A vision is
becoming reality.

Dynamic

Security
IoT

Welcome
to the 2018 Annual Report of
FRANCOTYP-POSTALIA HOLDING AG

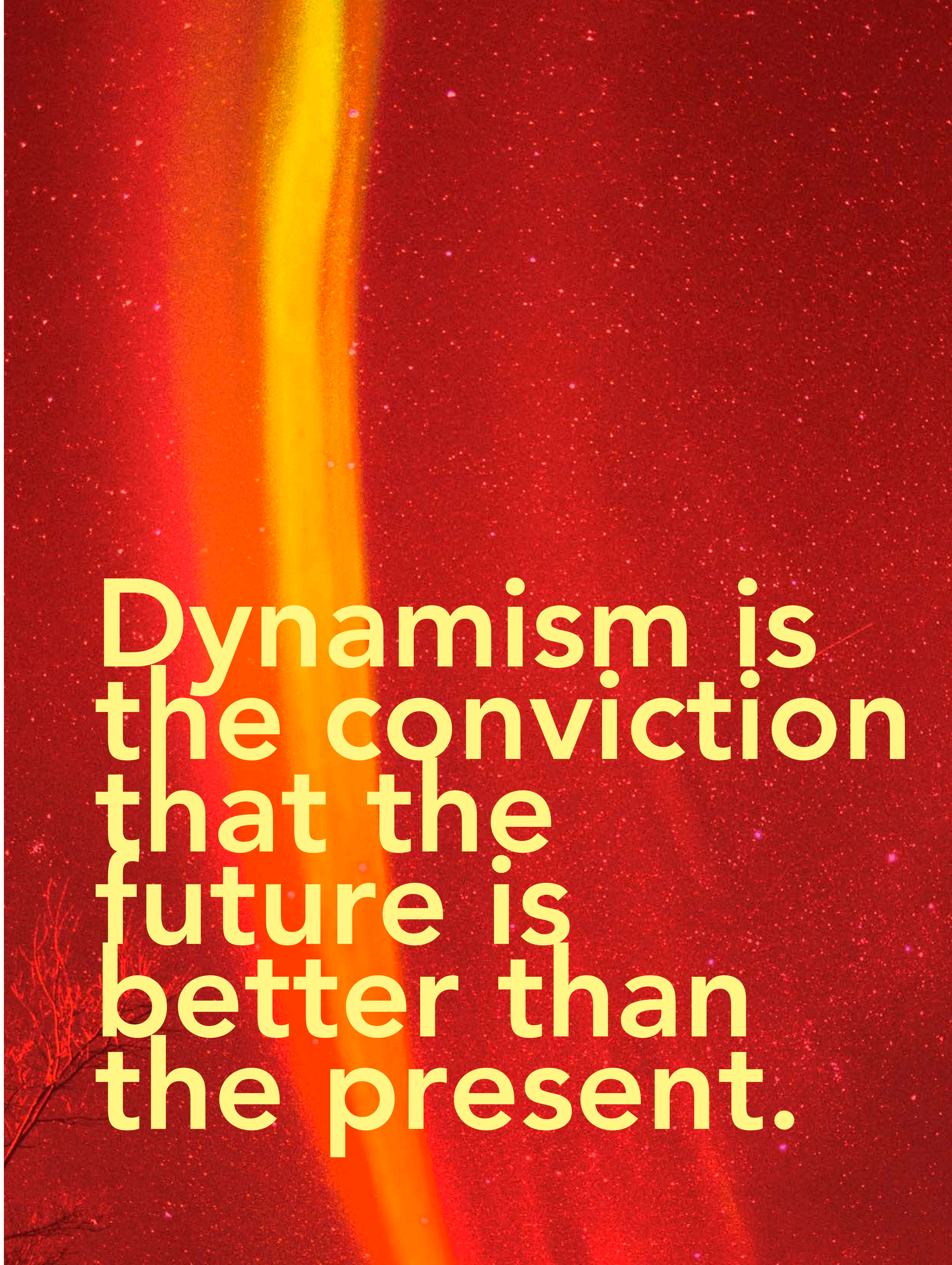
THE KEY FIGURES CAN BE FOUND INSIDE THE FLAP –>

**Internet of Things: IoT is the megaboom market of our time.
Its growth: dynamic.
Its exploding requirement: security.
The more things and processes are connected, the more vulnerable they are to cyberattacks. We are hearing about attacks and acts of sabotage on a daily basis.
So the demands on security standards are growing rapidly – and with them the market for IoT security technology: by 35%.**

**And that's us! FP has been with security for 96 years – the heart of the franking machine is now the FP hardware security module, and our Secure IoT Gateways make us the technology leader.
We are primed for the requirements of the makets of our digital future, because security is our passion.
We are FP.**

Market: Your growth and earnings targets are very ambitious – how do you intend to achieve them?

