Germany: EUR 63 thousand in leasehold improvements and EUR 169 thousand in operating and office equipment
- Further expansion of the IoT business area of FP InovoLabs GmbH, Berlin, Germany: EUR 134 thousand in operating and office equipment

Own work capitalised of EUR 18,597 thousand (previous year: EUR 14,074 thousand) was recognised in manufacturing costs under property, plant and equipment in the reporting period.

(13) Finance lease receivables (FP as lessor)

Net investments in leases amounted to EUR 24,131 thousand as at 31 December 2019 (31 December 2018: EUR 18,187 thousand). The change of EUR 5,943 thousand breaks down as follows:

31 DEC. 2019	
EUR thousand	Total
United States	3,880
Canada	418
UK	2,651
Other	–1,006
Total	5,943

The change in the USA and Canada is based on a larger number of finance leases. This in turn is based on the change in the economic life of the leased products.

The selling profit from finance leases in the reporting year was EUR 9,940 thousand.

The interest income from the interest on the finance lease receivables amounted to EUR 2,099 thousand in the reporting year.

The following table provides an overview of the maturities of the payments from the finance leases as at 31 December 2019 with FP as lessor. It shows the contractually agreed payments that are allocable to lease components.

EUR thousand	Total	Year 1	Year 2	Year 3	Year 4	Year 5	More than 5 years
Nominal payments	28,585	8,752	7,344	6,614	4,039	2,252	585
Future interest income	–4,455						
Net leasing investment	24,130						

The comparable disclosure from the consolidated financial statements as at 31 December 2018 is reproduced below.

31 DEC. 2018				
EUR thousand	Total	Remaining term		
		Up to 1 year	1 – 5 years	More than 5 years
Future minimum lease payments	22,127	6,794	13,589	1,744
Finance charges	3,940	1,680	2,000	260
Receivables from finance leases (present value)	18,187	5,114	11,589	1,484
of which FP Vertrieb und Service GmbH	451	264	187	0
of which Francotyp-Postalia Ltd.	13,921	3,662	8,793	1,466
of which Italiana Audion s.r.l.	1,903	697	1,188	18
of which FP France SAS	1,502	428	1,074	0
of which FP Inc., Illinois, USA	156	63	93	0
of which FP Canada	254	0	254	0

EUR thousand	Total	Year 1	Year 2	Year 3	Year 4	Year 5	More than 5 years
Nominal payments	50,680	26,170	13,920	7,737	2,436	401	16

The comparable disclosure from the consolidated financial statements as at 31 December 2018 is reproduced below.

31 DEC. 2018				
EUR thousand	Total	Remaining term		
		Up to 1 year	1 – 5 years	More than 5 years
Lease payments under non-cancellable operating leases	60,465	28,203	32,224	38

There are no non-guaranteed residual values for the benefit of the lessor as at the end of the reporting period.

The following table shows the maturities of the payments from the operating leases as at 31 December 2019 with FP as lessor. It shows the contractually agreed payments without separating any shares for non-lease components. The lease and non-lease components are separated in the respective period of revenue recognition.

(14) Inventories

EUR thousand	31 Dec. 2019	31 Dec. 2018
Raw materials, consumables and supplies	5,156	4,560
Work in progress	378	769
Finished goods and goods for resale	6,823	5,864
Total	12,357	11,194

Impairment losses on inventories amount to EUR 2,389 thousand (previous year: EUR 2,014 thousand) and are reported under “Cost of materials” in the consolidated statement of comprehensive income. In the reporting period, utilisation of inventories amounted to EUR 35,250 thousand (previous year: EUR 34,929 thousand) in the consolidated statement of comprehensive income.

(15) Trade receivables

	31 Dec. 2019	31 Dec. 2018
EUR thousand – gross		
Trade receivables – Germany	7,457	7,442
Trade receivables – abroad	12,478	12,479
Total trade receivables	19,935	19,921

A net amount of EUR 18,142 thousand (previous year: EUR 18,951 thousand) was reported under trade receivables as at 31 December 2019.

IMPAIRMENT LOSSES

	EUR thousand
As at 1 January 2018	1,800
Foreign currency effects	17
Adjustment from the first-time application of IFRS 9	843
Charge for the year	359
Utilised	5
Unused amounts reversed	358
As at 31 December 2018	970
Foreign currency effects	6
Charge for the year	987
Utilised	0
Unused amounts reversed	171
As at 31 December 2019	1,793

Impairment losses

The Group applies the simplified approach in accordance with IFRS 9 to measure expected credit losses; as a result the credit losses expected over the term are used for all trade receivables. In accordance with the General Terms and Conditions, the leased machinery is returned to the FP Group if finance lease receivables are defaulted. The market prices of the assets less the return-related costs exceed the defaulted receivables.

Trade receivables based on joint credit risk characteristics and number of days past due were combined to measure expected credit losses.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 / 1 January 2019 and represent the relevant historical default rates in this period. The historical default rates are adjusted to map current and forward-looking information on macro-economic factors, which impact the ability of customers to settle receivables. As the most relevant factors, the Group has identified the gross domestic product and the employment rate of the countries in which it sells products and services and adjusts the historical loss rates on the basis of the expected changes of these factors.

On this basis, the impairment on trade receivables and contract assets as at 31 December 2019 is calculated as follows:

31 December 2019		Due	Due	Due	Due	Due
in EUR thousand	Total	Immediately	< 30 days	30–60 days	61–90 days	> 90 days
Gross carrying amount – trade receivables	19,935	6,225	8,441	3,117	635	1,516
Impairment – not credit-impaired	90	15	32	6	0	36
Impairment – credit-impaired	1,703	240	934	265	89	175

Derecognition

Trade receivables and contract assets are derecognised when there is no reasonable expectation of recovery. Indicators according to which there is no reasonable expectation of recovery and information include the failure of a debtor to agree a repayment plan with the Group and the failure to make contractual payments for a period of more than 120 days past due. Impairments on trade receivables and contract assets are shown on a net basis in the operating results as net impairment. Previously impaired amounts collected in subsequent periods are recognised in the same items.

(16) Other current assets

	31 Dec. 2019	31 Dec. 2018
EUR thousand		
Costs to obtain contracts	3,860	3,787
Deferred payments	1,492	1,222
Creditors with debit balances	3,670	2,812
Receivables from other taxes	2,560	2,302
Miscellaneous financial assets	3,623	2,377
Contract assets	33	0
Total	15,238	12,500

Costs to obtain contracts relate to commissions paid to FP Group dealers, mostly for the conclusion of leases. The costs are recognised as expense evenly over the term of the lease in question. In fiscal year 2019, EUR 1,898 thousand was amortised on costs to obtain contracts (previous year: EUR 1,900 thousand).

Receivables from other taxes mainly relate to VAT refund claims in Germany amounting to EUR 2,336 thousand (previous year EUR 2,239 thousand).

The miscellaneous financial assets relate in particular to the “Studies+” project (EUR 1,421 thousand), an EU-funded project launched in the previous year to create a data-secure digital platform for EU students. Other major items include advance payments of EUR 767 thousand (previous year: EUR 618 thousand) and deposits of EUR 322 thousand (previous year: EUR 382 thousand).

(17) Cash and cash equivalents

	31 Dec. 2019	31 Dec. 2018
EUR thousand		
Bank balances	30,235	29,941
Checks and cash on hand	273	294
Total	30,508	30,235

EUR 11,990 thousand (previous year: EUR 9,754 thousand) of bank balances are restricted. This relates to telepostage received from customers that can be accessed by customers at any time. A corresponding amount is included under other liabilities.

Bank balances have been partially pledged in connection with postal funds managed.

(18) Shareholders’ equity

Changes in equity are shown in the statement of changes in equity.

The share capital is divided into 16,301,456 no-par value bearer shares with pro rata rights to the company’s profits. Each share grants one vote at the Annual General Meeting and one dividend entitlement to the bearer of the share. The share capital is fully paid in.

Share buyback programme

Based on an approval resolution passed at the Annual General Meeting of the company on 16 October 2006, the Management Board of Francotyp-Postalia FP Holding resolved on 20 November 2007 to carry out a programme to buy back shares of the company in order to be able to acquire companies or equity investments in companies using treasury shares as acquisition currency.

A total of 370,444 shares were acquired in the period from November 2007 to April 2008, which were deducted from equity (reserve for treasury shares) on the face of the statement of financial position at cost (EUR 1,829 thousand) in accordance with IAS 32.33. After treasury stock was completely depleted in connection with fulfilling the subscription rights from the 2010 stock option plan, in 2017 the share capital was increased by EUR 86,100 and Contingent Capital 2010 /I utilised.

Based on an approval resolution passed at the Annual General Meeting of the company on 11 June 2015, the Management Board resolved and announced the implementation of a share buyback programme on 9 October 2017. The buyback programme started on 13 October 2017 and ran until January 2018. By the end of the programme, the company had purchased a total of 398,493 shares. The calculated value of treasury shares is openly deducted from equity. The difference of the purchase price is offset against capital reserves. In the future, the treasury shares are to be used to service subscription rights that have been or will be issued and exercised under stock option plans.

As at 31 December 2019, Francotyp-Postalia Holding AG held 397,393 treasury shares, equating to 2.4 % of the share capital.

The development in the number of shares outstanding can be seen in the following reconciliation:

	Number of shares outstanding
Number of shares (31 Dec. 2015)	16,160,000
Capital increase (Contingent Capital 2010 /I)	55,356
As at 31 Dec. 2016	16,215,356
Number of shares (31 Dec. 2016)	16,215,356
Buyback of treasury shares	–351,168
Capital increase (Contingent Capital 2010 /I)	86,100
As at 31 Dec. 2017	15,950,288
Number of shares (31 Dec. 2017)	15,950,288
Buyback of treasury shares	–47,325
Settlement of stock options with treasury shares	1,100
As at 31 Dec. 2018	15,904,063
Number of shares (31 Dec. 2018)	15,904,063
As at 31 Dec. 2019	15,904,063

At the Annual General Meeting on 11 June 2015, the Management Board was authorised, with the approval of the Supervisory Board, to acquire treasury shares up to a total of 10 % of the share capital at the time of this resolution. The shares acquired under this authorisation, together with other treasury shares held by the company or attributable to it in accordance with the sections 71d and 71e of the German Stock Corporation Act, (AktG) must not account for more than 10 % of the share capital at any time. The authorisation can be exercised in full or in part, and on one or more occasions. The authorisation remains in effect until 10 June 2020. The authorisation of the Management Board to acquire and use purchased treasury shares resolved by the Annual General Meeting on 1 June 2010 ended when the new authorisation became effective.

CAPITAL RESERVES		
Development in EUR thousand		
2006	IPO; 2,700,000 shares at EUR 19.00	48,600
	less expenses of the IPO after tax	-2,892
2011	net accumulated losses offset against capital reserves	-12,527
2012	cash contributions; 1,460,000 shares at EUR 2.66	3,884
	less contribution to subscribed capital and expenses of the capital increase after tax	-1,625
2014 – 2016	share subscription from the 2010 stock option plan	-820
2017	share subscription from the 2010 stock option plan	126
2018	share subscription from the 2010 stock option plan	-3
As at 31 Dec. 2019		34,743

AUTHORISATIONS FOR AUTHORISED AND CONTINGENT CAPITAL

in EUR thousand	
Contingent Capital 2010/I	515
Authorised Capital 2015/I	8,080
Contingent Capital 2015/I	6,464
Contingent Capital 2015/II	960

Contingent Capital 2010 / I

On 11 June 2015, the Annual General Meeting resolved to adjust Contingent Capital 2010 / I. The contingent capital was reduced by EUR 388,500, as the 2010 stock option plan was reduced by 388,500 options to 656,500 options. Article 4(5) of the Articles of Association on Contingent Capital 2010 was amended as follows: “The share capital of the company is contingently increased by up to EUR 656,500 through the issue of up to 656,500 new bearer shares.

Authorised Capital 2015 / I

With the approval of the Supervisory Board, by way of resolution of the Annual General Meeting on 11 June 2015, the share capital of the company can be increased on one or more occasions by up to a total of EUR 8,080,000 by issuing new bearer shares against cash or non-cash contributions by 10 June 2020. Shareholders have subscription rights to the new rights. In accordance with section 186(5) of the German Stock Corporation Act (AktG), the new shares can also be purchased by one or more banks or a syndicate of banks, with the obligation to offer these to shareholders for subscription.

The Management Board is authorised, with the approval of the Supervisory Board, to disapply shareholder’s subscription rights on one or more occasions.

Contingent Capital 2015 / I

On 11 June 2015, the Annual General Meeting also resolved to contingently increase the share capital of the company by an amount of up to EUR 6,464,000 by issuing up to 6,464,000 new bearer shares, each accounting for a pro rata amount of share capital of EUR 1.00.

The contingent capital serves to grant shares to the holders or creditors of warrant or convertible bonds, profit participation certificates or participating bonds (or combinations of these instruments) that were issued by the company or one of its direct or indirect Group companies as defined by section 18 AktG by 10 June 2020. This is only carried out to the extent that options or conversion rights from the above bonds are utilised or option or conversion obligations arising from these bonds are met, unless other means of settling the obligation are used. New shares are issued at the option or conversion price to be determined based on the above authorisation. The new shares participate in profits from the beginning of the fiscal year in which they arise as a result of options or conversion rights being exercised or conversion obligations being fulfilled.

The Management Board is authorised, with the approval of the Supervisory Board, to determine the further details for the implementation of the contingent capital increase. The Supervisory Board is authorised to amend the wording of the Articles of Association in accordance with the implementation of the contingent capital increase.

Contingent Capital 2015 / II

On 11 June 2015, the Annual General Meeting resolved to contingently increase the share capital of the company by up to EUR 959,500 by issuing up to 959,500 bearer shares. The contingent capital increase is exclusively intended to serve subscription rights granted up to 10 June 2020 on the basis of the authorisation of the Annual General Meeting on 11 June 2015 in accordance with the 2015 stock option plan. The contingent capital increase will only be implemented to the extent that the bearers of the issued subscription rights exercise their rights to subscribe to shares in the company and the company does not grant any treasury shares to serve subscription rights. The new shares participate in profits from the beginning of the fiscal year in which subscription rights are exercised.

Bonds

By way of resolution of the Annual General Meeting on 11 June 2015, the Management Board was authorised, with the approval of the Supervisory Board, to issue, on one or more occasions and in full or in partial amounts, warrant or convertible bonds, profit participation certificates, participating bonds or combinations of these instruments (collectively referred to as “bonds”) with a total nominal amount of up to EUR 200,000,000 up to 10 June 2020, and to grant the bearers or creditors (collectively referred to as “bearers”) of the respective bonds options or conversion rights to acquire bearer shares of the company accounting for a total pro rata amount of share capital of up to EUR 6,464,000 in accordance with the further conditions of the bonds and to establish the corresponding option or conversion obligations. The bonds and the options and conversion rights / obligations can be issued with a duration of up to 30 years or as perpetual instruments. Bonds can also be issued in whole or in part against contributions in kind.

The individual issues can be divided into different types of bonds with equal rights. The Management Board is authorised, with the approval of the Supervisory Board, to disapply shareholders’ subscription rights to bonds.

Contingent capital increase and 2010 stock option plan

- (i) Contingent capital increase of up to EUR 1,045,000.00 by issuing up to 1,045,000 no-par value bearer shares [...],
- (ii) to members of the Management Board of the company, to members of the management boards of affiliated companies as defined in section 15 AktG [...] and to executives of the FP Group [...] to issue subscription rights that entitle the bearers to subscribe to a maximum of 1,045,000 shares against payment of the exercise price.

The stock option plan exclusively allows for settlement in equity instruments, primarily by treasury shares and secondarily by way of a contingent capital increase.

The Annual General Meeting on 11 June 2015 resolved that 200,000 options under the 2010 stock option plan will no longer be issued.

Contingent capital increase and 2015 stock option plan

- (iii) Contingent capital increase of up to EUR 959,500.00 by issuing up to 959,500 no-par value bearer shares [...],
- (iv) to members of the Management Board of the company, to members of the management boards of affiliated companies as defined in section 15 AktG [...] and to executives of the FP Group [...] to issue subscription rights that entitle the bearers to subscribe to a maximum of 959,000 shares against payment of the exercise price.

The company can elect to use treasury shares to serve the subscription rights under the 2015 stock option plan instead of new shares if this is covered by a separate resolution to authorise passed by the Annual General Meeting.

The purpose of both stock option plans, in accordance with item 1.3 of the respective stock option plan, is “a lasting link between the interests of management and executives and the interests of the shareholders in a long-term increase in enterprise value.”

In accordance with item 2.2 of the respective stock option plan, each stock option grants the right to acquire one share in Francotyp-Postalia Holding AG.

Date of grant	Number of instru-ments (EUR k)	Con-tractual term of the option after award date	Securi-tisation	Premium at award
1 Sep. 2010	900,000	10 years	No	None
27 Apr. 2012	75,000	10 years	No	None
7 Sep. 2012	20,000	10 years	No	None
6 Dec. 2014	57,500	10 years	No	None
11 Jun. 2014	30,000	10 years	No	None
31 Aug. 2015	465,000	10 years	No	None
25 Nov. 2015	40,000	10 years	No	None
31 Aug. 2016	180,000	10 years	No	None

Of the stock options from the 2015 plan allocated in 2015 and 2016, 242,500 stock options are attributed to two active members of the Management Board of the Francotyp-Postalia Holding AG.