FP: We continue to attack and are making progress in our core business, the franking machine market and secure mail business and associated services.
Our secure digital communication offerings cause some positive surprise – we accompany our customers on their journey to the digital world.
Our future is not written in the stars – we are dynamically shaping it ourselves.



Market: What will **FP** look like in five years?

FP: In 2023, we will be the first brand worldwide that customers think of and entrust with their tasks when it comes to secure mail business and secure digital communication processes. We will make their lives easier and thus their daily routines that little bit more enjoyable.
We have expanded the franking machine business, are active and successful in the new digital markets – and **FP** will be lean, efficient and highly profitable.
We are building bridges to this future every day.

Customers, data, potential – from the franking machine to IoT.
SaidDoneDelivered, e.g.

CERTAIN: A key element of our ACT strategy is to use our core technology, to enhance it and to launch IoT Gateways that give us access to new sectors and markets – we started with our Secure Gateways, with which we securely connect data sources and cloud services.
! The transfers of more than EUR 1.2 billion a year via our hardware security modules in franking machines are secured thanks to the cryptography chips we use.
! These data flows, which represent genuine cash value, have never been hacked.
I call this security at its finest!

CERTAIN: Our 200,000 mid-size customers are our most important resource, whom we can offer more advantages, which is also to our advantage:
! They too are undergoing the digitalisation process – for which they require advice and support and are looking for simple, customised, secure, reliable and cost-effective solutions.

The potential of our future is the success of our past:
We accompany SMEs into the digital era;
we have the necessary expertise, the essential digital products, the access to decision-makers.

CERTAIN: With JUMP, we are streamlining the internal organisation, strengthening the strategy, management and excellence functions, breaking open traditional departments and replacing them with a new, process-oriented organisation system. JUMP is an extremely ambitious project, but it is making **FP** a leaner and more dynamic growth company.

CERTAIN: Our franking machines are acclaimed and considered the best in the world – *made in Germany*, driven by our engineers' desire to discover new things, to invent new things. We are keeping this going – the new PostBase Vision is currently being launched on the markets.

CERTAIN: The market for e-signatures is at least three times the size of the franking market, and booming!

CERTAIN: For us and our experience, the IoT security market is ... let me put it simply: a real windfall.

We already have one of the largest and most advanced IoT networks in the world:
It guarantees transactions every second in over 150,000 devices worldwide with the highest security.

**"The necessity of security links the franking machine with the digital age. Our know-how in cryptography, actuator technology, connectivity and sensors provides many answers for the billion-euro Internet of Things market.
FP today: More than 1,000 people working together to make communication secure and convenient for over 200,000 customers in 40 countries – we call this 'German Mailgeneering'."**