All the following conditions must be met for the options to be exercised under the 2010 and 2015 stock option plans:

a) Vesting period	Four years before the options can be exercised (service condition).
b) Performance target	10% increase in EBITDA (IFRS) in the consolidated financial statements for the fiscal year in which the subscription rights are awarded compared to EBITDA (IFRS) in the consolidated financial statements for the last fiscal year before being awarded. consolidated financial statements to be compared is reported after adjustment for restructuring costs, this EBITDA (IFRS) after adjustment for restructuring costs (IFRS) applies. If the performance target was not met, the subscription rights expire and can be reissued to participants of the Group. This performance target is a non-market performance condition.
c) Personal exercise conditions	The option bearer must work for either Francotyp-Postalia Holding AG or a German or foreign company of the FP Group at the time of exercise

The following overview shows the fair values of the options of the individual tranches for the 2010 and 2015 stock option plans and the underlying measurement criteria. The options were measured using a Black-Scholes option pricing model as there is no public trading of options for Francotyp-Postalia shares with the same features.

		Award date							
		SOP 2010				SOP 2015			
		1 Sep. 2010	27 Apr. 2012	7 Sep. 2012	6 Dec. 2013	11 Jun. 2014	31 Aug. 2015	25 Nov. 2015	31 Aug. 2016
31 Dec. 2019									
One option	EUR	1.37	1.31	1.17	1.85	1.82	1.07	1.07	1.07
All options	EUR thousand	335	39	0	51	0	342	43	193
31 Dec. 2018									
One option	EUR	1.37	1.31	1.17	1.85	1.82	1.07	1.07	1.07
All options	EUR thousand	335	39	0	51	0	433	43	193
Price per FP share		EUR 2.55	EUR 2.60	EUR 2.32	EUR 4.10	EUR 4.71	EUR 4.39	EUR 4.46	EUR 4.20
Exercise price ¹		EUR 2.50	EUR 2.61	EUR 2.34	EUR 3.86	EUR 4.56	EUR 4.48	EUR 4.48	EUR 3.90
Expected exercise date		31 Aug. 2015	26 Apr. 2017	6 Sep. 2017	5 Dec. 2018	10 Jun. 2019	30 Aug. 2020	24 Nov. 2020	30 Aug. 2022
Forecast average holding period in years		5	5	5	5	5	5	5	5
Expected volatility ²		74.48%	70.84%	71.31%	59.94%	52.21%	38.81%	37.41%	36.62%
Annual dividend yield ³		2%	2%	2%	2%	2%	3%	3%	3%
Matched-term, risk-free interest rate ⁴		1.32%	0.67%	0.60%	0.82%	0.44%	0.07%	0.07%	−0.48%
Expected number of exercisable stock options at award date									
Estimated annual		741,439	52,031	16,476	39,646	19,596	302,426	26,015	65,888
employee turnover Probability of an EBITDA increase		3.5%	3.5%	3.5%	7.7%	7.7%	7.8%	7.8%	7.5%
of more than 10% year on year		95%	80%	95%	95%	90%	90%	90%	50%

1) The exercise price of an option awarded is equal to the average market price (closing price) of bearer shares of the company in Deutsche Börse AG's electronic Xetra trading in Frankfurt am Main or a comparable successor system on the last 90 calendar days before the subscription right is granted, at least the amount of share capital accounted for by the share.
When exercising options, the respective option holder must pay the exercise price per share. There is a limit for members of the Management Board of Franco-
typ-Postalia FP Holding. Item 9 of the stock option plan states: "The Supervisory Board must stipulate maximum total annual remuneration (a cap) for the
Management Board in accordance with item 4.2.3 of the German Corporate Governance Code. This will be agreed in a supplementary agreement to Manage-
ment Board members' contracts before options are awarded."

2) Determined in reference to the price volatility of an FP share in the respective period.

3) Assessment takes account of the distribution behaviour of the FP Group in the past.

4) The matched-term, risk-free interest rate for the expected option term of five years (or six years) is based on the corresponding yield curve data, whereby hy-
pothetical zero bonds were derived from the current yields of coupon bonds of the Federal Republic of Germany.

	SOP 2010		SOP 2015	
Options	Number	Average exercise price in EUR	Number	Average exercise price in EUR
As at 31 Dec. 2016	419,200	2.69	670,000	4.32
Granted in fiscal year	0	n/a	0	n/a
Forfeited in fiscal year	0	n/a	-45,000	4.48
Exercised in fiscal year	-86,100	2.46	0	n/a
Expired in fiscal year	0	n/a	0	n/a
As at 31 Dec. 2017	333,100	2.74	625,000	4.31
Range of exercise price		2.50-3.86		3.90-4.48
Average remaining term as at 31 Dec. 2017		42 months		96 months
Exercisable as at 31 Dec. 2017	333,100	2.74	0	n/a
As at 31 Dec. 2017	333,100	2.74	625,000	4.31
Granted in fiscal year	0	n/a	0	n/a
Forfeited in fiscal year	-30,000	3.86	0	n/a
Exercised in fiscal year	-1,100	2.50	0	n/a
Expired in fiscal year	0	n/a	0	n/a
As at 31 Dec. 2018	302,000	2.63	625,000	4.31
Range of exercise price		2.50-3.86		3.90-4.48
Average remaining term as at 31 Dec. 2018		27 months		84 months
Exercisable as at 31 Dec. 2018	302,000	2.63	0	n/a
As at 31 Dec. 2018	302,000	2.63	625,000	4.31
Granted in fiscal year	0	n/a	0	n/a
Forfeited in fiscal year	0	n/a	-85,000	4.48
Exercised in fiscal year	0	n/a	0	n/a
Expired in fiscal year	0	n/a	0	n/a
As at 31 Dec. 2019	302,000	2.63	540,000	4.29
Range of exercise price		2.50-3.86		3.90-4.48
Average remaining term as at 31 Dec. 2019		15 months		72 months
Exercisable as at 31 Dec. 2019	302,000	2.63	360,000	4.48

As at 31 December 2019, EUR 92 thousand (previous year: EUR 110 thousand) resulting from the 2015 stock option plan was recognised under staff costs with an offsetting entry in equity (stock option reserve).

Other comprehensive income

Currency translation adjustment

The effects of the currency translation of foreign financial statements are recognised in the currency translation adjustment. In the reporting year, the effect amounted to EUR 1,474 thousand (previous year: EUR 1,173 thousand).

Net investments in foreign operations

In connection with the acquisition of shares in Franco Frankerings Interessenter AB (formerly: Carl Lamm Personal AB), FP GmbH substantially refinanced Francotyp-Postalia Sverige AB. As the repayment of the financing in question by Francotyp-Postalia Sverige AB to FP GmbH is not expected in the foreseeable future, the refinancing of Francotyp-Postalia Sverige AB by FP GmbH is seen as a net investment in a (Swedish) operation. The currency difference resulting from translation after deferred taxes of (net) EUR –25 thousand (previous year: EUR –66 thousand) is recognised in other comprehensive income in accordance with IAS 21.32f.

In line with the liquidity planning at Francotyp-Postalia Canada Inc. (Canada), a repayment of the recognised liability to FP GmbH is not expected in the foreseeable future. For this reason, for the first time FP GmbH is recognising this monetary position as a net investment in a (Canadian) business. The currency difference resulting from translation after deferred taxes of (net) EUR 33 thousand (previous year: EUR -19 thousand) is recognised in other comprehensive income in accordance with IAS 21.32f.

Adjustment due to IAS 19

The adjustment due to IAS 19 relates to the recognition of actuarial gains and losses from provisions for pensions and similar obligations. The change in this item of EUR -1,732 thousand in the reporting year is primarily attributable to actuarial losses from the year-on-year change in discount rates (previous year: EUR -72 thousand).

Reserve for cash flow hedges

The reserve for cash flow hedges comprises the effective portion of the cumulative net changes in the fair value of hedging instruments used to hedge cash flows until their subsequent recognition in profit or loss or direct recognition in the cost or carrying amount of a non-financial asset or liability. Accordingly, the reserve for cash flow hedges includes changes in the spot component of forward exchange transactions as well as changes in the intrinsic value of FX options recognized in other comprehensive income and amounts to EUR -492 thousand as at 31 December 2019 (previous year: EUR -70 thousand).

Reserve for hedging costs

The hedge cost reserve shows gains and losses on the portion excluded from the designated hedge that relates to the forward element of a forward foreign exchange contract or the fair value of an option contract. These are initially recognized as other comprehensive income and accounted for in the same way as gains and losses on the hedging reserve. The reserve for hedging costs includes changes in the forward component of forward exchange contracts recognized in other comprehensive income as well as changes in the fair value of the FX options and amounted to EUR -69 thousand as at 31 December 2019 (previous year: EUR -126 thousand).

Distribution of a dividend

In 2019, there was a dividend distribution of EUR 477,121.89, equating to EUR 0.03 per share (previous year: EUR 1,908,355.56, equating to EUR 0.12). With reference to the proposal for the appropriation of the distributable profit, please see the comments in the section "Significant events after the end of the reporting period".

DISTRIBUTION POTENTIAL IN ACCORDANCE WITH HGB IN EUR	
	31 Dec. 2019
Issued capital	16,301,456.01
Treasury shares	–397,393.00
Issued capital	15,904,063.01
Net retained profits	37,801,996.46
Net retained profits	13,672,283.57
Shareholders' equity	67,378,343.03
– Issued capital	–15,904,063.01
– Capital reserves	–37,801,996.46
– Distribution restriction as per section 268(8) and section 253(6) HGB	–126,512.00
Distribution potential	13,545,771.57

(19) Provisions for pensions and similar obligations

There are defined benefit pension plans in some cases for employees’ occupational pensions in Germany, Austria, France, the Netherlands and Italy.

Under a works agreement dated 9 July 1996 concerning the German companies, the beneficiaries of these plans are all employees who began work before 1 January 1995. Benefits in the form of pensions, disability and survivors’ benefits are granted to employees after completing ten eligible years. The amount of pension commitments is based on the duration of employment and employees’ pay.

Furthermore, in accordance with the “Pension Policy for Above-scale Employees” as amended January 1986, employees above the general pay scale are also entitled to pensions, disability and survivors’ benefits. The beneficiaries have to have been employed before 1 January 1994 and have completed at least ten years of service. The amount of pension commitments is based on the duration of employment and employees’ pay.

Death benefits are payable to the surviving dependants of employees in accordance with the framework collective agreement for employees and the works agreement dated 30 December 1975. The benefits are dependent on the duration of employment and employees’ pay and are paid as a fixed amount.

In addition, some European subsidiaries are legally obliged to set up pension plans. These plans provide for a one-time payment at the end of employment. The amount of payments is based on the duration of employment and employees’ pay. In the Netherlands, there is a defined benefit plan under which the increases in obligations attributable to the years are covered by the annual purchases of insurance.

In particular, there are actuarial risks such as longevity risk or interest rate risks in con-nection with defined benefit plans.

This is based on the following key actuarial assumptions for the calculation of the defined benefit obligation as at the end of the reporting period:

	31 Dec. 2019	31 Dec. 2018
in % per year		
Interest rate	0.72 – 0.90	1.60 – 1.70
Salary trend	1.62 – 3.00	1.62 – 3.00
Pension trend	1.62 – 2.00	1.62 – 2.00

The biometric data, such as mortality and disability, for pensions in Germany is based on the updated 2018 G by Prof. Dr. Klaus Heubeck mortality tables, which are generally accepted for the measurement of occupational pension commitments. For the defined benefit pension plan in the Netherlands, the Dutch Actuarial Society’s mortality tables (AG 2018) are used.

	Defined benefit obligation	
EUR thousand		
	2019	2018
As at 1 Jan. of the reporting period	18,786	19,199
In profit or loss		
Current service cost	155	150
Interest expense (+)/income (–)	306	288
In other comprehensive income		
Remeasurement		
Actuarial gains and losses		
from changes in biometric assumptions	–28	103
from changes in financial assumptions	2,831	66
due to experience adjustments	–400	–121
Expenses on plan assets (not including above interest income)	–	–
Other		
Employer contributions to pension plan	–318	–227
Payments from pension plan	–741	–672
As at 31 Dec. of the reporting period	20,591	18,786

DEFINED BENEFIT OBLIGATION		
in percent	31 Dec. 2019	31 Dec. 2018
Active beneficiaries	18.5	18.6
Beneficiaries who have left the company	29.9	27.8
Retired employees	51.6	53.6

All pension commitments are vested.

The weighted average term of pension commitments is 15.0 years as at 31 December 2019 (previous year: 14.6 years).

MATURITY OF THE UNDISCOUNTED PENSION OBLIGATIONS		
in EUR thousand	31 Dec. 2019	31 Dec. 2018
Up to 1 year	743	656
1 – 5 years	3,122	3,107
6 – 10 years	3,845	3,924
More than 10 years	15,738	16,777
Total	23,448	24,464

The table blow shows the effect of the change in actuarial assumptions on defined benefit obligations as at 31 December 2019:

EFFECT ON DEFINED BENEFIT OBLIGATIONS AS AT 31 DEC. 2019		
in EUR thousand	Increase	Decrease
Interest rate (change of 1.00 %)	–2,868	3,658
Salary trend (change of 0.50 %)	2,154	–1,955
Pension trend (change of 0.25 %)	1,091	–1,037
Life expectancies (change of 1 year)	982	–954

The sensitivity calculations were performed in isolation for the key actuarial assumptions in order to show their effects on defined benefit obligations calculated as at 31 December 2019 separately.

(20) Tax assets and liabilities

TAX ASSETS		
in EUR thousand	31 Dec. 2019	31 Dec. 2018
Deferred tax assets	1,503	1,907
Current tax liabilities	2,821	2,446
Tax assets (non-current)	4,324	4,353
Receivables (current; other assets)	1,573	157
Tax assets (total)	5,897	4,510

Deferred tax assets and liabilities are recognised as follows in relation to measurement differences on individual items of the statement of financial position and tax loss carryforwards:

EUR thousand	Net as at 31 Dec. 2018	Amend- ment to IAS 8	Recog- nised in the income statement	Recog- nised in other compre- hensive income	Recog- nized directly in equity	Other	Net as at 31 Dec. 2019	Deferred tax assets	Deferred tax liabilities
Intangible assets	-8,253		-8,253	-974	6		-9,221	40	-9,261
Property, plant and equipment	466		466	-3,196	76		-2,654	4,823	-7,476
Receivables and other assets	-364		-364	69	161	-11	-147	566	-713
Other items	-776		-776	776			0	0	0
Provisions	2,688	525	3,213	-657	671		3,227	5,100	-1,873
Liabilities	1,316		1,316	848			2,164	2,901	-737
Tax loss carryforwards	6,082		6,082	-315			5,767	5,767	0
Total	1,159	525	1,684	-3,450	914	-11	-863	19,197	-20,060
Tax offset					0			-17,693	17,693
Group carrying amount							0	1,503	-2,367

The deferred tax assets for loss carryforwards are based on the expectation that loss carryforwards can be offset against future taxable profits.

No deferred tax assets were recognised for loss carryforwards of EUR 2,203 thousand (previous year: EUR 1,822 thousand) and deductible temporary differences of EUR 291 thousand (previous year: EUR 151 thousand). The deferred taxes not capitalised are based on loss carryforwards of EUR 8,292 thousand (previous year: EUR 6,861 thousand). These tax loss carryforwards relate particularly to Freesort as well as subsidiaries in France and Italy.

As at the end of the reporting period, there were deferred tax liabilities of EUR 201 thousand (previous year EUR 129 thousand) from outside basis differences amounting to EUR 666 thousand, which were not recognised separately because the requirements of IAS 12.39 were met.

To avoid possible double taxation due to the transfer pricing adjustments in the German Group tax audit for the years 2009–2012, Francotyp-Postalia initiated corresponding mutual agreement procedures in the countries impacted.

The relevant claims to reimbursement expected from the international mutual agreement in Germany and abroad were recognised with a non-current tax receivable of EUR 2,821 thousand (previous year: EUR 2,446 thousand). The measurement of the tax receivable at the management's discretion was based on an estimate of the most likely result of the realisation of the receivable.

(21) Other provisions (current) and provisions (non-current)

EUR thousand	As at 1 Jan. 2019	Currency differences	Utilisation	Unused amounts reversed	Charge for the year	As at 31 Dec. 2019
Staff provisions	6,792	36	-3,773	-990	4,793	6,858
Restructuring	4,351	0	-13	-809	696	4,226
Warranties	240	1	-49	0	0	192
Invention royalties	233	0	-159	-65	215	225
Litigation costs	230	2	-88	-19	125	249
Licence costs	135	0	0	0	0	135
Discounts and rebates	125	0	-125	0	23	23
Anticipated losses	6	0	-18	0	14	3
Miscellaneous provisions	1,195	0	-573	-211	632	1,044
(Other) provisions	13,307	38	-4,797	-2,093	6,500	12,955

All other provisions reported under non-current liabilities in the consolidated statement of financial position have a remaining term of more than one year. The interest effect of interest accrued on and the discounting of non-current provisions is EUR 1 thousand (previous year: EUR 1 thousand).