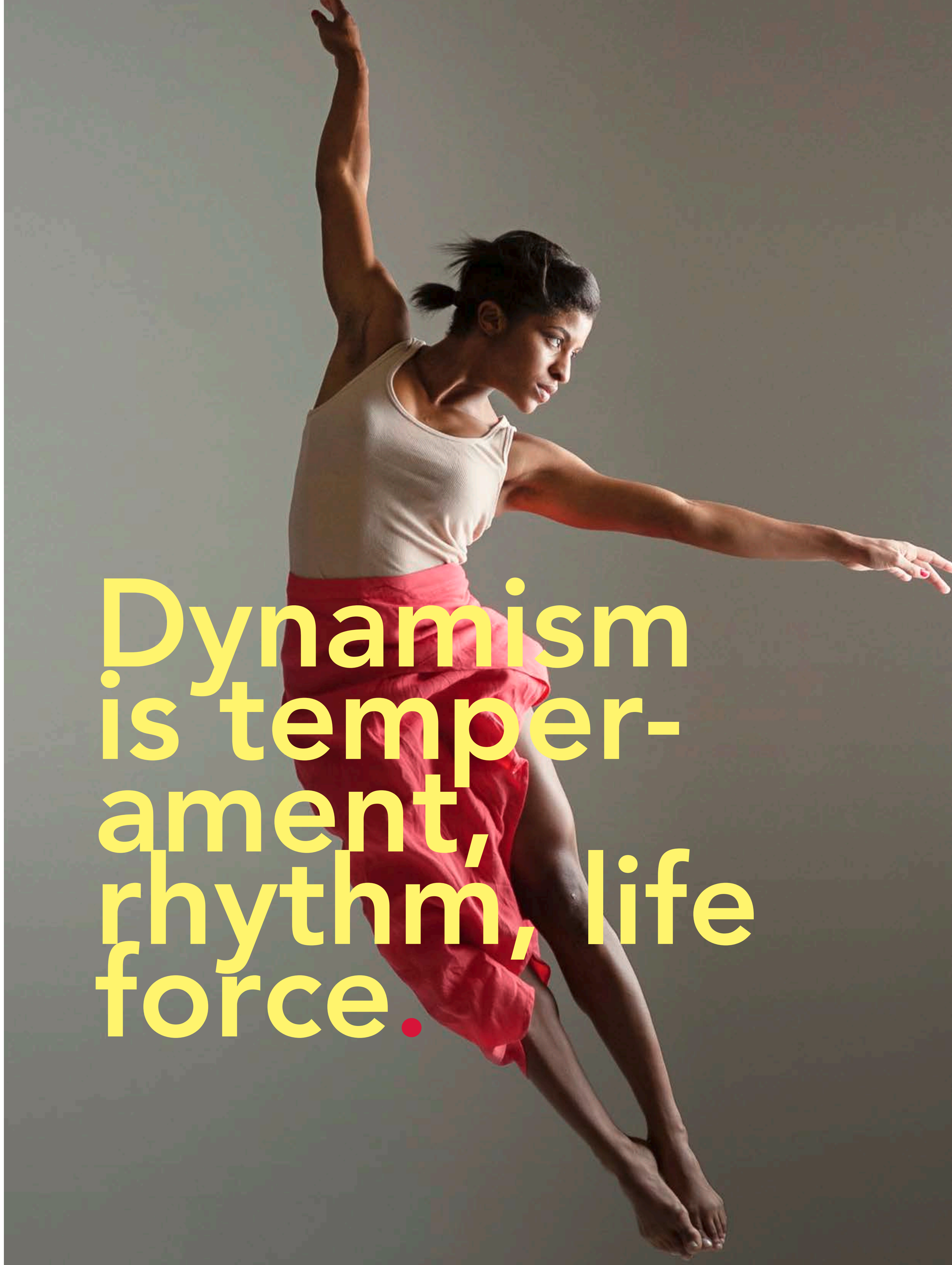
**Rüdiger Andreas Günther,
Chief Executive Officer
Chief Finance Officer (CEO/CFO)**

Market: What progress has **FP** made thanks to ACT, its growth strategy?

FP: Although it hasn't all happened as fast as we imagined in 2016 when the Management and Supervisory Boards approved ACT, we have achieved a lot.
With ACT, we are imbuing the company with a new spirit. We continue to gain market shares, especially in our core markets, and have thus been outperforming the competition for twelve (!) quarters now. We are also making progress on the restructuring of FP and the development of our digital products for the markets of the future.

Market: Why is **FP** increasing revenue in the franking machine market, but not the competition? How long can you sustain the growth in shrinking core markets?

FP: This is in line with our temperament – where others make room, we expand to fill the space. The market for franking machines may not be a boom market, but our innovation offers us widening margins as the competition declines. The entry barriers are high, the cash flows good. This will continue for another few years – years that we know how to make good use of.



Market: Your major structural programme JUMP is costing a small fortune – is it worth it? What changes is it bringing? Is JUMP actually improving the results of operations?

FP: The old FP was not sufficiently prepared for the challenges of the new markets and the developments in its traditional core business. It had to become more flexible, agile and creative, the organisation streamlined.
FP needed targeted change, i.e. it needed JUMP – we are leaving no stone unturned here.

JUMP, FP und IoT – digital development.
SaidDoneDelivered, e.g.

SAID: Based on the preliminary work for the ACT strategy, it became clear that **FP** had to change, transform, increase efficiency and speed, further improve quality – we needed a new target operating model and new processes and much more to make us more profitable. That is why we enacted JUMP.
DELIVERED: JUMP is under way; we are on track. With JUMP, we are transforming **FP**
! from a financial holding company to a strategic controller,
! from a decentralised to a central structure, instead of local activities we are bundling tasks,
! from a functional to a processoriented organisation
– with clear process responsibilities,
– with distinct areas of responsibility,
– without white spots in the organisation,
– with standardised, country-specific activities and
– with a high-performance corporate culture.

! We are setting up shared service centres, e.g. for Accounting, Tax, Controlling, Sales, Services and other functions, in order to standardise processes and implement global governance.
! We are installing a new ERP/CRM system throughout the Group and thus harmonising the internal IT infrastructure.

In 2018, we shouldered expenses of EUR 8 million for JUMP – from 2020, we will save EUR 6 million a year: I call that an appropriate investment in a successful future.

SAID: With the ACT strategy, we have also stated: **FP** goes digital, and how!
DELIVERED: Our transformation through technology is becoming more dynamic.
! In 2020, more than 28 billion devices worldwide will be connected to the Internet of Things (IoT). Our market for IoT security technology is growing by 35% (!) a year, even faster than revenue for IoT devices, which analysts put at 16%.
! Our hardware security modules are certified according to FIPS 140-2 level 3. FIPS stands for "Federal Infrastructure Processing Standard". It is a four-step computer security standard of the US government for the approval and certification of cryptographic modules. We thus meet one of the highest security standards.
! We have acquired Tixi, a gateway specialist with 700 customers such as Metro, Eon and Getec and an installed base of 30,000 gateways – 700 opportunities for further business. Above all, however, this acquisition guarantees that we can now securely standardise, feed in, encrypt and transfer to the cloud virtually all data formats from anywhere right at the start of the IoT value chain. We are rounding off the end of the chain with an investment in the start-up Juconn. With this know-how, we can also evaluate and visualise all data from our customers and make it available as processed intelligent data for their individual purposes.

FP is extending its value chain in IoT and offering its customers the highest efficiency, speed and quality in addition to the highest security across all stages of digital communication. We will continue to invest in sales and product development and are growing as planned.

"The market for IoT security technology will grow to a volume of USD 30 billion by 2030 – IoT and IoT security are clearly megatrends for the coming years. Demand for security solutions is growing in double digits – FP is ideally equipped for this, as security is at the heart of our DNA: Secure communication is a unique selling point for us in IoT and a perfect match for all markets looking for digital security – and they will find it with us."

Sven Meise,
Chief Digital Officer (CDO)
Chief Operations Officer (COO)

Market: With IoT and **FP** Sign, you are entering brand new markets, encountering unfamiliar competitive situations – how do you intend to endure against the giants of these markets in the USA and the Far East?

FP: Did David not beat Goliath? Our quality, reliability and persistence, proven over 96 years, and the creativity of our engineers give us the trump card of sangfroid – in these gigantic boom markets, we only need a first footprint, a first small market share, in order to be successful and profitable. We will grow from there.

Market: What is the point of bringing sales together into one area of responsibility?

FP: It makes the organisation leaner, reduces administrative costs, and ensures a much faster flow of information and central management: More energy through bundling – we optimise the forces with which we accompany our 200,000 customers, make them offers and achieve successful deals.

Sales, marketing and markets: SaidDoneDelivered, e.g.

DELIVERED: Thanks to JUMP, sales and marketing are managed centrally with a leaner and more cost-effective organisation: Overall responsibility for sales and marketing in all segments (apart from IoT) lies with me, the CSO.
! We thus make better use of our sales team and our channels in all divisions.
! We have turned ten countries into three regions, which means leaner administration, greater centralisation and faster information sharing than ever before: North America comprises the USA and Canada, Central Region Germany, Austria and Switzerland, and Middle Europe the UK, France, the Netherlands, Belgium, Sweden, Italy and our international dealer network.
DELIVERED: We have looked hard at the requirements of potential customers all over the world and analysed them systematically. We are using the knowledge acquired for sales offensives in the core business and will capture additional market shares.
! Over all communication channels combined, we count between 500,000 and 1,000,000 customer contacts per year – this results in many new business opportunities. And our 200,000 existing customers are our primary golden potential.

The acquisition of these 200,000 customers would cost an external market participant between EUR 100 million and EUR 200 million. This is important capital for **FP** – compare this figure to our current market capitalisation.

DELIVERED: The market launch of our new PostBase Vision franking machine from mid-2019 – the first new product launch in **FP**'s core business since 2012 – completed in a record time of less than twelve months from the start of the project.
! This PostBase Vision is linked to our new web portal discover**FP**, which enables comprehensive monitoring of the PostBase machine and shows all relevant details. In the case of larger customers, we have responded to their needs and introduced reports for cost accounting and cost centres.
! discover**FP** is now available in all ten of **FP**'s core countries.
! But the **FP** portal has yet another important function: It is our "Trojan Horse," with which we introduce customers to new digital products. It is a big step for cross- and upselling measures, with which we offer additional and higher-quality services: We pull the sales lever with our existing customers in order to generate higher sales and thus lower selling costs than would be possible with new customers.
! Our product **FP** Sign is pioneering as the cloud-based solution for the confidential and legally binding digital signing and exchange of contracts and documents. With **FP** Sign, we are conquering the territory of the legally binding digital signature, the growth market for electronic signatures ("global e-signature market"), the volume of which will grow to nine billion dollars by 2023.