Staff provisions essentially include provisions for severance payments, anniversary provisions, obligations under semi-retirement plans and bonuses.

The plan to restructure the FP Group as part of the ACT project JUMP, drawn up in fiscal year 2018, was continued in the reporting year. Of the restructuring provisions of EUR 4,351 thousand recognised in the 2018 consolidated financial statements, EUR 13 thousand was utilised and EUR 809 thousand reversed to profit or loss in connection with the review as at the end of the reporting period. A range of measures will be implemented in 2020. The continued implementation of the project resulted in an addition of EUR 696 thousand in the reporting year. Besides further measures in Germany, this also affected the subsidiary in Italy. The employees impacted and the employee representatives were informed of the measures. The measures will be implemented in 2020 and 2021. The restructuring costs in-

clude costs for terminations, advisory costs and termination benefits as a result of the termination of employment relationships. The estimated costs are based on the conditions of the relevant contracts. In addition, probability-weighted assumptions were used to determine the value, particularly in the areas of personnel expenses and estimated acceptance rates.

Miscellaneous provisions include risks for other taxes and interest from audits of EUR 698 thousand (previous year: EUR 1,147 thousand) and EUR 306 thousand (previous year: EUR 226 thousand) for outstanding invoices.

The obligations under semi-retirement plans of EUR 331 thousand (previous year: EUR 357 thousand) are based on the following key actuarial assumptions:

	31 Dec. 2019	31 Dec. 2018
in % per year		
Interest rate	-0.26	-0.23
Salary trend	3.00	3.00

The anniversary provisions (EUR 202 thousand; previous year: EUR 212 thousand) are based on the following key actuarial assumptions:

	31 Dec. 2019	31 Dec. 2018
in % per year		
Interest rate	1.60	1.60
Salary trend	3.00	3.00

The biometric data, such as mortality and disability, for pensions in Germany is based on the updated mortality tables 2018 G by Prof. Dr. Klaus Heubeck.

The provisions for litigation costs essentially relate to expected costs for pending legal disputes.

Provisions for warranties were recognised for products sold on the basis of past experience.

The income from the reversal of provisions of EUR 2,093 thousand (previous year: EUR 1,540 thousand) essentially relates to provisions for bonuses and severance payments of EUR 971 thousand, provisions for restructuring measures of EUR 809 thousand and provisions for uncertain liabilities of EUR 211 thousand.

	31 Dec. 2019			31 Dec. 2018		
in EUR thousand	Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years	Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years
Staff provisions	6,858	5,362	1,496	6,791	5,456	1,335
Restructuring	4,226	2,388	1,838	4,351	4,351	0
Warranties	192	192	0	240	240	0
Invention royalties	225	225	0	234	234	0
Licence costs	135	135	0	135	135	0
Discounts and rebates	23	23	0	125	125	0
Litigation costs	249	249	0	230	230	0
Anticipated losses	3	3	0	6	6	0
Miscellaneous provisions	1,044	1,003	40	1,194	1,160	34
(Other) provisions	12,955	9,580	3,374	13,306	11,937	1,369

(22) Liabilities

	31 Dec. 2019			31 Dec. 2018		
in EUR thousand	Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years	Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years
Liabilities to banks	38,398	7	38,391	38,805	9	38,796
Finance lease liabilities ¹	0	0	0	471	179	292
Lease liabilities	11,245	3,479	7,766	--	--	--
Other financial liabilities	600	600	0	0	0	0
Liabilities to non-consolidated associates	6	6	0	6	6	0
Financial liabilities	50,249	4,092	46,157	39,282	193	39,089
Trade payables	14,581	14,581	0	13,969	13,969	0
Other liabilities						
from taxes	1,978	1,978	0	1,287	1,287	0
for social security contributions	408	408	0	344	344	0
from teleporto	27,119	27,119	0	24,081	24,081	0
to employees	1,608	1,608	0	1,762	1,762	0
from derivatives	1,962	1,962	0	2,606	2,606	0
from contract liabilities (from deferral accounts)	12,424	12,397	27	11,978	11,978	0
Miscellaneous liabilities	5,324	5,324	0	5,089	5,060	28
Other liabilities	50,823	50,796	27	47,146	47,118	28
Total	115,653	69,468	46,184	100,397	61,280	39,117

1) As at 31 December 2018, there were finance lease liabilities of EUR 471 thousand under IAS 17. With effect from 1 January 2019, the obligations arising from such contracts are recognised as lease liabilities in accordance with IFRS 16.

Liabilities to banks amounting to TEUR 38,391 (previous year TEUR 38,796) are due to an international banking consortium. The syndicated loan was modified in fiscal year 2018. For further details, see Section IV. (23) 4. Liquidity risks.

In accordance with the syndicated loan agreement in place on 31 December 2019, an interest rate pegged to EURIBOR has been determined for the individual loans. Due to the current negative interest rates for 3-month EURIBOR and 6-month EURIBOR, interest rate hedging was not sensible as at the reporting date.

The financing agreements concluded in previous years do not result in any contractual payment obligations in 2019. Accordingly, the liabilities are reported with a remaining term of more than one year.

Trade payables also include obligations to KPMG for the preparation of income tax returns in the amount of EUR 130 thousand.

Teleporto liabilities relate to customer funds held in trust.

The contract liabilities / deferral accounts of EUR 12,424 thousand (previous year: EUR 11,978 thousand) include deferred revenue received in accordance with IFRS 15 and IFRS 16.

(23) Financial instruments

In the context of its operating activities, the FP Group is exposed to credit risks, liquidity and market risks in the financial sector. In particular, market risks relate to interest rate and exchange rate risks. Detailed information on risk management can be found below. The following information refers exclusively to the quantitative effects of risks in the fiscal year. These risks affect the following financial assets and liabilities.

Classes of financial instruments

FINANCIAL ASSETS AND LIABILITIES		
EUR thousand	31 Dec. 2019	31 Dec. 2018
Financial liabilities at amortised cost		
Trade receivables	18,142	18,951
Other financial assets	7,293	5,189
Cash and cash equivalents	30,508	30,235
Financial assets at fair value through profit or loss		
Securities	–	671
Not assigned to a measurement category		
Asset derivatives with a hedging relationship	-	19
Finance lease receivables	24,131	18,187
Finance lease receivables		
Liabilities to banks	38,398	38,805
Trade payables	14,592	13,969
Other financial liabilities	32,443	29,170
Not assigned to a measurement category		
Liabilities derivatives with a hedging relationship	285	181
Lease liabilities (previous year: finance lease liabilities) as lessee	11,245	471
Financial liabilities at fair value through profit or loss		
Liability derivatives with negative time values without a hedging relationship	1,676	2,425

On the reporting date, the maximum exposure to credit risk is the carrying amount of the financial assets in each of the above categories.

For the other financial liabilities, the reported carrying amount is the cash payment in the following year.

The table below shows the fair values of financial assets and financial liabilities including their level in the fair value hierarchy: It includes no information on the fair value for financial assets and financial liabilities, which were not measured at fair value, when the carrying amount is a reasonable approximation of fair value.

Trade and other receivables and other trade payables are not included in the following table. Their carrying amount is a reasonable approximation of the fair value.

FINANCIAL ASSETS AND LIABILITIES					
Figures in EUR thousand	Fair value 31 Dec. 2019	Fair value 31 Dec. 2018	Measurement method	Significant unobservable inputs	Hierarchy
Financial assets at fair value through profit or loss					
Securities	–	671	Quoted market price	Not applicable	Level 1
Derivative financial instruments with positive fair values	–	19	Market comparison method: the fair values are based on brokers’ price quotations	Not applicable	Level 2
Financial liabilities at fair value through profit or loss					
Derivative financial instruments with negative fair values	1,962	2,606	Market comparison method: the fair values are based on brokers’ price quotations	Not applicable	Level 2

There were no reclassifications between measurement classes of financial instruments in the reporting year.

The fair values of financial assets and liabilities are calculated based on market prices (Level 1) or discounted cash flows (Level 2).

At the end of the reporting period, an examination is made whether reclassifications between measurement hierarchies is required.

The securities recognised in the previous year with a fair value of EUR 671 thousand as at 31 December 2018 were units held for trading in a capital appreciation fund that predominantly invested in interest-bearing securities, money market instruments and demand deposits. The recognised securities were sold in August 2019.

Risk management

The FP Group is exposed to certain financial risks in its business activities, covering in particular currency fluctuations, interest rate risk, liquidity risk and bad debts. The overall risk management system of the Group takes into account the unpredictability of financial markets and aims to minimise the negative impact on the result of operations of the Group. The Group uses certain financial instruments to achieve this goal.

For further details on the qualitative information on risk management and financial risks, please see the risk report in the Group management report.

No further significant risk clusters in relation to financial instruments have been identified. The framework, responsibilities, financial reporting procedures and control mechanisms for financial instruments are set out in internal regulations for the Group. This includes a separation of duties between the monitoring and controlling of financial instruments. The currency, interest rate and liquidity risks of the FP Group are managed centrally.

1. Foreign currency risks

Given its global operations, the FP Group is exposed to foreign exchange risks in its ordinary activities. Foreign currency risks arise from statement of financial position items, from pending transactions in foreign currencies and cash inflows and outflows in foreign currencies. Derivative financial instruments are used to minimise these risks.

I. Translation risks:

Income from translation differences and hedges of EUR 766 thousand (previous year: EUR 1,106 thousand) and expenses of EUR 121 thousand (previous year: EUR 1,045 thousand) were recognised in net finance costs in the reporting year.

II. Transaction risks:

The risk is mainly mitigated by invoicing business transactions (sales and purchases of products and services as well as investing and financing activities) in the respective functional currency. Moreover, it offsets the foreign currency risk in part by procuring goods, raw materials and services in the corresponding foreign currency.

Operating units are prohibited from borrowing or investing funds in foreign currencies for speculative reasons. Intra-group financing or investments are preferably carried out in the respective functional currency. Corporate financing is organised and carried out by FP Holding and Francotyp-Postalia GmbH.

With all other parameters remaining constant, the following table shows the sensitivity of consolidated net income before taxes and consolidated equity to possible changes in the exchange rates relevant to the FP Group (GBP, USD, CAD, SEK). The unhedged transactions in the relevant currencies (net risk position) and the existing financial instruments and net investments in accordance with IAS 21 were used as the benchmark for the calculated sensitivities.

DERIVATIVE FINANCIAL INSTRUMENTS			
EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2019			
GBP	+5 %	704	–193
	–5 %	–667	174
2018			
GBP	+5 %	654	–138
	–5 %	–635	125

DERIVATIVE FINANCIAL INSTRUMENTS			
EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2019			
USD	+5 %	0	–557
	–5 %	0	555
2018			
USD	+5 %	0	–642
	–5 %	0	580

DERIVATIVE FINANCIAL INSTRUMENTS			
EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2019			
CAD	+5 %	0	–85
	–5 %	0	77
2018			
CAD	+5 %	0	0
	–5 %	0	0

NET RISK POSITION			
EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2019			
GBP	+5 %	46	0
	–5 %	–42	0
2018			
GBP	+5 %	0	0
	–5 %	0	0

NET RISK POSITION			
EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2019			
USD	+5 %	563	0
	–5 %	–509	0
2018			
USD	+5 %	441	0
	–5 %	–399	0

NET RISK POSITION			
EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2019			
CAD	+5 %	101	0
	–5 %	–91	0
2018			
CAD	+5 %	135	0
	–5 %	–122	0

NET RISK POSITION			
EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2019			
SEK	+5 %	90	0
	–5 %	–82	0
2018			
SEK	+5 %	77	0
	–5 %	–70	0

NET INVESTMENTS			
EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2019			
SEK	+5 %	0	102
	–5 %	0	–92
2018			
SEK	+5 %	0	104
	–5 %	0	–94

NET INVESTMENTS			
EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2019			
CAD	+5 %	0	39
	–5 %	0	–36
2018			
CAD	+5 %	0	37
	–5 %	0	–33

The Group used foreign exchange forward transactions and FX options to hedge foreign exchange risks from anticipated future cash inflows in US dollars (USD), Canadian dollars (CAD) and pound sterling (GBP). According to Group guidelines, the material contractual terms of the forward transactions and options must be consistent with the hedged items.

The FP Group recognises all changes (including the forward element as hedging costs) of the fair value of foreign exchange future contracts and FX options in equity.

In accordance with IFRS 9, changes to the forward elements of foreign exchange transactions and the time value of options which relate to the hedged items are deferred in the hedging reserve.

To minimise earnings fluctuations, hedging transactions together with the underlying transactions were transferred to a new hedging unit as at 31 December 2019, taking account of the provisions of IFRS 9.

Overview of hedge accounting relationships as per IFRS as at 31 December 2019:

Currency	Total expected cash flow in foreign currency	Hedged volume in foreign currency (31 Dec. 2019)	Average hedged price	Type of hedge	Carrying amount as at 31 Dec. 2019	Effectiveness test / effective part, spot element	Effectiveness test / ineffective part	Undesignated part of the hedge, forward element
					Other current assets / liabilities	Reserve for cash flow hedges	Income statement	Reserve for hedging costs
USD	28,200,000	12,000,000	1.1445 EUR / USD	Currency forward / cash flow hedge	-71,038.00	22,439	-	-93,477
			1.1452 EUR / USD	FX collar / cash flow hedge	-70,599.64	-101,882	-	31,282
GBP	3,900,000	3,155,000	0.8798 EUR / GBP	Currency forward / cash flow hedge	-96,414.73	-81,921	-	-14,494
CAD	5,200,000	2,400,000	1.5188 EUR / CAD	Currency forward / cash flow hedge	-47,262.32	-24,518	-	-22,744

Overview of hedge accounting relationships as per IFRS as at 31 December 2018:

Currency	Total expected cash flow in foreign currency	Hedged volume in foreign currency (31 Dec. 2018)	Average hedged price	Type of hedge	Carrying amount as at 31 Dec. 2019	Effectiveness test / effective part, spot element	Effectiveness test / ineffective part	Undesignated part of the hedge, forward element
					Other current assets / liabilities	Reserve for cash flow hedges	Income statement	Reserve for hedging costs
USD	24,000,000	14,400,000	1.18 EUR / USD	Currency forward / cash flow hedge	-181,104.24	-6,587	-	-174,517
GBP	2,400,000	2,400,000	0.897 EUR / GBP	Currency forward / cash flow hedge	18,935.21	26,136	-	-7,201

The FP Group is anticipating cash flows in US dollars of USD 24,000 thousand in 2020 from the operating activities of its US subsidiary. As at the end of December 2019, currency forwards and FX options with a fixed maturity in the amount of USD 12,000 thousand were concluded.

The FP Group is anticipating cash flows in GBP of GBP 3,900 thousand in 2020 from the operating activities of its subsidiary in the United Kingdom. As at the end of December 2019, currency forwards with a fixed maturity in the amount of GBP 3,155 thousand were concluded. The FP Group expects cash flows in CAD from the operating activities of the subsidiary in Canada in 2020 in the amount of TCAD 5,200. Forward exchange transactions with fixed maturity were concluded in the amount of TCAD 2,400 at the end of December 2019.

Taking account of the currency hedges in place at the reporting date, the following net risk positions result:

Currency	Expected cash flows (inflows) in foreign currency	Hedged in a cash flow hedge	Net risk in foreign currency
GBP thousand	3,900	3,155	745
USD thousand	24,000	12,000	12,000
CAD thousand	5,200	2,400	2,800
SEK thousand	17,900	0	17,900

Taking into account the currency hedges concluded as at 31 December 2018, the following net risk positions resulted in the previous year:

Currency	Expected cash flows (inflows) in foreign currency	Hedged in a cash flow hedge	Net risk in foreign currency
GBP thousand	2,400	2,400	0
USD thousand	24,000	14,400	9,600
CAD thousand	4,000	0	4,000
SEK thousand	15,000	0	15,000

Additional currency risks were concluded as individual derivative transactions. According to IFRS 9 these are not defined as hedges required for hedge accounting. This relates to the following transactions:

Currency	Nominal volume in foreign currency	Type of hedge	Market value as at 31 Dec. 2019
GBP thousand	12,000	Currency swap	-1,676

2. Interest rate risks

The risk of fluctuations in market interest rates, to which the FP Group is exposed, predominantly results from long-term liabilities with variable interest rates. The finance department of the Group manages the interest rate risk with the aim of optimising the net interest income of the Group and minimising the total interest rate risk. The financing requirements of companies in the FP Group are covered by intragroup loans or intragroup clearing accounts.

No interest hedges were concluded in fiscal year 2019.

The new loan agreement concluded in June 2016 and modified in September 2018 provides for an interest rate on the basis of a variable reference interest rate (3-month EURIBOR or 6-month EURIBOR) plus a credit margin. Due to the ongoing low interest rate environment (negative interest rate for (3-month EURIBOR and 6-month EURIBOR), at the present moment in time an interest hedge would mean unnecessary hedging costs.