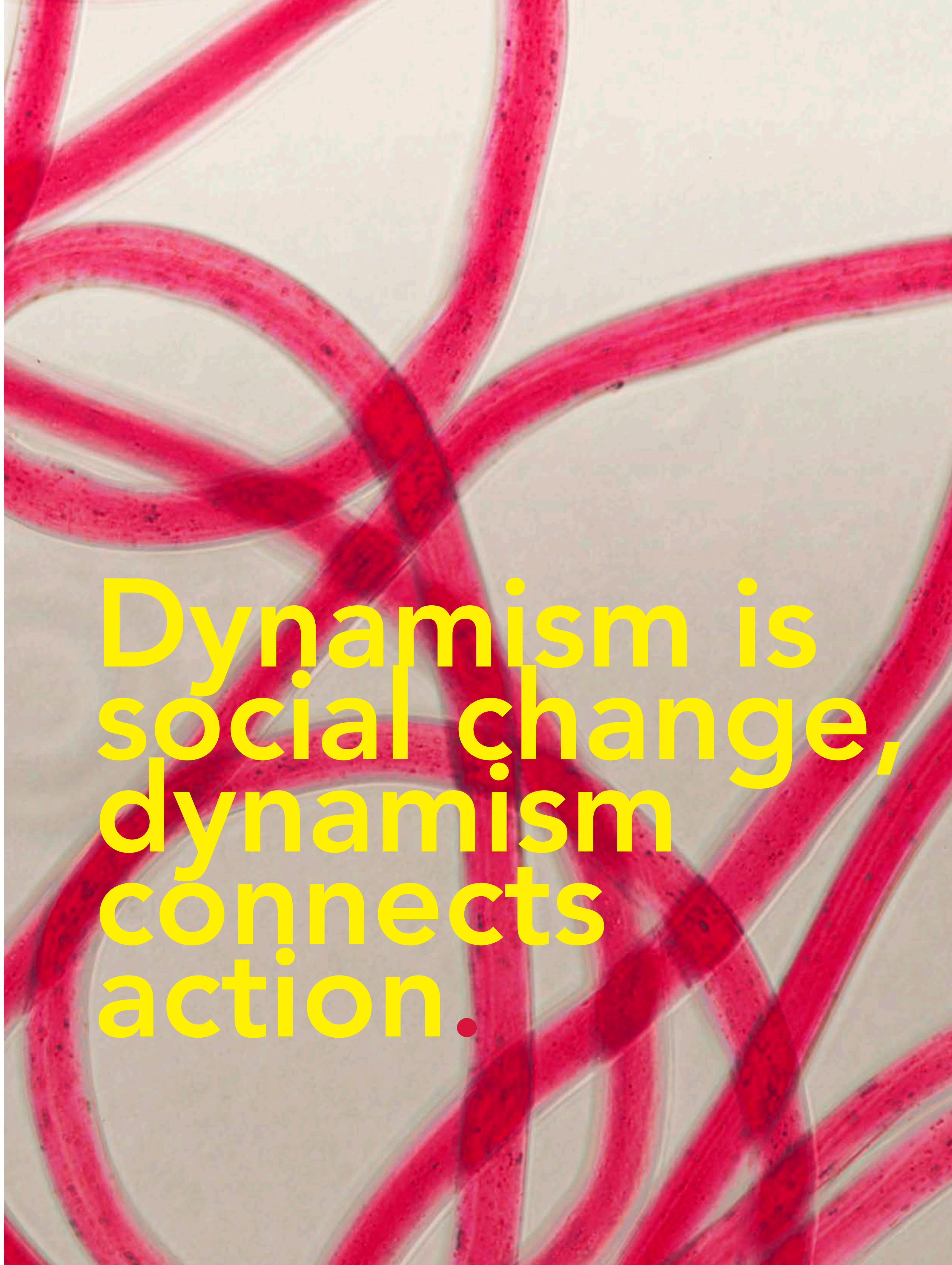
Our digital products preserve what our customers have always appreciated about us: the security, simplicity and convenience of our products and services, our multi-award-winning service and our quality.

"With our dynamic sales, we are gaining additional shares of the installed base of our competitors and thus expanding our core business.
The market launch of the new PostBase Vision is the beginning of a growth initiative, especially in the US market.
With the discover**FP** portal, **FP** Sign and **FP** Parcel Shipping, we are launching three new digital products in 2019 alone– for which our 200,000 customers are of course the prime targets: We are thus creating growth and profitability with what we already have."

Patricius de Gruyter,
Chief Sales Officer (CSO)

Market: How quickly can you generate noteworthy revenue with new digital products and business models?

FP: Trust in our impatience. We know that the revenue share of the digital business will increase palpably in the years to come and that this new business is developing into a runaway success with recurring revenue.



Market: Assuming you are successful with **FP** Sign and other digital products – won't you then have to invest massively? What capacity adjustments are required in production and research, in development and sales?

FP: Yes, we will – success demands investment. But we will fund it from our own resources and a strong line of credit. The dynamism of ideas lives in our DNA.


FP:
We are shaping
the future.
Dynamically,
decisively,
with a focus
on values.