However, all interest and currency risks are being monitored on an ongoing basis, and hedging can be concluded promptly if it becomes necessary.

Floating rate financial instruments are exclusively liabilities to banks. The following table shows the sensitivity of consolidated net income before taxes and consolidated equity to a reasonable possible change in interest rates. All other variables remain constant. The average amount of loans for the year was used as the benchmark for sensitivity.

in EUR thousand	Change in percentage points	Effect on consolidated net income before taxes	Effect on equity before taxes
2019	+1 %	-267	0
	-1 %	0	0
2018	+1 %	-305	0
	-1 %	0	0

The carrying amount of financial assets is the maximum risk of default in the event that counterparties fail to meet their contractual payment obligations. For all contracts on which primary financial instruments are based, depending on the type and volume of the contract, collateral is required, credit information/ references are obtained or historical data from previous business relations (e.g. analysis of payment performance) are used to minimise the risk of default. In accordance with the terms and conditions of Francotyp-Postalia, there is a retention of title to goods purchased until all payments have been received in full. If a customer leasing machinery is in arrears or if a lessor refuses to execute a contract despite warnings, the customer is required to return the leased assets to Francotyp-Postalia and to pay damages on termination of the contract.

The default risk of the FP Group is impacted primarily by the individual characteristics of the customers. However, the Management Board also takes into account the entire customer base, including the default risk of the industry and the countries in which the customers operate, as these factors could also impact the default risk.

The FP Group concludes derivative financial instruments on the basis of netting agreements. In general, with these agreements the amounts owed from all transactions of the respective contractual partners on a specific individual day within our currency are offset and paid from one contract partner to the other contract partner as one amount. In special circumstances – for example in the case of a credit event such as a default, all outstanding transactions under the agreement are ended and a total amount determined by offsetting all transactions. This amount is then payable.

The following table shows the carrying amounts of the recognised financial instruments subject to such an agreement as at 31 December 2019:

Description (Figures in EUR thousand)	Gross amount of the financial instruments recognised in the statement of financial position	Relevant not recognised financial instruments	Net amount
Derivative financial instruments with positive fair values	-	-	-
Derivative financial instruments with negative fair values	1,962	-	1,962

Description (Figures in EUR thousand)	Gross amount of the financial instruments recognised in the statement of financial position	Relevant not recognised financial instruments	Net amount
Derivative financial instruments with positive fair values	19	-19	-
Derivative financial instruments with negative fair values	2,606	-19	2,587

The liquidity risks of the Group are that it may no longer be able to meet its financial obligations (for instance, the repayment of financial liabilities, the payment of suppliers or fulfilment of finance lease obligations). The FP Group limits these risks with working capital and cash management. Liquidity risks are addressed by a liquidity forecast for the entire Group. In addition, measures to secure additional liquidity are used on the basis of utilising customer receivables (factoring).

To finance itself, the FP Group primarily uses cash flow from operating activities as well as loan agreements with financial institutions and finance leases that are either already in place or are adjusted during the year.

In accordance with the new syndicated loan agreement, the FP Group has undertaken to comply with two defined financial covenants.

In accordance with the existing change of control clause in the syndicated loan agreement, a change of control occurs when a person or a group of people acting in concert directly or indirectly hold over 30 % of the voting rights or shares in Francotyp-Postalia Holding AG.

In the event of a change of control and after a written request from a creditor, all loans (including interest) from the creditor become due for repayment within 30 days.

The finance lease liabilities, trade payables and other liabilities mainly relate to the financing of operating assets used in continued operations (such as property, plant and equipment) and to investments within working capital (such as inventories and trade receivables). The Group takes these assets into account in the effective management of its overall liquidity risk.

NOTES
172 / 173 FRANCOTYP-POSTALIA HOLDING AG ANNUAL REPORT 2019

CARRYING AMOUNT AS AT 31 DEC. 2019

EUR thousand		Cash flows				
		2020	2021	2022	2023	2024
Loans	–38,391	8,160	–6,243	–8,882	539	539
Trade payables	–14,592	–14,592				
Finance lease liabilities	–11,245	–3,479	–2,961	–2,425	–1,393	–667
Other financial liabilities	–32,443	–32,443				
Incoming payment from derivatives transactions		29,766				
Outgoing payment from derivatives transactions		–31,624				

CARRYING AMOUNT AS AT 31 DEC. 2018

EUR thousand		Cash flows				
		2019	2020	2021	2022	2023
Loans	–38,796	5,760	–8,188	–9,350	443	–25,182
Trade payables	–13,969	–13,969				
Finance lease liabilities	–471	–179	–176	–100	–6	
Other financial liabilities	–29,170	–29,152	–28			
Incoming payment from derivatives transactions		28,294				
Outgoing payment from derivatives transactions		–30,842				

It is not expected that the payment outflows shown will occur at materially differing dates or with materially deviating amounts.

Net gains and losses on financial instruments by measurement category

	2019	2018
Net result in EUR thousand IFRS 9		
Financial assets at fair value through profit or loss ¹	158	–156
Financial assets at fair value through other comprehensive income	0	0
Financial liabilities at amortised cost ²	–1,662	61
Financial liabilities at amortised cost ³	367	–351

- 1) Consist of fair value changes and disposal results
- 2) Consist of impairment losses, reversals, interest payments and foreign currency effects.
- 3) Consist of net gains and losses from foreign currency effects, interest payments and gains on disposal.

Capital management

The capital structure is key to the capital management of the Group. The net debt ratio is the control parameter for the capital structure. This is the ratio of net liabilities to equity. The net debt ratio is monitored on an ongoing basis.

	31 Dec. 2019	31 Dec. 2018
EUR thousand		
Liabilities to banks	38,398	38,805
Finance lease liabilities	0	471
Lease liabilities	11,245	--
Other financial liabilities	600	6
Liabilities	50,243	39,282
Cash and cash equivalents	–30,508	–30,236
Securities	-	–671
Postage credit balances managed by the FP Group	11,990	9,754
Cash and cash equivalents	–18,518	–21,153
Net debt	31,725	18,129
Shareholders’ equity	31,991	31,274
Net debt ratio	99%	58%

The goal of capital management is to achieve the highest possible credit rating. The future of the Group as a going concern must also be ensured.

Owing to high investments and payments for the ACT project JUMP and especially including the effects of the first-time application of the new IFRS 16 standard for the FP Group as lessee, the FP Group’s net debt increased considerably in fiscal year 2019. This is offset by right-of-use assets of EUR 11,182 thousand. As at 31 December 2019, equity increased slightly by 2.3 % year on year. The company’s net debt ratio therefore increased considerably as at the end of the reporting period due primarily to non-cash accounting effects in connection with the first-time application of IFRS 16.

In the 2019 reporting year, there were no changes in the objectives, policies or processes for capital management.

Financial performance indicators

Group management is essentially carried out using the following financial performance indicators: revenue, EBITDA and adjusted free cash flow.

(24) Collateral

	31 Dec. 2019	31 Dec. 2018
EUR thousand		
Guarantee obligations	648	648
Total	648	648

The guarantee obligations include rent guarantees for machinery and postage and any refunds of subsidies.

All present, contingent and future receivables of the financing parties to the syndicated loan agreement from or in connection with this loan agreement, a sub-loan agreement or other financing documents are secured by guarantees. Each guarantor autonomously and independently guarantees the financing parties the irrevocable and unconditional payment of all amounts owed by the borrowers under the loan agreement or other financing document, if they are not paid on time or in full. The guarantors undertook to make any payment under this guarantee free from deductions or retentions.

In addition to the borrower FP Holding, the guarantors are also Francotyp-Postalia GmbH, freesort GmbH, Francotyp-Postalia Vertrieb und Service GmbH, FP Produktionsgesellschaft mbH & Co. KG, Mentana-Claimsoft GmbH, iab GmbH, Francotyp-Postalia Inc. (USA), Francotyp-Postalia Ltd. (UK), Francotyp-Postalia Canada Inc. (Canada).

The loan utilised amounted to EUR 40,474 thousand as at 31 December 2019 (31 December 2018: EUR 40,954 thousand). This amount also includes sureties.

Collateral received has a fair value of EUR 1,306 thousand (previous year: EUR 1,156 thousand) and is available to the FP Group in the short term only in the reporting year (previous year: unchanged). The collateral essentially consists essentially of rent deposit guarantees, guarantees from banks for deliveries of goods services and an insurance policy.

(25) Other financial obligations

NOMINAL VALUES OF FINANCIAL OBLIGATIONS AS AT 31 DEC. 2019

EUR thousand	Total	< 1 year	1 – 5 years	> 5 years
Other contractual obligations	29,692	19,391	10,262	38
of which from rental agreements/leases (not recognised)	2,143	836	1,307	0
of which from purchase commitments	24,184	16,022	8,162	0
of which from miscellaneous other	3,365	2,534	793	38
financial obligations	3,365	2,534	793	38

NOMINAL VALUES OF FINANCIAL OBLIGATIONS AS AT 31 DEC. 2018

EUR thousand	Total	< 1 year	1 – 5 years	> 5 years
Other contractual obligations	44,772	24,521	18,587	1,664
of which from operating leases	13,453	4,704	7,230	1,519
of which from purchase commitments	26,663	16,457	10,206	0
of which from miscellaneous other	4,656	3,360	1,151	145
financial obligations	4,656	3,360	1,151	145

The obligations from rental agreements and leases as at 31 December 2019 relate to:

- (i) Obligations that were not recognised in the statement of financial position due to the exercise of options under IFRS 16. This relates to leases for low-value assets or with a term of less than 12 months.
- (ii) Obligations from leases that are recognised in the statement of financial position but also have components with service character. The consideration allocated to these services is not recognised as part of the right-of-use asset or lease liability. In this respect, no other financial obligations arise.

There are contractual obligations (purchase commitments) for the acquisition of property, plant and equipment of EUR 0 thousand (previous year: EUR 203 thousand), the acquisition of intangible assets of EUR 0 thousand (previous year: EUR 813 thousand) and other purchases of EUR 24,184 thousand (previous year: EUR 25,569 thousand).

(26) Disclosures on leases for the FP Group as lessee

The FP Group applied IFRS 16 for the first time with effect from 1 January 2019. See section I. (5) for the effects of the first-time application.

As a lessee, the Group primarily leases real estate (office and warehouse space), but also vehicles, machinery and other operating and office equipment. The conditions of the leases vary widely, especially in the case of real estate leases, which account for most of the leases in the Group. This applies to the term, the agreement of termination or extension options, and pricing.

Some years ago, the Group concluded a number of leases for machinery that were already classified as finance leases in accordance with IAS 17. All other leases existing before 1 January 2019 classified as operating leases in accordance with IAS 17.

The following disclosures can be made regarding leases in which the Group is the lessee:

a) Right-of-use assets and lease liabilities

The **right-of-use assets** from leases are recognised in the statement of financial position in the separate “right-of-use assets” item under “non-current assets”.

The recognised right-of-use assets developed as follows from 1 January to 31 December 2019 (in EUR thousand):

EUR thousand	Land and buildings	Machinery	Vehicles	Other operating and office equipment
As at 1 Jan. 2019	10,946	518	1,155	46
Additions to right-of-use assets	1,959	0	788	11
Disposals of right-of-use assets	–349	0	–33	0
Depreciation of the fiscal year	–2,908	–218	–740	–25
Currency differences	31	0	1	0
As at 31 Dec. 2019	9,678	300	1,172	32

The **lease liabilities** are recognised in the statement of financial position under “non-current liabilities” and “current liabilities” within the “financial liabilities” item and had the following maturities as at the end of the reporting period:

EUR thousand	31 Dec. 2019
Up to one year	3,479
More than one and less than five years	7,446
More than five years	320
	11,245

b) Expenses and income from leases

The following amounts from leases are recognised in the consolidated income statement:

EUR thousand	2019
Depreciation of right-of-use assets	3,892
Interest expenses for lease liabilities	63
Expenses from short-term leases	72
Expenses from leases for low-value assets	66
Expenses from variable lease payments	36
Interest income from subleases	0

c) Payments from leases

The following amounts from leases are recognised in the cash flow statement:

EUR thousand	2019
Payment outflows from leases in the fiscal year	3,922

(27) Contingent assets and contingent liabilities

Contingent assets

In fiscal year 2017, irregularities in the internal recording and billing of letter volumes were reported. In the time-critical consolidation business, the FP Group found that as a result of breaches of duty by individuals it had suffered financial damage extending beyond the reporting period. As a consequence, FP asserted damages claims against employees of around EUR 1.7 million on 14 February 2018 as part of wrongful dismissal proceedings that are currently still ongoing. The fidelity insurer was informed about the breaches of duty and the damages incurred. If the claims are upheld, this could have a one-time positive effect on the company’s financial position and results of operations and result in FP exceeding the forecast for 2020 or its medium-term goals.

Contingent liabilities

In the second quarter of 2017, deviations and occasional irregularities due to employee misconduct were found in the internal recording and billing of letter volumes in the time-critical consolidation business. The clarification of the matter could result in repayment obligations for the FP Group with estimated potential damages of EUR 600 thousand. The FP Group does not currently assume that there is an obligation for this.

V. Other disclosures

Notes to the cash flow statement

The FP Group’s cash and cash equivalents comprise cash less restricted funds (postage credit managed by the FP Group) and securities.

EUR thousand	31 Dec. 2019	31 Dec. 2018
Cash and cash equivalents	30,508	30,235
plus securities	0	671
less restricted cash and cash equivalents (“postage credit held”)	–11,990	–9,754
Cash and cash equivalents	18,518	21,153

Cash flow from financing activities developed as follows in fiscal year 2019:

EUR thousand	31 Dec. 2018	Non-cash effect of first-time application of IFRS 16	1 Jan. 2019	Cash	Non-cash			31 Dec. 2019
					Effects of contract terminations	Additions	Exchange rate effects	
Liabilities to banks	38,805	0	38,805	–407	0	0	0	38,398
Lease liabilities (2018: finance lease liabilities)	471	12,214	12,685	–3,859	–380	2,758	41	11,245
Cash flow from financing activities	39,276	12,214	51,490	–4,266	–380	2,758	41	49,643

Employees

AVERAGE NUMBER OF EMPLOYEES BY COUNTRY		
	2019	2018
Germany	655	643
United States	126	135
UK	86	92
The Netherlands	41	45
Canada	41	46
Italy	24	28
Sweden	18	24
Austria	18	19
France	17	21
Belgium	3	5
Total	1,028	1,058

AVERAGE NUMBER OF EMPLOYEES BY SEGMENT		
	2019	2018
Sales Germany	390	402
International Sales	373	415
Production	219	201
Central Functions	46	40
Total	1,028	1,058

Management Board and Supervisory Board (additional disclosures in accordance with German Commercial Code (HGB))

According to the schedule of responsibilities for the Management Board of Francotyp-Postalia FP Holding, the responsibilities of the members of the Management Board are as follows:

Name	Appointment	End of the appointment	Areas of responsibility
Rüdiger Andreas Günther Business graduate (CEO)	January 2016	December 2022	- Strategic business development - Human Resources - Law/Compliance - Finances/Accounting/Controlling/Tax - Corporate Communications/Investor Relations/Press - Corporate Governance/Risk & Compliance/QM/Internal Audit - Mergers and acquisitions - Treasury
Patricius de Gruyter Business graduate	June 2018	May 2021	- Sales Strategy/Sales Transformation - National/international sales for all product areas (excluding) IoT - service center of excellence - Product and Business Development (excluding) IoT - Marketing
Sven Meise Business management graduate (BA)	February 2015	December 2021	- Information Technology - Research & Development - Production/Purchasing/Logistics - facilities management - Distribution IoT - Shared Service Center North America/Europe

In the reporting year, Rüdiger Andreas Günther was a member of the Commerzbank Unternehmerperspektive Mittelstand (Entrepreneur Perspective Mittelstand) and in the Commerzbank Regional Advisory Council East. Since January 2017, he has also been a member of the Customer Advisory Council of LBBW Sachsen Bank. Sven Meise has been Chairman of the Supervisory Board of Juconn GmbH, Unterföhring, since 17 January 2019. The FP Group holds 15 % of the shares in Juconn GmbH via FP InovoLabs GmbH.

The members of the Management Board were not members of any statutory supervisory boards or similar executive bodies of business enterprises in Germany or abroad outside the FP Group.