We say it all the time, now 4investors has said it on 29 January 2019

“Analysts from Baader Bank still recommend the share of Francotyp-Postalia Holding as a Buy. The price target is EUR 6.30, while the current share price on Tuesday afternoon in XETRA trading is unchanged at EUR 3.44. The share is significantly undervalued at the current level, said the experts in a recent commentary.”

The site also reported: “The times when FP was known only for its franking machines should really be over. The company has long since made a range of enhancements; FP has embraced trends such as digitalisation and the Internet of Things. But the market has not really realised this yet. Many start-ups have a market capitalisation in the ballpark of EUR 55 million. With a little imagination, FP could be described as a 96-year-old start-up, which is currently partially reinventing itself and at the end of the third quarter had EUR 28.7 million in cash and around 200,000 customers all over the world.
The potential of the customer database is therefore much greater than FP’s market capitalisation.”

Dear companions, lateral thinkers, visionaries, partners, and shareholders, we have said among other things

that we will invest in the future of our core business:

In just twelve months, we have developed the newest generation of franking machines under the PostBase Vision brand. It is ready for market launch and undergoing an initial approval process by the postal authorities in the USA; other countries will follow promptly – dealers are delighted

that we will raise our technologies to new levels and penetrate new markets:

In the value chain of the Internet of Things (IoT), our **FP** Gateways are close to the sensors installed in the customers’ devices. Downstream, they are linked to cloud services, analysis tools and finally dashboards, with which customers monitor and manage their machines online. These are “end-to-end solutions”: from the sensor at the start to the front end at the end of the chain.
We not only encrypt data – we *link* machines, secure process and production chains, and much more. Digital revenue is developing and will really kick off in 2019!

that we will strengthen our global branding and create a strong brand:

We have defined corporate values, a vision and a performance aim. We are intensifying our multi-award-winning PR and social media activities. By 2023, **FP** *will* be the first brand worldwide that customers think of and entrust with their tasks when it comes to secure mail business and secure digital communication processes!

Security – the challenge

Let us stay in the digital world a moment: Digitalisation will connect anything that can be connected – and at great speed. Around the world, communication, workflows, production, management and monitoring processes and much more will change dynamically.
IoT is growing like no other market. More than 28 billion things will soon be connected: fleets of lorries, power stations, production lines, container ships, self-driving cars, cooling systems and much, much more. However, this also means 28 billion opportunities for manipulation and abuse – gigantic holes in data security are not just a problem at Facebook.
At the World Economic Forum in Davos, cyberattacks were recently declared one of the five biggest problems for our businesses. Security, digital security, is more important than ever!

Security – the solution

This provides great prospects for **FP**, as we are the expert for secure communication, and for secure *digital* communication. The market for IoT security technology will grow by 35% a year, twice as fast as revenue with IoT devices – and we want to take a big piece of this market pie: For who, if not us, has answers to the security challenge – we, **FP**, with 96 years of experience in cryptography?

“Imagination and perspective, creativity and vision, courage and consistency, dynamism, engagement and joy – that’s who we are.”

Thanks!

to all employees for their commitment, patience, initiative, ideas and innovation: They practise our corporate values, embody the **FP** spirit and make things possible that are barely feasible elsewhere; thanks *to you, dear shareholder,* for staying true to us or joining us; thanks also *to the media,* who are increasingly reporting positively on the dynamism that our ACT strategy is developing.

I would like to emphasise that to a certain extent we are doing “open heart surgery” and demanding a lot from all involved – JUMP, day-to-day business, attack in the core business, new digital developments, acquisitions, successfully enduring in the competitive situations of the markets … all at the same time, and in record time. I, we, are *especially* grateful for this.

Hard but fair

2018 was a hard *and* a good year – we made further progress in the journey to the new **FP**. We successfully launched JUMP and developed amazing digital products that we are bringing onto the markets. We satisfied our customers – and even analysts are increasingly appreciating our work (see page 42.)

We are a start-up – and much more.

We have two things in common with today’s start-ups: entrepreneurial spirit and potential for innovation. But what *sets us apart* is that we have been an innovation leader since 1923, we have over *200,000 customers, strong financial flexibility, clear strategies for different markets, innovative spirit, a unique brand, top technologies and over 2,500 patents.* We are proud of *Made in Germany* – we offer our customers more values: experience, solidity, rigour, quality. So it is true that “the old can be new” (a phrase that I coined, for which I have often been derided) if you *keep on rethinking* it.

We reaped what we sowed.

Did you know that **FP** is one of Germany’s IoT pioneers? Probably not. But we did in fact develop highly secure hardware security modules (HSM) and public key infrastructures (PKI), some of the key components of the IoT, for our franking machines at an early stage. Through acquisitions, we have enhanced this expertise, so that today we are the only provider that can guarantee our customers continuous support. We have always made communication more secure, simpler and more convenient for our customers – **FP** has stood for this from the start. We are proud of our technology, our customer-focus and the loyalty of these customers, and of course of our franking machines and our developments of digital products and services. Imagination and perspective, creativity and vision, courage and consistency, dynamism, engagement and joy – that’s who we are, **FP**.

Virtue and value, value and benefit

Our virtues will still be of value and benefit tomorrow: Quality, simplicity, convenience, reliability, efficiency – *we* are the ones who make our customers’ everyday lives easier, happier; we are the ones who bring our customers security in digital communication, security they can trust in: We call this *German Mailgeneering*!

Hello, growth, we are dancing on three legs

! We expect stable growth beyond 2020 in the *secure mail business* and dynamic growth rates in *secure digital communication processes*. There will also be acquisitions after 2020.

! We have a consistent strategy,

! We are technology leader for franking machines and Secure IoT Gateways,

! We are acquiring new customers and business opportunities in the booming market for IoT security. Thanks to new software solutions such as **FP** Sign (=“signature as a service”, SaaS) and the opportunities provided by our customer portal “discover**FP**” online, we expect strong growth.

Trust worth EUR 200 million

The trust of our syndicate banks, which have granted us a credit line of up to EUR 200 million, shows that we can achieve our goals – be assured: we will be careful with this trust.

2019 … 2020 … 2021 …

In 2019 we will again

! increase sales and market shares in our core business and

! make significant progress on the market launches of our new digital products and business models.

! In the period from 2020 to 2023, we will achieve EPS of over one euro. By 2023, the EBITDA margin will be around 20%.

! In the medium to long term, we will pay dividends on the basis of our defined distribution policy – we will stick to this even when we are making higher investments.

! Strategic acquisitions will also make us a leading provider for energy management and Industry 4.0.

FP remains FP – FP becomes FP.

Thanks to our technology leadership, our passion for the current core markets, our enthusiasm for the future, a convincing strategy and dedicated efforts, we have now outperformed the competition for *twelve* quarters in a row. We can and will continue this success with enthusiasm, global teamplay and commitment. Our vision is becoming reality – the desire for success and the will to achieve are creating the reality of a strong, a new, a dynamic **FP**. Why not come along for the ride?

Your
Rüdiger Andreas Günther

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 the fiscal year 2018, 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 regularly advised the Management Board on the company's management, monitored its work and dealt continuously with the course of business and situation of the FP Group. The Supervisory Board was directly involved in all important decisions from an early stage. The Management Board informed the members of the Supervisory Board of the company's situation regularly, comprehensively and in due time. 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. The Management Board took part in all meetings of the Supervisory Board, with the exception of the conference call. Outside these meetings, the Management Board and the Supervisory Board conferred on progress and developments in the Group in eight further conference calls in total. There was also a working meeting attended by all members of the Supervisory Board and the Management Board from 15 to 18 February 2018.

In addition to the discussion of the net assets, financial position and results of operations and the development of the Franking and Inserting, Mail Services and Software Solutions segments, the following issues were prioritised:

- implementation of the ACT strategy;
- planning, preparation and launch of the implementation of the ACT project JUMP, the goal of which is the internal transformation of the FP Group, together with the Group-wide harmonisation of IT systems;
- appointment of Mr Patricius de Gruyter as a member of the Management Board and Chief Sales Officer as the successor to Thomas Grethe who stepped down as a member of the Management Board at the end of his contract;
- process of the reorganisation of the Mail Services segment;
- implementation of the acquisitions of operations of a) the Berlin IoT specialist Tixi.com and b) an online franking machine sector distributor in the US.

The joint meetings of the Supervisory Board and the Management Board were held on 28 February, 22 March, 24 May (conference call), 28 May, 10 August, 19 September, 27 November (budget meeting) and 13 December 2018.

Implementation of the ACT strategy

The implementation of the ACT strategy and the planning and preparation of measures as part of the ACT project JUMP were discussed at every meeting of the Supervisory Board in the 2018 fiscal year. FP is pursuing ambitious targets as part of the ACT strategy. By 2023, its 100th year, the company wants to double its revenue to around EUR 400 million and achieve an EBITDA margin of approximately 20%. FP intends to generate revenue of around EUR 250 million and an EBITDA margin of at least 17% as early as 2020. The ACT strategy and the associated JUMP measures to increase efficiency and cut costs clearly bring out the potential of FP. They form the basis for our targets. In the 2018 fiscal year, project management was refocused, projects were prioritised and further initiative and measures were initiated and implemented.