The following table shows the members of the Supervisory Board of Francotyp-Postalia FP Holding and their activities outside the company and other administrative, management or supervisory board mandates or mandates for similar executive bodies of business enterprises in Germany and abroad in the reporting year:

Name	Professional activity	Other administrative or supervisory board mandates or mandates for similar executive bodies in Germany and abroad
Klaus Röhrig (member and Deputy Chairman of the Supervisory Board since 1 April 2013; Chairman since 9 April 2013)	– Managing Director, Active Ownership Corporation S.à r.l., Grevenmacher, Luxembourg – Managing Director, Active Ownership Capital S.à r.l., Grevenmacher, Luxembourg – Managing Director, Mercury Capital GmbH, Vienna, Austria – Managing Director, R3 Beteiligungen GmbH, Vienna, Austria – Managing Director, R3 Capital GmbH, Vienna, Austria – Managing Director, White Elephant HoldCo S.à r.l., Grevenmacher, Luxembourg – Managing Director, White Elephant S.à r.l., Grevenmacher, Luxembourg – Director, White Hills Management SCOSA, Grevenmacher, Luxembourg – Managing Director, exceet Management S.à r.l., Grevenmacher, Luxembourg – Managing Director, AOC Technology S.A.S., Grevenmacher, Luxembourg – Managing Director, AOC Value S.A.S., Grevenmacher, Luxembourg – Managing Director, AOC Health S.à r.l., Grevenmacher, Luxembourg – Managing Director, AOC Health Holdco S.à r.l., Grevenmacher, Luxembourg	– Chairman of the Management Board, exceet Group SCA, Luxembourg – Chairman of the Management Board, Agfa-Gevaert NV, Mortsel, Belgium
Robert Feldmeier (member of the Supervisory Board since 28 July 2012; Deputy Chairman from 27 June 2013 to 20 October 2019)	– Managing Director of Unigloves Arzt- und Klinikbedarfshandelsgesellschaft mbH, Siegburg – Managing Director and partner of UNIGLOVES Holding GmbH, Munich – Managing Director of marpinion GmbH, Oberhaching – Managing Director of ApoSync Digitale Dienstleistungen GmbH, Unterschleissheim	– None
Botho Oppermann (member of the Supervisory Board since 27 June 2013; Deputy Chairman since 26 November 2019)	– Managing Partner of Internet Business Solutions Nord UG (haftungsbeschränkt), Wentorf near Hamburg – Managing Partner of Internet Business Solutions Süd UG (haftungsbeschränkt), Wentorf near Hamburg – Managing Partner of Internet Business Solutions Ost UG (haftungsbeschränkt), Wentorf near Hamburg – Managing Partner of Internet Business Solutions West UG (haftungsbeschränkt), Wentorf near Hamburg	– President of the Management Board of Internet Business Solutions AG, Boppelsen, Switzerland
Dr. Mathias Schindl (member of the Supervisory Board since 14 November 2019)	– Freelance corporate consultant, Oberhaching near Munich	– None

Shareholder structure (additional disclosures in accordance with German Commercial Code (HGB))

In fiscal year 2019, Francotyp-Postalia FP Holding received the following notifications from its shareholders in accordance with section 33(1) of the German Securities Trading Act (WpHG) and published them in accordance with section 40(1) WpHG and section 41 WpHG:

Publication date	16 Jan. 2019	15 Feb. 2019	24 May 2019	5 Sep. 2019	17 Sep. 2019	7 Oct. 2019	7 Oct. 2019
Reason of notification	Share purchase	Share sale	Transfer of voting rights due to Annual General Meeting	Share purchase	Share sale	Voluntary Group notification; threshold reached solely at the level of subsidiaries	Voluntary Group notification; threshold reached solely at the level of subsidiaries
Shareholder / reporter	Obotritia Capital KGaA	Universal-Investment-Gesellschaft mit beschränkter Haftung	Axel Sven Springer / Thomas Lange	Obotritia Capital KGaA	Quaero Capital SA	Active Ownership Fund SICAV-FIS SCS / Florian Schuhbauer	Active Ownership Fund SICAV-FIS SCS / Klaus Röhrig
Date threshold reached	14 Jan. 2019	13 Feb. 2019	22 May 2019	29 Aug. 2019	10 Sep. 2019	1 Oct. 2019	1 Oct. 2019
Total share of voting rights							
Old	6.60 %	3.25 %	0.02 %	10.30 %	4.92 %	9.51 %	10.31 %
New	10.30 %	2.96 %	3.94 %	15.10 %	2.69 %	9.51 %	10.31 %
Voting rights (sections 33, 34 WpHG)	1,678,636	482,070	642,500	2,460,800	438,649	1,550,000	1,680,000

There are also the following important voting rights:

Publication date	22.05.2018	15.12.2017	21.08.2013	29.05.2013	29.05.2013
Reason of notification	Share purchase	Share purchase	Share purchase	Share purchase	Share purchase
Shareholder / reporter	Magallanes Value Investors S.A. SGILC	Baring Asset Management Limited	Saltarax GmbH, Hamburg, Germany	Ludic GmbH, Bad Oldesloe, Germany	Tom Hiss
Date threshold reached	16.05.2018	11.12.2017	08.08.2013	24.05.2013	24.05.2013
Total share of voting rights	3.26 %	3.07 %	3.59 %	3.51 %	3.51 %
Voting rights (sections 33, 34 WpHG)	531,456	500,000	580,706	566,882	566,882

In fiscal year 2019, Francotyp-Postalia FP Holding received and published the following notifications from its shareholders in accordance with section 19 (1) Market Abuse Regulation with reference to the share ISIN DE000FPH9000:

Publication date	23 Aug. 2019		27 Aug. 2019		28 Aug. 2019	
Information on persons exercising management tasks	Sven Meise		Rüdiger Andreas Günther		Patricius de Gruyter	
Reason for notification/position	Member of the Management Board (CDO/COO)		Chairman of the Management Board (CEO/CFO)		Member of the Management Board (CSO)	
Transaction type	Share purchase		Share purchase		Share purchase	
Price/ volume in EUR	Price in EUR	Volume in EUR	Price in EUR	Volume in EUR	Price in EUR	Volume in EUR
	3.56	8,188.00	3.44	10,664.00	3.54	8,850.00
	3.55	9,585.00	3.42	10,602.00		
Aggregate price/ volume EUR	3.55	17,773.00	3.43	21,266.00	3.54	8,850.00
Date of transaction	22 Aug. 2019		23 Aug. 2019		27 Aug. 2019	
Place of transaction	XETRA		XSTU		XFRA	

Publication date	29 Aug. 2019		19 Dec. 2019		19 Dec. 2019	
Information on persons exercising management tasks	Patricius de Gruyter		Rüdiger Andreas Günther		Rüdiger Andreas Günther	
Reason for notification/position	Member of the Management Board (CSO)		Chairman of the Management Board (CEO/CFO)		Chairman of the Management Board (CEO/CFO)	
Transaction type	Share purchase		Share purchase		Share purchase	
Price/ volume in EUR	Price in EUR	Volume in EUR	Price in EUR	Volume in EUR	Price in EUR	Volume in EUR
	3.48	2,248.08	3.47	6,940.00	3.48	27,830.40
	3.49	6,470.46				
Aggregate price/ volume EUR	3.49	8,718.54	3.47	6,940.00	3.48	27,830.40
Date of transaction	28 Aug. 2019		17 Dec. 2019		18 Dec. 2019	
Place of transaction	XETRA		XETRA		XETRA	

In fiscal year 2019, Francotyp-Postalia Holding AG did not publish any notifications on changes in voting rights in accordance with section 41 WpHG.

In previous years, there were the following changes:

Publication date	4 Jan. 2017	4 Jan. 2017 Notification of correction	30 Jan. 2017	28 Feb. 2017	31 Mar. 2017	30 Jun. 2017
	Other capital measure (section 26a (1) WpHG)	Issue of new shares (section 26a (2) WpHG)	Issue of new shares (section 26a (2) WpHG)	Issue of new shares (section 26a (2) WpHG)	Issue of new shares (section 26a (2) WpHG)	Issue of new shares (section 26a (2) WpHG)
Capital measure						
As at/ effective date	31 Dec. 2016	31 Dec. 2016	27 Jan. 2017	28 Feb. 2017	31 Mar. 2017	30 Jun. 2017
New total of voting rights	16,215,356	16,215,356	16,255,356	16,265,356	16,285,356	16,301,456

Related party disclosures

In addition to the members of the Management Board and the Supervisory Board (and their close relatives) of FP Holding, the related parties of the FP Group in the reporting year were:

- the associate Juconn GmbH, Unterföhring, Germany;
- the associate FP Systems India Private Limited, India;
- the associate FP Direct Ltd., UK;
- Active Ownership Corporation S.à r.l., Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- Active Ownership Capital S.à r.l., Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- Mercury Capital GmbH, Vienna, Austria (through a member of the Supervisory Board);
- R3 Beteiligungen GmbH, Vienna, Austria (through a member of the Supervisory Board);
- R3 Capital GmbH, Vienna, Austria (through a member of the Supervisory Board);
- White Hills Management SCOSA, Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- White Elephant HoldCo S.à r.l., Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- White Elephant S.à r.l., Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- excelet Management S.à r.l., Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- AOC Technology S.A.S., Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- AOC Value S.A.S., Grevenmacher, Luxembourg (through a member of the Supervisory Board);

- AOC Health S.à r.l., Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- AOC Health Holdco S.à r.l., Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- excelet Group SCA, Luxembourg (through a member of the Supervisory Board);
- Agfa-Gevaert NV, Mortsel, Belgium (through a member of the Supervisory Board);
- UNIGLOVES Arzt- und Klinikbedarf Handelsgesellschaft mbH, Siegburg (through a member of the Supervisory Board);
- UNIGLOVES Holding GmbH, Munich (through a member of the Supervisory Board);
- marpinion GmbH, Oberhaching (through a member of the Supervisory Board);
- ApoSync Digitale Dienstleistungen GmbH, Unterschleißheim (through a member of the Supervisory Board);
- Internet Business Solutions Nord UG (haftungsbeschränkt), Wentorf near Hamburg (through a member of the Supervisory Board);
- Internet Business Solutions Süd UG (haftungsbeschränkt), Wentorf near Hamburg (through a member of the Supervisory Board);
- Internet Business Solutions Ost UG, (haftungsbeschränkt), Wentorf near Hamburg (through a member of the Supervisory Board);
- Internet Business Solutions West UG (haftungsbeschränkt), Wentorf near Hamburg (through a member of the Supervisory Board);
- Internet Business Solutions AG, Boppelsen, Switzerland (through a member of the Supervisory Board).

Among the related parties with a significant influence on the financial and operating policies of the FP Group, the members of the Management Board and the Supervisory Board received remuneration in fiscal year 2019 which is described

in detail in the following “Total remuneration of the Management Board and the Supervisory Board” section. No further remuneration was paid. There were no reportable issues as defined by IAS 24.18 (b) to (d) in the reporting period.

Total Remuneration of the Management Board and the Supervisory Board

The long-term bonus for Sven Meise of EUR 144 thousand (previous year: EUR 91 thousand) and for Patricius de Gruyter of EUR 150 thousand (previous year: EUR 88 thousand) and the variable short-term remuneration in the amount of the probable achievement of goals were recognised in profit or loss in the 2019 annual financial statements. There is no longer a long-term bonus for Rüdiger Andreas Günther (previous year: EUR 180 thousand); according to the new contractual arrangement, the short-term variable remuneration contains both short- and long-term elements. An expense of EUR 603 thousand was therefore recognised in fiscal year 2019 on the basis of the probable achievement of goals.

Regarding the remuneration report in accordance with section 315(2) no. 4 sentence 1 HGB, please see the Group management report. The total remuneration paid to the Management Board in accordance with GAS 17 was as follows:

RÜDIGER ANDREAS GÜNTHER (MEMBER OF THE MANAGEMENT BOARD FROM 10 JANUARY 2016)					
		2016	2017	2018	2019
Non-performance-based component	Fixed remuneration	400	400	400	415
	Additional benefits	45	19	20	20
	Total	445	419	420	435
Performance-based component					
without long-term incentive effect	Short-term variable remuneration: ¹⁾	220	348	332	362
	Long-term variable remuneration: ²⁾				
with long-term incentive effect	2015 stock option plan	141	0	0	0
	Long-term bonus	180	0	0	0
	Total	541	348	332	362
Pension cost		19	20	20	21
Total remuneration		1,005	787	772	818

PATRICIUS DE GRUYTER (MEMBER OF THE MANAGEMENT BOARD FROM 1 JUNE 2018)			
		2018	2019
Non-performance-based component	Fixed remuneration	181	310
	Additional benefits	9	17
	Total	191	327
Performance-based component			
without long-term incentive effect	Short-term variable remuneration:	64	110
with long-term incentive effect	Long-term variable remuneration: ¹⁾		
	Long-term bonus	88	0
	Virtual share options		0
	Total	152	110
Pension cost		2	4
Total remuneration		345	441

1) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met.

1) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met. In accordance with the service contract dated 28 May 2019, the following rule applies to the payment of the bonus for the CEO/CFO: 60 % of the bonus for a completed fiscal year is paid together with the salary for the month following that in which the Annual General Meeting passes its resolution on the appropriation of the unappropriated surplus. A further 20 % of the bonus is paid in the following year together with the salary for the month following that in which a resolution is passed on the annual financial statements. The remaining 20 % will be paid out in the year after that. Payment of the two 20 % tranches is dependent on the minimum target (“floor”) being reached in respect of at least one of the first four targets in the fiscal year prior to the corresponding tranche being paid out.

2) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met.

SVEN MEISE (MEMBER OF THE MANAGEMENT BOARD FROM 1 FEBRUARY 2015)						
		2015	2016	2017	2018	2019
Non-performance-based component	Fixed remuneration	183	233	265	310	310
	Additional benefits	18	26	26	25	28
	Total	201	259	291	335	338
Performance-based component						
without long-term incentive effect	Short-term variable remuneration:	24	42	117	197	200
with long-term incentive effect	Long-term variable remuneration: ¹⁾					
	2015 stock option plan	48	0	0	0	0
	Virtual share options				0	0
	Long-term bonus	0	0	0	0	0
	Total	72	42	117	197	200
Pension cost		19	21	22	22	23
Total remuneration		292	322	430	555	560

1) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met.

Of the stock options granted in fiscal years 2015 and 2016 from the 2015 stock option plan, a total of 242,500 options related to the Management Board. An option entitles the bearer to purchase one no-par-value bearer share in Francotyp-Postalia Holding AG. No further options were granted under the 2015 stock option plan in the reporting year. The possibility to exercise the granted options began in fiscal year 2019 (issued in 2015) or begins in 2020 (issued in 2016) and ends in fiscal year 2024 (issued in 2015) or 2025 (issued in 2016).

The amounts stated in the above table as pension cost are subsidies for pensions and part of the fixed remuneration paid to Management Board members.

The additional benefits essentially consist of the value of the use of a company car as determined in compliance with tax law.

As in the previous year, provisions of only insignificant amounts were recognised for pension obligations to active Management Board members (2019: EUR 4 thousand; 2018: EUR 3 thousand).

EUR 1,354 thousand was recognised for pension obligations to former Management Board members of Francotyp-Postalia FP Holding as at 31 December 2019 (previous year: EUR 1,129 thousand). EUR 19 thousand (previous year: EUR 17 thousand) was added to provisions in the 2018 reporting year, EUR 1 thousand of which for service cost and EUR 18 thousand for interest cost.

In addition to the reimbursement of cash expenses and any VAT incurred in relation to Supervisory Board work, each member of the Supervisory Board receives fixed remuneration of EUR 30 thousand per fiscal year, payable in the last month of the fiscal year. From fiscal year 2009, the fixed remuneration for the Chairman is 150 % of the remuneration for a normal Supervisory Board member and 125 % for the Deputy Chairman.

The fixed remuneration of the Supervisory Board for fiscal year 2019 amounted to EUR 110 thousand (previous year: EUR 113 thousand). The total amount is divided into EUR 45 thousand for Mr Klaus Röhrig, EUR 30 thousand for Mr Robert Feldmeier, EUR 31 thousand for Mr Botho Oppermann and EUR 4 thousand for Dr Mathias Schindl.

Virtual share options

In the context of individual Management Board commitments, in the reporting year individual Management Board members were each granted up to 30,000 virtual shares in Francotyp-Postalia Holding AG as a first tranche. Further tranches are to follow annually up to 2021. When they are exercised, the option rights are satisfied on the basis of a cash settlement. Own investment is the condition for the full allocation. The Management Board members must buy Francotyp-Postalia Holding AG shares amounting to at least 15 % of the number of virtual shares granted and to hold them for a period of four years after the respective acquisition. The Management Board members may exercise the virtual shares any time after end of the vesting period within a further four years. The arithmetic mean of the share price of the last 90

days at the time of exercise is decisive for the exercise price. The value of the option rights is aligned to the price performance between grant and exercise. The option rights may be exercised when the exercise price has increased by at least 10 % against the basis price when the option rights are granted (absolute hurdle). If the hurdle has not been reached, the related right lapses. The value of the option right is based on the difference between the exercise price and the basis price, multiplied by the number of virtual shares of the respective tranche. The value is limited to EUR 300 thousand per tranche. The options were granted on 1 March 2018.

The fair value of the consideration granted from virtual share option rights is calculated using the Black-Scholes option price model. Measurement is based on the expected holding period of four years. Correspondingly, the parameters relevant for measurement (risk-free interest rate, volatility) are derived from capital market data over a four-year period. The exercise price is calculated using the arithmetical average of the Xetra daily closing prices of the last 90 trading days before the exercise date. Account is taken of special contractual elements such as an exercise hurdle and payment cap by a combination of three part-options.

Award date			
		Virtual options	Virtual options
		1 Mar. 2018	1 Mar. 2019
31 Dec. 2019			
One option	EUR	0.00	0.56
All options	EUR thousand	0	34
31 Dec. 2018			
One option	EUR	0.63	0.00
All options	EUR thousand	19	0
Price per FP share		4.53	3.52
Exercise price		4.98	3.87
Expected exercise date		1 Mar. 2022	1 Mar. 2023
Forecast average holding period in years		4	4
Expected volatility		26.53 %	29.65 %
Annual dividend yield		3 %	3 %
Matched-term, risk-free interest rate		–0.14 %	–0.27 %
Expected number of exercisable stock options at award date		30,000	60,000
Estimated annual employee turnover		0 %	0 %

Virtual options	Number	Average exercise price in EUR
As at 31 Dec. 2018	30,000	4.98
Granted in fiscal year	60,000	3.87
Forfeited in fiscal year	0	n/a
Exercised in fiscal year	0	n/a
Expired in fiscal year	0	n/a
As at 31 Dec. 2019	90,000	
Range of exercise price in EUR		3.87–4.98
Average remaining term in months as at 31 Dec. 2019		32
Exercisable as at 31 Dec. 2019	0	n/a

As at 31 December 2019, EUR 16 thousand (previous year: EUR 4 thousand) was recognised in staff costs with an off-setting entry in liabilities.

Auditor’s fee

On the basis of a recommendation of the Supervisory Board, the Annual General Meeting elected KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as the auditor for fiscal year 2019. The total fee charged for services by the auditor in the fiscal year is as follows:

EUR thousand	2019	2018
Audits of financial statements	373	300
Tax advisory services	206	394
Other certification services	19	8
Other services	37	163
Total	635	865

Of the fees charged in 2019 for audit services in the reporting year, TEUR 65 (previous year TEUR 67) are attributable to the previous year for other periods, and TEUR 179 (previous year TEUR 279) for tax consultancy services.

Of the provisions recognised for audits of financial statements in the previous year of EUR 298 thousand, EUR 298 thousand was utilised in the reporting year.

The tax consulting services amounting to EUR 206 thousand mainly relate to the preparation of business tax returns and support in connection with the settlement of tax mutual agreement procedures.

Other certification services relate primarily to confirmations on the use of funds and financial covenants.

Other services relate primarily to Human Resources / organizational consulting.

The figures calculated comprise only the legally independent entity of the appointed auditor. All non-audit services were approved by the Supervisory Board.

Report on post-balance sheet date events

The FP Group’s dividend policy remains consistent as a basic principle, including as part of implementing its ACT growth strategy. In view of the developments and risks associated with the spread of the coronavirus SARS-CoV–2, the company is focusing on preserving and increasing available Group liquidity so as not to jeopardise the FP Group’s strategic and operational objectives in the long term. The Management Board and the Supervisory Board will therefore propose to the Annual General Meeting that no dividend is distributed for fiscal year 2019 and that the unappropriated surplus of EUR 13,672,283.57 be carried forward.

On 29 January 2020, FP GmbH acquired 100 % of the shares in Kurfürst 1675 GmbH, Berlin, which it renamed FP Service Süd GmbH. By purchase agreement dated 5 February 2020, FP Service Süd GmbH acquired non-current and current assets, customer and supplier contracts and 28 employees from HEFTER Systemform GmbH, in liquidation. This was a business combination in accordance with IFRS 3. On 14 February 2020, the company was renamed Hefter Systemform GmbH, and its registered office was relocated to Prien am Chiemsee. The entry into the Traunstein commercial register B was made on 25 February 2020. The company has share capital of EUR 25 thousand. With the acquisition, FP intends to expand the traditional sales business in the segment of competitors’ customers. FP expects significant synergy effects in the expansion of the product range, the optimisation of services and the enhancement and optimisation of the acquisition of new customers and competitors’ customers.

By letter dated 7 February 2020, Obotritia Capital asked for an Extraordinary General Meeting to be convened. The only item on the proposed agenda was “Rüdiger Andreas Günther’s departure from the Management Board. Rüdiger Andreas Günther is to depart early from the Management Board, as the General Meeting has withdrawn its confidence in him.” On 23 March 2020, the Management Board of the

FP Group decided not to implement an Extraordinary General Meeting. The Supervisory Board did not contradict this approach at its meeting on 25 March 2020 as a result of the SARS-CoV 2 pandemic.

On 13 February 2020, the Supervisory Board resolved to appoint Carsten Lind as a member of the company’s Management Board with effect from 1 June 2020. The Supervisory Board intends to appoint Carsten Lind as Chairman of the Management Board as soon as the appointment of the current CEO has ended. In addition, the Supervisory Board has proposed a termination agreement with the current CEO Rüdiger Andreas Günther on account of differences regarding the implementation of the Group strategy.

Juconn GmbH and its shareholders had a differing opinion about whether FP InovoLabs GmbH was obliged to pay another premium to the company of up to EUR 600 thousand. In a shareholder agreement, the shareholders of Juconn GmbH agreed on 26 February 2020 that FP InovoLabs GmbH would pay the company EUR 410 thousand to settle the premium claims. With the same document, Juconn GmbH offered FP InovoLabs the acquisition of 2,777 (treasury) shares (= 8.333 % of the shares). Die FP InovoLabs GmbH will pay remuneration of EUR 70 thousand for the granting of this offer. The option can be exercised until 30 June 2022 under the condition that the company achieves a cumulative order intake of at least EUR 500 thousand in at least one fiscal year before 30 June 2022.

On 30 January 2020, the World Health Organization (WHO) designated the outbreak of the coronavirus SARS-CoV–2 a public health emergency of international concern. Since 11 March 2020, WHO has classified the spread of coronavirus as a pandemic. The further course of the coronavirus outbreak and the ramifications for the FP Group’s business performance are being monitored continuously. The full extent of the economic impact of the SARS-CoV–2 pandemic cannot yet be predicted. However, the FP Group is forecasting a significant slump in economic output in all the company’s markets and business areas, at least temporarily. In the short term, FP believes it is highly likely that all the company’s vertical markets will see a marked fall in demand and a reluctance to invest at least until midway through fiscal year 2020 due to increased sickness levels and disrupted distribution channels and production capacities. Its core franking and in-

serting business and its Mail Services segment are heavily influenced by the trend in mail volumes. A significant delay to customer projects is likely in the new digital business areas. The severity of the overall fall in mail volumes and demand in all the FP Group’s segments triggered by the SARS-CoV–2 pandemic cannot be quantified at present. The economic effects will have an adverse impact on mail volumes and the FP Group’s business activities, at least temporarily. The risks of which the FP Group is aware and the estimates and assumptions for fiscal year 2020 are accounted for and described in the report on risks and opportunities and in the forecast. Instead of the 5 % to 8 % increase in revenue originally forecast for 2020 and EBITDA of between EUR 30 and EUR 34 million, the FP Group is now expecting a marked year-on-year fall in revenue, EBITDA and adjusted free cash flow for fiscal year 2020 (assuming constant exchange rates). In light of the coronavirus crisis, FP has also subjected the Group’s future liquidity situation to a stress test, simulating various scenarios. The currently accepted scenario assumes that the lockdown will not be lifted until 1 September 2020 and that revenue will increase only gradually thereafter. In this scenario, revenue will not yet have reached the pre-crisis level at the end of 2020. The intensity of the assumed revenue decline is based on the effects of the pandemic on order intake and revenue observed in the second half of March.

At the level of staff and operating expenses, the scenario considers internal measures whose feasibility is largely certain. In the aforementioned scenario, there will be no liquidity bottleneck for FP by the end of the year, even without taking up additional borrowing outside the current branch line of EUR 30 million. After active discussions with its banks, FP nevertheless believes that there is a positive prospect that the branch line under the revolving facility in the amount of EUR 60 million could be increased by at least another EUR 30 million in the short term. In total, FP has been granted credit facilities of 200 million euros, of which, however, large parts are earmarked for specific purposes.

At present, there are no other material negative effects that are known or foreseeable. However, further negative effects are possible over the course of the year.

There were no further significant events after the end of fiscal year 2019 that would have had a notable effect on the net assets, financial position and results of operations of the FP Group.

Corporate governance

The Management Board and the Supervisory Board of Francotyp-Postalia Holding AG have issued a declaration of compliance with the German Corporate Governance Code in accordance with section 161 AktG and made this declaration permanently accessible on the company’s website (<https://www.fp-francotyp.com/en/declaration-of-compliance/10ddeb512660af81>).¹⁾

Berlin, 13 May 2020

The Management Board of Francotyp-Postalia Holding AG



Rüdiger Andreas Günther
CEO



Patricius de Gruyter



Sven Meise

1) This cross reference is not part of the audit of the financial statements by KPMG AG Wirtschaftsprüfungsgesellschaft.

VI. Assurance from the legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the FP Group, and the Group management report, which is combined with the management report of Francotyp-Postalia Holding AG, 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 Group¹⁾.

Berlin, 13 May 2020

The Management Board of Francotyp-Postalia Holding AG



Rüdiger Andreas Günther
CEO



Patricius de Gruyter



Sven Meise

1) The responsibility statement is not part of the audit by KPMG AG Wirtschaftsprüfungsgesellschaft.

Appendix 1
Changes in Intangible Assets and Property, Plant and Equipment
between 1 January and 31 December 2018

Cost or cost of manufacture							Amortisation, depreciation and write-downs							Book values	
in EUR thousand	C/F 01.01.2018	Currency differences	Additions	Disposals	Reclassifica- tions	Status 31.12. 2018		C/F 01.01.2018	Currency differences	Additions	Disposals	Reclassifica- tions	Status 31.12. 2018	01.01.2018	31.12. 2018
Intangible assets															
Internally generated intangible assets	54,169	0	1,478	159	1,929	57,417		38,167	0	4,568	159	0	42,576	16,002	14,842
Other intangible assets	92,272	36	1,282	4,103	20	89,507		86,697	110	1,360	4,102	0	84,065	5,575	5,442
Intangible assets including customer lists	146,441	36	2,760	4,262	1,949	146,924		124,864	110	5,928	4,261	0	126,641	21,577	20,284
Goodwill	22,906	−9	1,954	0	0	24,851		14,412	−9	0	0	0	14,403	8,494	10,448
Development projects in progress and ad- vance payments	5,074	0	7,151	219	−1,949	10,057		0	0	0	0	0	0	5,074	10,057
Total	174,421	27	11,865	4,481	0	181,832		139,275	101	5,928	4,261	0	141,043	35,146	40,788
Property, plant and equipment															
Land, land rights and buildings	4,090	−5	255	0	58	4,398		1,306	−5	291	0	0	1,592	2,784	2,806
Technical equipment and machinery	10,868	3	932	267	434	11,970		6,209	2	1,011	266	114	7,070	4,659	4,900
Other plant and operating and office machinery	31,956	−94	1,188	857	69	32,262		27,682	−104	1,600	824	0	28,354	4,274	3,906
Leased products	63,274	2,582	6,474	4,464	1,402	69,268		44,890	2,026	8,292	4,371	847	51,684	18,384	17,584
Finance lease assets	2,380	52	0	0	−1,518	914		1,172	40	212	0	−961	463	1,208	451
Advance payments and assets under construction	446	0	263	0	−446	263		0	0	0	0	0	0	446	263
Total	113,014	2,538	9,112	5,588	−1	119,075		81,259	1,959	11,406	5,461	0	89,163	31,755	29,910
Non-current assets total	287,435	2,565	20,977	10,069	−1	300,907		220,534	2,060	17,334	9,722	0	230,206	66,901	70,698

Changes in Intangible Assets and Property, Plant and Equipment
between 1 January and 31 December 2019

in EUR thousand	Cost or cost of manufacture						Amortisation, depreciation and write-downs						Book values	
	C/F	Currency	Additions	Disposals	Reclassifica-	Status	C/F	Currency	Additions	Disposals	Reclassifica-	Status	01.01.2018	31.12.
	01.01.2019	differences			tions		01.01.2019	differences			tions			
Intangible assets						31.12. 2019						31.12. 2019		31.12. 2019
Internally generated intangible assets	57,417	0	3,590	0	7,963	68,970	42,576	0	7,022	0	0	49,598	14,842	19,373
Other intangible assets	89,507	46	641	314	611	90,491	84,065	31	2,376	310	0	86,162	5,442	4,329
Intangible assets including customer lists	146,924	46	4,231	314	8,574	159,461	126,641	31	9,398	310	0	135,760	20,284	23,702
Goodwill	24,851	42	0	0	0	24,893	14,403	17	5,851	0	0	20,271	10,448	4,622
Development projects in progress and advance payments	10,057	0	10,441	143	−8,573	11,782	0	0	1,344	0	0	1,344	10,057	10,438
Total	181,832	88	14,672	457	1	196,136	141,044	48	16,593	310	0	157,375	40,788	38,762
Property, plant and equipment														
Land, land rights and buildings	4,398	25	221	36	7	4,615	1,592	25	266	33	0	1,850	2,806	2,765
Technical equipment and machinery	11,970	5	311	772	21	11,535	7,070	3	1,008	683	0	7,398	4,900	4,137
Other plant and operating and office machinery	32,262	345	1,350	5,291	235	28,901	28,354	334	1,590	5,257	0	25,021	3,906	3,880
Leased products	69,268	2,560	4,477	4,998	0	71,307	51,683	2,007	4,067	4,757	0	53,000	17,584	18,307
Finance lease assets	914	0	0	914	0	0	463	0	0	464	0	0	451	0
Advance payments and assets under construction	263	0	134	0	−263	134	0	0	0	0	0	0	263	134
Total	119,075	2,935	6,493	12,011	0	116,491	89,162	2,369	6,931	11,194	0	87,268	29,910	29,222
Non-current assets total	300,907	3,023	21,165	12,468	1	312,627	230,206	2,417	23,524	11,504	0	244,643	70,698	67,984

Independent auditor’s report¹⁾

To Francotyp-Postalia Holding AG, Berlin

Report on the audit of the consolidated financial statements and the combined group management report

Audit opinions

We have audited the consolidated financial statements of Francotyp-Postalia Holding AG and its subsidiaries (the Group), comprising the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year from 1 January to 31 December 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In addition, we have audited the report on the situation of the Company and the Group (hereinafter “combined group management report”) of Francotyp-Postalia Holding AG for the fiscal year from 1 January to 31 December 2019.

In compliance with German law, we did not audit the contents of the parts of the combined group management report set out in the “Other information” section of our auditor’s report.

The combined group management report contains cross-references, which are not required by law and are identified as unaudited. In compliance with German law, we did not audit the contents of these cross-references or the information to which the cross-references refer.

In our opinion, based on the findings of our audit,

- the attached consolidated financial statements comply in all material respects with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB and, in accordance with these requirements, give a true and fair view of the Group’s net assets and financial position as at 31 December 2019, and of its results of operations for the fiscal year from 1 January to 31 December 2019, and

- the attached combined group management report as a whole presents an accurate view of the Group’s position. In all material respects, this combined group management report is consistent with the consolidated financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development. Our audit opinion on the combined group management report does not extend to the contents of the parts of the group management report set out in the “Other information” section. The combined group management report contains cross-references, which are not required by law and are identified as unaudited. Our audit opinion does not extend to these cross-references or the information to which the cross-references refer.

Pursuant to Section 322 (3) Sentence 1 HGB, we state that our audit has not led to any reservations with regard to the compliance of the consolidated financial statements or the combined group management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the combined group management report in accordance with Section 317 HGB, the EU Audit Regulation (No. 537/2014; hereinafter “EU-AR”), and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility according to these regulations and standards is described in further detail in the

“Responsibility of the auditor for the audit of the consolidated financial statements and the combined group management report” section of our auditor’s report. We are independent of the consolidated companies in compliance with the provisions of European law, German commercial law and professional law and have fulfilled our other German professional obligations in compliance with these requirements. In addition, we declare pursuant to Article 10 (2) lit. f) EU-AR that we have provided no prohibited non-audit services referred to in Article 5 (4) EU-AR. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions regarding the consolidated financial statements and the combined group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are such matters that, in our professional judgement, were the most significant in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2019. These matters were considered in connection with our audit of the consolidated financial statements as a whole and the formulation of our audit opinion; we do not provide a separate audit opinion on these matters.

Capitalised development costs

Please refer to Section I in the notes to the consolidated financial statements for information on the accounting policies applied.

R for the financial statements

In the consolidated financial statements of Francotyp Postalia Holding AG, internally generated assets of EUR 19.3 million and internally generated assets in development of EUR 10.4 million are shown under “Intangible assets” in the statement of financial position as at 31 December 2019. The internally generated assets therefore account for a total of 16 % of total assets and thus have a material influence on the Company’s net assets.

Development costs for new products are capitalised as internally generated intangible assets when the conditions of IAS 38 are met. As well as technical feasibility, these include the generation of probable future economic benefits from the asset, the availability of technical and financial resources for the completion of the development and the ability to reliably measure the attributable expenditure. The capitalised development costs include direct costs and overheads.

The capitalisation of development costs is based to a significant degree on assumptions and estimates by the legal representatives with regard to the fulfilment of the recognition criteria in accordance with IAS 38. There is a risk for the consolidated financial statements that the capitalised development costs were recognised in the statement of financial position incorrectly in substance or amount.

Our Audit Approach

We analysed Francotyp Postalia Holding AG’s accounting instructions with regard to completeness and conformity with the recognition criteria in accordance with IAS 38.

We assessed the appropriateness, establishment and effectiveness of controls for the “development” process, which the government established to ensure the complete and correct recognition of development costs.

We assessed the legal representatives’ assumptions regarding the fulfilment of the recognition criteria by inspecting a selected sample of the project plans (PAF), the internal records of the development department. To assess reliable measurement, we verified the method used to calculate the capitalisable costs. For the selected sample, we examined the generation of probable future economic benefits from the asset by verifying the estimate of future cash inflows for selected projects via discussion with the development department and inspection of the internal calculations of future sales. In addition, we inspected project cost outlines to validate project progress with regard to technical feasibility.

Conclusion

Francotyp-Postalia Holding AG has established a proper process for recognising development costs in accordance with IAS 38. The assumptions underlying the recognition of development costs are appropriate overall.

Impairment testing of goodwill

Please refer to Section I in the notes to the consolidated financial statements for information on the accounting policies applied. Information on the impairment tests carried out can be found in the notes in Section IV, no. 11.

R for the financial statements

As at the reporting date of 31 December 2019, goodwill amounted to EUR 4.6 million. Goodwill is tested annually for impairment at the level of the respective cash-generating unit (CGU). The CGUs are IAB, FP Invoblabs, FP USA and freesort.

For this purpose, the carrying amount is compared with the recoverable amount of each cash-generating unit. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised. The recoverable amount of a cash generating unit is the higher of the cash-generating unit’s fair value less costs to sell and its value in use.

If the value in use of the cash-generating unit is higher than its carrying amount, the Company does not determine fair value less costs to sell.

Impairment testing of goodwill is complex and based on a range of assumptions that require judgement, including with regard to the anticipated revenue increases, in the case of the freesort CGU especially the increase in the mail volume, the improvements in the gross profit margins, assumed sustainable growth rates and the discount rate used, and is therefore subject to considerable uncertainty.

1) Translation of the auditor’s report.

With regard to the expected revenue increases, the freesort CGU's economic situation again did not develop as planned in fiscal year 2019. The reduction of the expected future cash inflows of this CGU resulted in goodwill impairment of EUR 5.9 million in the reporting year. Further impairment will be required if the earnings prospects of the other CGUs deteriorate more than expected or there is an increase in the discount rate.

In light of this and the underlying complexity of the measurement model this matter was particularly significant for our audit.

There is a risk for the consolidated financial statements that impairment in excess of the impairment existing as at the reporting date was not recognised in an appropriate amount. There is also a risk that the related disclosures in the notes are not appropriate.

Our Audit Approach

With the involvement of our valuation specialists, we assessed the appropriateness of the significant assumptions and the calculation method of Francotyp-Postalia Holding AG. For this purpose, we discussed the expected business and earnings development and the assumed sustainable growth rates with those responsible for planning and the management of the respective CGU. We also reconciled this information with other internally available forecasts, e.g. the budget prepared by the Management Board and approved by the Supervisory Board.

Furthermore, we confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous fiscal years with actual results and by analysing deviations. In particular, we had the management explain the reasons for the missed forecast in 2019.

We compared the assumptions and parameters underlying the discount rate, in particular the risk-free rate, the market risk premium and the beta coefficient, with our own assumptions.

To ensure the computational accuracy of the valuation model used, we verified the Company's calculations on the basis of selected risk-based elements.

In order to take account of forecast uncertainty, we investigated the impact of potential changes in the discount rate, earnings performance and the sustainable growth rate on the recoverable amount by calculating alternative scenarios and comparing them with the values stated by the Company (sensitivity analysis).

Finally, we assessed whether the disclosures in the notes regarding impairment of goodwill were appropriate. This also included an assessment of the appropriateness of the disclosures in the notes regarding sensitivities to a reasonably possible change in key assumptions used for measurement.

Our Conclusions

The calculation method used for impairment testing of goodwill is appropriate and in line with the accounting policies to be applied. The Company's assumptions and parameters used for measurement are appropriate overall. The related disclosures in the notes are appropriate.

Other information

The legal representatives or the Supervisory Board are responsible for the other information. The other information includes the following parts of the combined group management report, the contents of which were not audited:

- the separate combined non-financial report of the Company and the Group, to which the combined group management report refers, and
- the combined declaration on corporate governance of the Company and the Group, to which the combined group management report refers.

The other information also includes the remaining parts of the annual report. The other information does not include the consolidated financial statements, the audited disclosures in the combined group management report or our accompanying auditor's report.

Our audit opinions regarding the annual financial statements and the combined group management report do not extend to the other information, and accordingly we provide neither an audit opinion nor any other form of audit conclusion in this regard.

As part of our audit, we have a responsibility to read the other information listed above and to evaluate whether it

- exhibits material discrepancies with the annual financial statements, the audited disclosures in the combined group management report or the knowledge we have obtained during our audit, or
- otherwise seems to be materially misstated.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the combined group management report

The legal representatives are responsible for preparing the consolidated financial statements, which in all material respects comply with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB, and for the consolidated financial statements giving a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the legal representatives are responsible for the internal controls that they deemed necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's status as a going concern. In addition, they have a responsibility to disclose matters related to the status as a going concern, if relevant. They are also responsible for accounting on the basis of the going concern principle, unless they intend to liquidate the Group or discontinue its business operations, or there is no realistic alternative.

Moreover, the legal representatives are responsible for preparing the combined group management report, which as a whole provides an accurate view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. The legal representatives are also responsible for the arrangements and measures (systems) that they considered necessary to enable the preparation of a combined group management report in compliance with applicable German legal regulations and to allow sufficient, suitable evidence to be provided for the statements in the combined group management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the combined group management report.

Responsibility of the auditor for the audit of the consolidated financial statements and the combined group management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined group management report as a whole provides an accurate view of the Group's position and is in all material respects consistent with the consolidated financial statements and with the findings of the audit, complies with German legal regulations and suitably presents the opportunities and risks of future development, and to issue an auditor's report containing our audit opinions regarding the consolidated financial statements and the combined group management report.

Reasonable assurance is a high level of assurance but not a guarantee that an audit carried out in compliance with Section 317 HGB, the EU-AR and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements can result from transgressions or inaccuracies and are deemed material if it could be reasonably expected that they would individually or together influence the financial decisions made by users on the basis of the consolidated financial statements and combined group management report.

We exercise due discretion during the audit and maintain a critical attitude. In addition,

- we identify and evaluate the risk of material misstatements, whether due to fraud or error, in the consolidated financial statements and the combined group management report, plan and implement audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk that material misstatements are not uncovered is higher in the case of transgressions than in the case of inaccuracies, as transgressions can entail fraudulent collaboration, falsifications, deliberate omissions, misleading depictions or the suspension of internal controls.

- we gain an understanding of the internal control system relevant for the audit of the consolidated financial statements and of the arrangements and measures relevant for the audit of the combined group management report in order to plan audit procedures that are appropriate given the circumstances, but not with the aim of providing an audit opinion regarding the effectiveness of these systems.
- we evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values presented by the legal representatives and the associated disclosures.
- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is material uncertainty regarding events or circumstances that could cause significant doubt about the Group’s ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we are obliged to call attention to the associated disclosures in the consolidated financial statements and in the combined group management report in the auditor’s report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor’s report. However, future events or circumstances may mean that the Group is no longer a going concern.
- we evaluate the consistency of the combined group management report with the consolidated financial statements, its legality and the view it gives of the position of the Group.
- we conduct audit procedures regarding the forward looking disclosures made by the legal representatives in the combined group management report. On the basis of sufficient appropriate audit evidence, we examine the significant assumptions underlying the legal representatives’ forward-looking disclosures in particular and evaluate the appropriateness of the derivation of the forward-looking disclosures from these assumptions. We do not provide a separate audit opinion regarding the forward-looking disclosures or the underlying assumptions. There is a considerable, unavoidable risk that future events will differ significantly from the forward-looking disclosures.

Topics for discussion with those responsible for monitoring include the planned scope and scheduling of the audit as well as significant audit findings, including any deficiencies in the internal control system that we find during our audit.

We issue a statement to the monitors to the effect that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be assumed to affect our independence and the safeguards put in place to protect against this.

From among the matters that we have discussed with the monitors, we determine which matters were most significant in the audit of the consolidated financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in the auditor’s report, unless laws or other legal provisions preclude their public disclosure.

- we evaluate the overall presentation, the structure and the content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315a (1) HGB.
- we obtain sufficient appropriate audit evidence for the Company’s accounting information or business activities within the Group in order to provide audit opinions regarding the consolidated financial statements and the combined group management report. We are responsible for directing, monitoring and implementing the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.

Other statutory and legal requirements

Other disclosures pursuant to Article 10 EU-AR

We were elected as the auditor of the consolidated financial statements by the Annual General Meeting on 28 May 2019. We were engaged by the Supervisory Board by letter dated 31 October 2019. We have been the auditor of the consolidated financial statements of Francotyp-Postalia Holding AG without interruption since fiscal year 2009.

We declare that the audit opinions contained in this auditor’s report are consistent with the additional report to the Audit Committee according to Article 11 EU-AR (audit report).

Responsible auditor

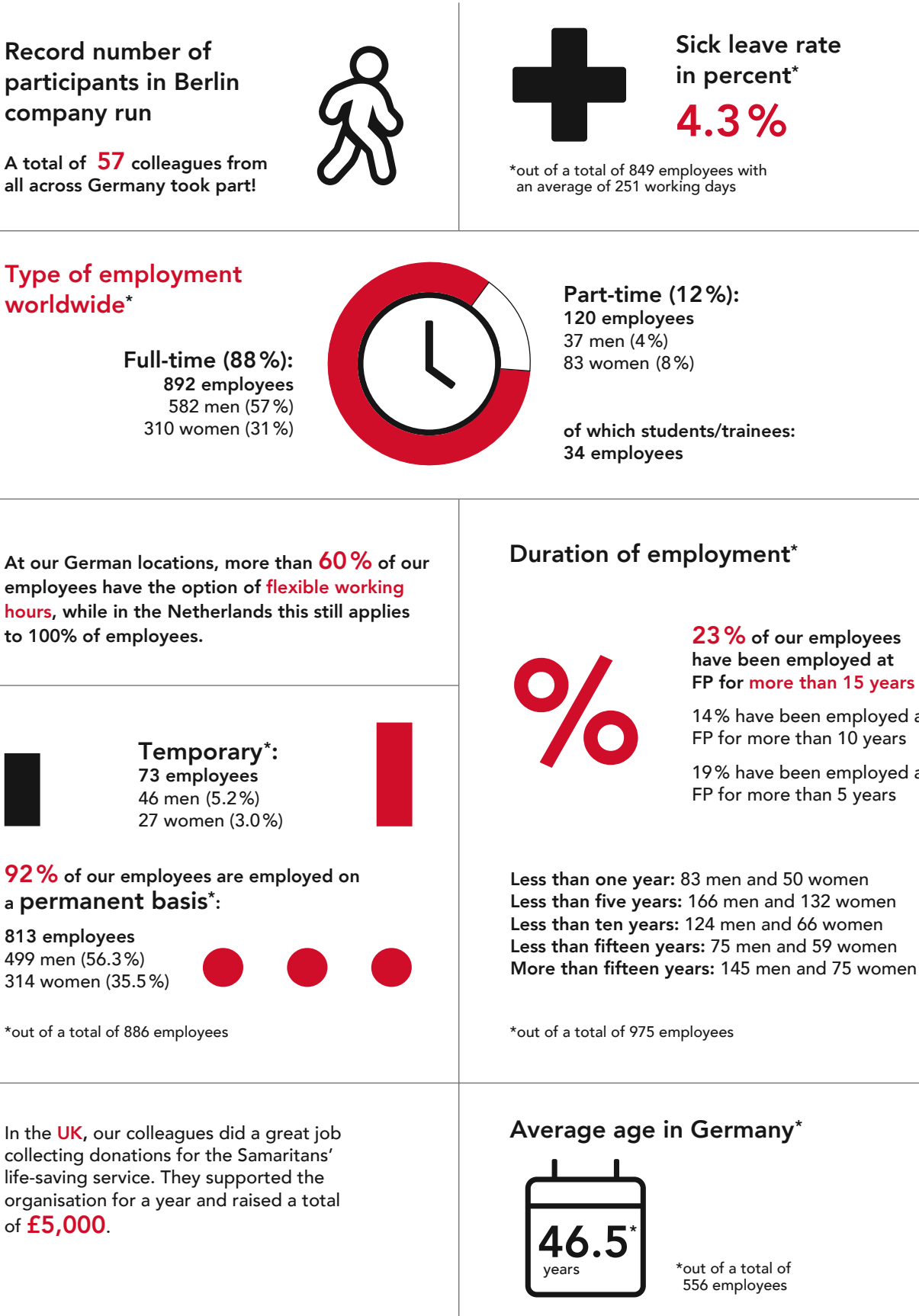
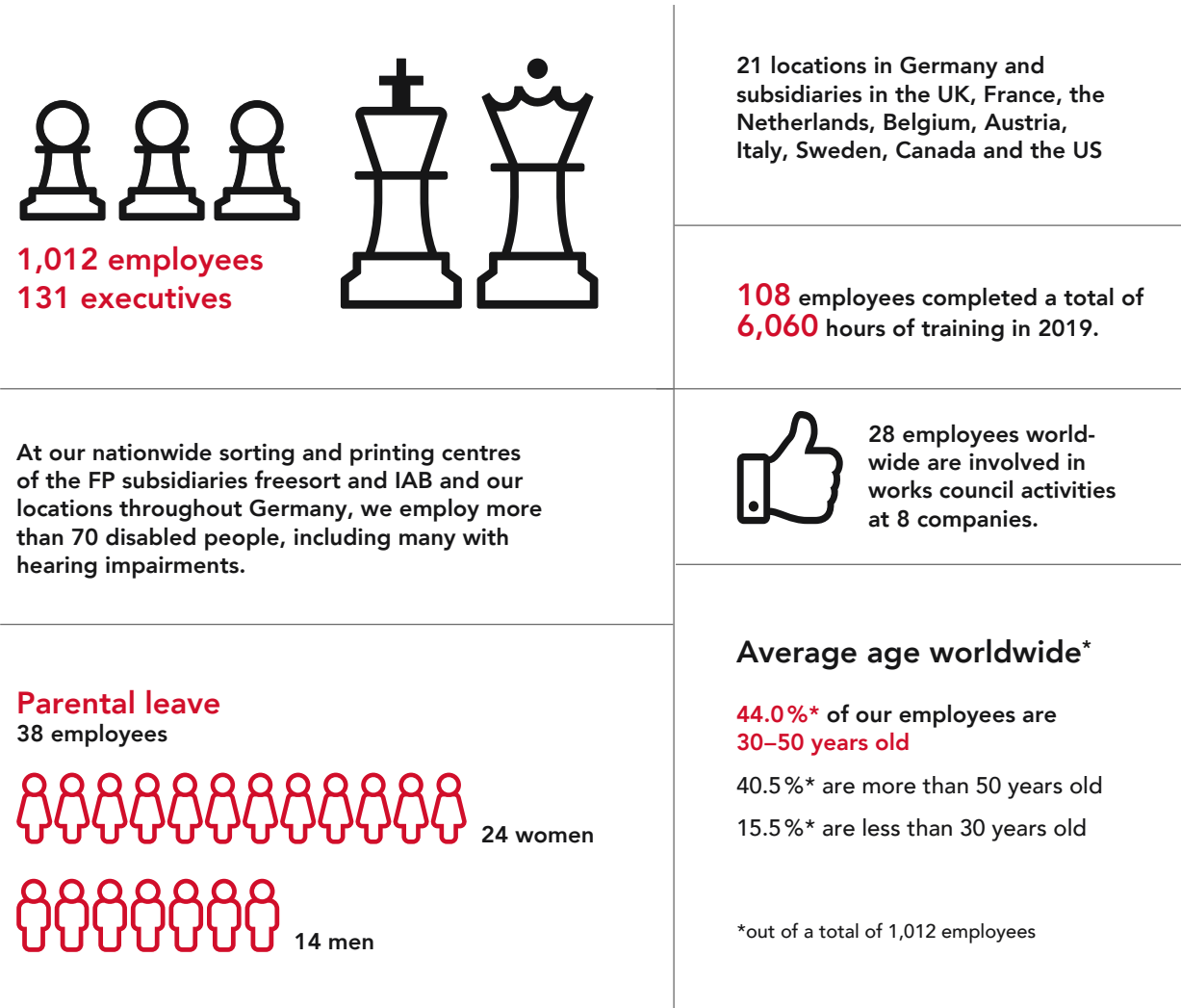
The auditor responsible for the audit is Patrick Waubke

Berlin, 17 May 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft

Waubke German Public Auditor	Unger German Public Auditor
---------------------------------	--------------------------------

FP: Responsibility in Figures for 2019



For the sake of simplicity, we sometimes use gender-specific language. Particularly in the context of a gender-neutral and non-discriminatory approach, this is of course intended to refer to all genders, including LGBTQIA+ (lesbian, gay, bisexual, transsexual, transgender, queer, intersexual and asexual people).

Glossary

A
ACT
ACT is the Group strategy announced in 2016 comprising the elements ATTACK, CUSTOMER and TRANSFORMATION with the aim of sustainable growth and increasing profitability.

Agile methods
Agile methods are principle-based approaches for higher efficiency in software development.

Actuation
Actuation describes the signal-controlled response of drive components to certain operating conditions.

API
Application programming interface.

App
Program for smartphones and tablet computers.

A segment
The franking machine segment for customers with low mail volume (up to 200 letters per day).

ATTACK (ACT strategy)
Expanding the customer base, revenue growth and increasing the market share in the core business.

B
Bluetooth
Standard for the wireless transfer of data between different electronic devices over a distance of around ten metres. Bluetooth has superseded infra-red technology in this segment.

B segment
The franking machine segment for customers with medium mail volume (200-2,000 letters per day).

BSI
German Federal Office for Information Security.

C
CDS spreads
A credit default swap (CDS) is a credit derivative that allows the default risks of loans or bonds to be traded. Spread is the difference between bid and ask prices.

CGU
According to International Financial Reporting Standards (IFRS), a cash generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (IAS 36.6).

Slogan
A slogan is a short but crucial statement and a company’s value proposition regarding itself. See German Mailgeneering.

Cloud services
Provision of IT infrastructure such as processing power, memory space or application software as a service over the internet.

Concept of operation
A concept that describes the features of a system from the perspective of a user.

Connectivity
The ability of systems to establish a connection with other systems.

Credit facility
Sum of all credit lines that are available to a customer to cover a credit requirement from one or several banks (usually in exchange for collateral) and that the customer can draw upon as required.

CRM
Customer relationship management system. Software solution for the systematic configuration of customer relationship processes.

Cross-selling
Efforts to sell customers complementary products or services.

Cryptography
Originally the science of the encryption of information. Today, cryptography also concerns the conception, definition and design of information systems and information security.

C segment
The franking machine segment for customers with high mail volume (more than 2,000 letters per day).

CUSTOMER (ACT strategy)
Developing new solutions and services for existing and new customers.

Cyberattack
Targeted, external attack on major computer networks that are important for specific infrastructure.

D
Dashboard
Method to clearly present information on a monitor using small programs that are designed to look like traditional dashboard gauges.

Design sprint
A time-limited, five-step process of design thinking with the aim of reducing the risk for the market launch of a new product or service.

Currency swap
In a currency swap, two contracting parties swap two currencies at the current exchange rate and then swap them back at the same rate at a later date.

discoverFP
Our FP portal that acts as a shop window for our portfolio and provides access to nearly all FP products. discoverFP gives customers an overview of their relevant franking system data and the integrated help centre enables them to view invoices, orders, contracts and service requests. Similar to an app store.

DNA
Scientific definition: deoxyribonucleic acid, carrier of unique genetic information, i.e. the material basis for genes. The “DNA” of a company means the particular characteristics of a company that give it a competitive edge or bundle unique selling propositions. FP’s DNA is defined by actuation, sensor technology, connectivity and cryptography.

E
Edge computing
Decentralised data processing at the edge of the network via intelligent devices. Model for IoT.

eIDAS
European regulation on electronic identification and trust services for electronic transactions.

Electronic signature (e-signature)
Data record that confirms the identity of the sender of an e-mail, for example, and that the message has not been changed. Legally binding by dint of European directive and German Digital Signature Act in the form of the qualified electronic signature.

Embedded software
Software that takes on certain control, monitoring and corrective functions within technical apparatus, e.g. in a car.

EMC
Electromagnetic compatibility. Ability of an electronic device not to interfere with others through electromagnetism.

End-to-end solution
End-to-end solution means that FP as a provider of an application program, software and a system meets all of the customer’s software and hardware requirements, so no other provider is involved in meeting the requirements. Everything from a single source, covering the entire value chain.

ERP
Enterprise resource planning. ERP systems support the planning of enterprise resources such as finance, human resources, merchandise, etc. ERP combines various back-office systems such as production, finance, HR, sales and materials management systems.

ESD
Electrostatic discharge.

F
Finance lease
A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership. All other leases are classified as operating leases. The classification is made at the commencement of the lease [IAS 17.4 and 8].

Financial covenants
Blanket term for additional contractual clauses or side agreements in loan and bond agreements with enterprises.

Forfaiting
The purchase of receivables – usually without recourse to the seller in the event of default.

FP Fit4Change

Human resources initiative in which around 1,000 employees took part in six languages and more than 40 workshops.

FP Input

FP Input takes on structured incoming mail processing of all incoming mail including digital storage of scanned documents.

FP Output

FP Output takes over the customer’s data flows. FP takes care of the entire production process from the preparation of data, printing, inserting, franking and handing over the letters to the delivery service or alternatively digital delivery.

FP Parcel Shipping

A new FP solution for parcel shipment with multi-carrier selection, franking and tracking of parcels.

Part-performance discount

A part-performance discount is granted under part-performance contracts with Deutsche Post when letters are delivered, processed and consolidated at a sorting office.

FP Portal

See discoverFP.

FP Product Roadmap

An ACT project to develop new products and services in the field of franking systems.

FP secure gateway

The latest FP product “FP Secure Gateway” is the perfect solution for security requirements in the IoT environment and has a scalable number of input sensors.

FP Sign

FP Sign is a cloud-based software solution for the secure, confidential and legally binding digital signing and exchange of contracts and documents.

FP WebBrief24

Online letter service for private customers. Users transmit their text via a browser-based app to FP, which prints, inserts and sends the letter. The service is available starting with a single letter.

Freedom to operate analysis

Analysis of whether third parties already have property rights with respect to the development, manufacture and market launch of a new product.

G

Gateway

Component (hardware and/or software) that establishes a connection between two systems.

German Mailgeneering

Slogan. MAIL: Our core business, derivation (origin) and expertise. GENEERING is the development and modification of DNA, even that of a company, in order to give it a new character (future). ENGINEERING = the know-how required for the development/change).

Going concern

Positive forecast of continuation for the coming fiscal year.

H

Hardware security module

External or internal computer accessory for encrypting and decrypting sensitive data..

Hybrid mail services

Hybrid mail services transform data into mailable letters and vice versa..

I

Industry 4.0

Term from the German federal government’s High-Tech Strategy 2020, which postulates the fourth industrial revolution. Following mechanisation (Industry 1.0), mass production (2.0) and automation (3.0), production in Industry 4.0 is governed by the Internet of Things.

Infrastructure discount

Since 1 January 2018, the infrastructure discount has replaced Deutsche Post AG’s volume discount. This requires specific conditions to be met, including with regard to machine-readable postage paid impressions.

Insertor release

A new option to combine inserting and franking.

Intellectual property

A category of property that includes intangible creations of the human intellect.

IoT

Internet of Things. The Internet of Things in industrial application, synonymous with Industry 4.0.

Iteration

The process of repeating the same or similar actions multiple times to approximate a solution or a certain target.

J

Juconn GmbH

Since January 2019, FP has held a 15% interest in Juconn GmbH in order to offer customers the entire IoT value chain.

JUMP

ACT project supporting FP in its transformation into a more agile, more dynamically growing company.

M

Mail Services

The Mail Services segment comprises the franking service – collecting unfranked outbound post and providing the franking – and the consolidation service – sorting the post by postcode and delivering it in batches to a sorting office of Deutsche Post AG or an alternative postal distributor (Secure mail business).

O

Operating lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership. All other leases are classified as operating leases. The classification is made at the commencement of the lease [IAS 17.4 and 8].

P

PKI

In cryptology, public key infrastructure is a system that can issue, distribute and check digital certificates.

PostBase One

PostBase One replaced CentorMail in spring 2016 and is a new system in the upper performance class of the PostBase product family. PostBase One enables the franking of medium and large mail volumes.

PostBase Vision

PostBase Vision is the consistent further development of the PostBase “Classic” franking system, which was introduced in 2012. The colour touch display that adapts to the user automatically has increased in size by 40% and swivels automatically. It now allows users to control functions with swiping gestures and enter text and QR codes on the PostBase Vision directly.

PostBase100

PostBase 100 is a system of the PostBase product family. A special feature is its dynamic scale, which allows customers to conveniently process stacks of uniform mixed mail.

Proof of concept

Demonstration of feasibility.

S

Sale and lease back

Sale of assets that are then used by way of rental or leasing.

Sensor technology

With sensor technology, external and internal operating conditions are recorded by sensors, which are used to control drive components via special software programs.

Shared service centre (SSC)

Pooling of an organisation’s internal services with the aim of achieving greater efficiency through synergies.

Secure digital communication processes

FP’s second business area, which deals exclusively with digital products, solutions and services (IoT, Secure Gateways, cloud solutions, software and much more). First business area: secure mail business (core business dealing with mail communication, including franking, inserting, consolidation, postage optimisation, services).

Secure mail business

FP’s first business area: secure mail business, i.e. core business dealing with all mail communication, including franking, inserting, consolidation, postage optimisation, services. Stands alongside FP’s second business area (secure digital communication processes, dealing with digital products, solutions and services, such as IoT, Secure Gateways, cloud solutions, software and much more).

Signature

Legally binding signature. An electronic signature, or e-signature, can replace a handwritten signature. FP Sign is a service for signing digital documents in conformity with the law.

Signature (digital, electronic)

See e-signature, FP Sign.

Social media

Blanket term for online services such as Facebook or Twitter, which allow users to communicate with each other in groups and to share content.

Stärkenkompass

Stärkenkompass is the world’s first and only digital tool for collecting and visualising feedback on strengths. More than 1,000 FP employees around the world attended the Stärkenkompass workshops.

Start-up

Newly founded company.

Strategic controller

Strategic control is used to describe the process companies use to control the preparation and execution of strategic plans.

T

Time to PoC

Time to proof of concept (PoC). Important milestone in project development. Basis for further work, as it validates the project concept. It thus services as decision basis for the further course of the project and allows the identification and minimisation of risks.

Tixi.com

The operations of the IoT specialist were acquired in May 2018.

TRANSFORMATION (ACT strategy)

Developing new, digital business areas.

Triggering event

Event that triggers an impairment test.

U

Upselling

Efforts to offer customers higher-value products and services as a next step.

V

Vision

With our innovative, efficient products and services, we make our customers’ lives easier, leaving them more time and thus greater enjoyment in their everyday work.

W

White spot

Market segments that are not yet served or are served only by a few current offers (also “unused market potential” or “identification of opportunities for innovation”).

WIFI (WLAN)

Wireless local area network. Short-range local data transmission network using radio waves. Internationally mostly referred to as WiFi.

Financial calendar

FINANCIAL CALENDAR

Consolidated Financial Statements 2019	18.05.2020
Results for the First Quarter 2020	28.05.2020
Annual General Meeting, Berlin	17.06.2020
Results for the Half Year 2020	27.08.2020
Results for the Third Quarter 2020	16.11.2020

We cannot exclude the possibility of postponements, please check the current status at <http://www.fp-francotyp.com>.

Imprint

Editor and Contact

Francotyp-Postalia Holding AG
Corporate Communications / Investor Relations
Prenzlauer Promenade 28
13089 Berlin Germany

Telephone: +49 (0)30 220 660 410
Telefax: +49 (0)30 220 660 425
Email: ir@francotyp.com
Internet: www.fp-francotyp.com

Concept, Design and Production

Concept, text and layout of image section:
Groothuis. Gesellschaft der Ideen und Passionen mbH für
Kommunikation und Medien, Marketing und Gestaltung

Photo credits:

P. 7, P. 11, P. 15, P. 17, P. 21: © Francotyp-Postalia;
P. 23: Andrey Popov © Adobe Stock, Soonthorn © Adobe
Stock, Werner © Adobe Stock, karegg © Adobe Stock;
P. 29: Groothuis © Rainer Groothuis

Photos Management Board © Romanus Fuhrmann
<https://www.romanusfuhrmann.com>

Print

Gutenberg Beuys Feindruckerei, Langenhagen / Hanover
www.feindruckerei.de

This report was printed on certified paper from sustainably managed forests.



Third sustainability report

Successful transformation requires sustainability – transformation means responsibility: Sustainability has long been a firm fixture at numerous levels of our company. Growing sustainably is part of our responsibility as a global corporation to our employees, to our customers and suppliers, to our shareholders, and to our social and natural environment. Growing keeps us in a position to constantly improve our fulfilment of this responsibility. Our comprehensive sustainability report (separate non-financial report) describes how we meet this responsibility. It is available on our website at <https://www.fp-francotyp.com/sustainability-report>.¹⁾

Forward Looking Statement

This annual report contains statements that relate to the future and are based on assumptions and estimates made by the management of Francotyp-Postalia Holding AG. Even if the management is of the opinion that these assumptions and estimates are appropriate, the actual development and the actual future results may vary from these assumptions and estimates as a result of a variety of factors. These factors include, for example, changes to the overall economic environment, the statutory and regulatory conditions in Germany and the EU and changes in the industry. Francotyp-Postalia Holding AG makes no guarantee and accepts no liability for future development and the actual results achieved in the future matching the assumptions and estimates stated in this annual report. It is neither the intention of Francotyp-Postalia Holding AG nor does Francotyp-Postalia Holding AG accept a special obligation to update statements related to the future in order to align them with events or developments that take place after this report is published.

The annual report is available in German. If there are variances, the German version has priority over the English translation. It is available for download in both languages at www.fp-francotyp.com.¹⁾

¹⁾ This cross reference is not part of the audit of the financial statements by KPMG AG Wirtschaftsprüfungsgesellschaft.

Multi-Year Overview

FIGURES IN ACCORDANCE WITH CONSOLIDATED FINANCIAL STATEMENTS (in EUR million)

	2019	2018	2017	2016	2015
Revenue	209.1	204.2	206.3	203.0	191.1
Recurring revenue	161.2	160.6	162.6	161.9	154.3
EBITDA	33.3	17.3	26.3	27.2	26.8
as percentage of revenue	15.9	8.5	12.8	13.4	14.0
EBIT	5.9	0.0	7.3	9.7	9.0
as percentage of revenue	2.8	–	3.5	4.8	4.7
Consolidated net income	1.7	0.9	4.6	6.2	3.7
as percentage of revenue	0.8	0.4	2.3	3.1	1.9
Free cash flow	1.7	3.0	5.8	4.6	–1.4
Adjusted free cash flow	12.4	10.9	9.9	9.5	
Equity capital	16.3	16.3	16.3	16.2	16.2
Shareholders' equity	32.0	31.3	33.0	35.9	35.2
as percentage of balance sheet total	17.2	18.7	19.4	21.5	22.6
Return on equity (%)	5.3	2.9	14.1	17.2	10.6
Debt capital	154.3	136.0	136.8	131.4	120.9
Net debt	31.7	18.1	19.5	19.8	20.4
Net debt ratio (%)	99.0	58.0	59.0	55.0	57.9
Balance sheet total	186.3	167.2	169.8	167.3	156.2
Share price end of year (EUR)	3.45	3.00	4.66	5.49	4.34
Earnings per share (basic in EUR)	0.11	0.06	0.29	0.36	0.22
Earnings per share (diluted in EUR)	0.11	0.06	0.28	0.36	0.22
Employees (end of period)	1,012	1,055	1,067	1,052	1,048

Comparative period 2018 adjusted.

Key Figures

FIGURES IN ACCORDANCE WITH CONSOLIDATED FINANCIAL STATEMENTS (in EUR million)

	2019	2018	Veränderung in %
Revenue	209.1	204.2	2.4
Recurring revenue	161.2	160.6	0.4
EBITDA	33.3	17.3	92.6
as percentage of revenue	15.9	8.5	
EBIT	5.9	0.0	n.a.
as percentage of revenue	2.8	–	
Consolidated net income	1.7	0.9	85.4
as percentage of revenue	0.8	0.4	
Free Cashflow	1.7	3.0	–44.4
Adjusted free cash flow	12.4	10.9	13.9
Equity capital	16.3	16.3	0.0
Shareholders' equity	32.0	31.3	2.3
as percentage of balance sheet total	17.2	18.7	
Return on equity (%)	5.3	2.9	
Debt capital	154.3	136.0	13.5
Net debt	31.7	18.1	75.0
Net debt ratio (%)	99.0	58.0	
Balance sheet total	186.3	167.2	11.4
Share price end of year (EUR)	3.45	3.00	15.0
Earnings per share (basic in EUR)	0.11	0.06	85.4
Earnings per share (diluted in EUR)	0.11	0.06	85.6
Employees (end of period)	1,012	1,055	–4.1

**"Activists" and "old warhorse"
are terms we take as a compliment.**

**And, yes, autumn was indeed
eventful: we wanted to make up
our lost ground on the revenue
front, which we more or less
succeeded in doing.**

**Certainly, we did not manage
to achieve everything
we wanted. However, it's also
correct to say that we're on
the right track – we are
secure digital communication.**

**For everyone the torch of truth
throws different shadows.**