The structural and procedural organisation of the FP Group was fundamentally revised as part of the ACT project JUMP. Together with the Group-wide harmonisation of IT systems, this will allow considerable efficiency enhancements and thereby a sustainable improvement in earnings. Reflecting the central significance of the associated measures, the Supervisory Board intensively discussed the progress in review, planning and implementation at every meeting. The Supervisory Board is supporting the implementation of ACT and JUMP and the associated investments and expense with full confidence. The Supervisory Board is aware that implementing these projects simultaneously is a major challenge for the entire organisation.

Franking and Inserting, Mail Services and Software Solutions Segments

The development of the traditional franking and inserting machine business was addressed and discussed in detail at every meeting of the Supervisory Board. The FP Group's core business with franking systems for small and medium volumes of mail is growing. FP achieved revenue growth in its core business in the 2018 fiscal year as well, while the market and the competition were contracting. This confirms one of the basic assumptions underlying ACT. We made planned progress in the core countries of the US and France in particular, and also on the German market.

Another fundamental assumption behind the ACT strategy, that digitalisation will not happen overnight, is also being further confirmed. Nevertheless, we are paying particular attention to the development of new digital products and services. At several meetings of the Management Board, some of which also attended by heads of department, the Supervisory Board heard reports on and intensively discussed the progress in the development and market launch of the discoverFP customer portal, the FP Sign digital signature solution and the Internet of Things as a business area.

The Supervisory Board also closely oversaw the process of the reorganisation of the Mail Services segment, which continued over the course of the 2018 fiscal year.

Members of the Management Board

After more than five years of successful work, the Member of the Management Board for Sales and Marketing, Thomas Grethe, decided not to renew his contract at the end of June 2018, and instead to focus on new projects. During his years of service, he lastingly expanded sales operations in the core business of Franking and Inserting both nationally and internationally, and – as part of the Management Board team led by Rüdiger Andreas Günther – advanced the transformation of the FP Group into a dynamic growth company.

The Management Board and the Supervisory Board thank Mr Grethe for his years of cooperation and the many successes achieved together.

The Supervisory Board appointed Patricius de Gruyter as a new member of the Management Board. In Patricius de Gruyter, FP has found a sales expert with management experience, who has already advised the Group on various ACT projects. In this context and as part of the revision of the executive organisation chart for the Management Board, the Supervisory Board approved the repositioning of Group-wide sales under his management, and anticipates new stimulus for revenue growth in core business and the new digital business areas as well.

Remuneration System

In connection with the German Corporate Governance Code's recommendation for the remuneration system of the Management Board, the Supervisory Board had dealt intensively with the issue of the remuneration structure in 2016. With the assistance of an external consultant, the Supervisory Board had developed a new remuneration model in the 2017 fiscal year that was presented to shareholders at the Annual General Meeting on 28 May 2018. The criteria for determining remuneration are therefore 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 include both fixed and variable components. The remuneration system was first implemented in Sven Meise's contract and is a component of Patricius de Gruyter's contract as well. To ensure the coherence of the remuneration of all members of the Management Board in line with the objectives of the ACT project JUMP, the Supervisory Board engaged an external consultant again in the 2018 fiscal year to make proposals for the remuneration system by the end of 2018.

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, which was fundamentally reworked and improved in 2018. Since the "Gesetz zur Stärkung der nichtfinanziellen Berichterstattung der Unternehmen in ihren Lage- und Konzernlageberichten" ["law to strengthen companies' non-financial disclosure in their management reports and group management reports"], known for short as the "CSR-Richtlinie-Umsetzungsgesetz" ["CSR Directive Implementation Act"], became effective, these supervisory duties have also included the FP Group's non-financial report. The CSR report was published for the first time at the end of March 2018, parallel to the annual report. Examination and monitoring is 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 included an analysis of financing, investment and liquidity.

The budget for the following years that is prepared annually by the Management Board was also discussed in detail and approved by the Supervisory Board and the Management Board at the meeting on 27 November.

Auditing the Annual Financial Statements and Consolidated Financial Statements

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 2018 as well as the consolidated financial statements and combined Group management report as at 31 December 2018, and has issued an unqualified opinion thereof in each case.

The annual financial statements of Francotyp-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.

During the balance sheet meeting held by the Supervisory Board on 25 March 2019, in the presence of the independent auditor, who reported on key audit findings, the 2018 annual financial statements, 2018 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 state-ments as well as with the results of the audit reports. Accord-ingly, the Supervisory Board raises no objections thereto. The Supervisory Board approved by resolution the financial state-ments prepared by the Management Board on 28 March 2019. The financial statements of Francotyp-Postalia Holding AG for 2018 have thus been established in accordance with section 172 AktG.

Finally, the Management Board and Supervisory Board jointly approved the proposed resolutions on the items on the agenda at the Annual General Meeting.

Corporate Governance

The Management Board and Supervisory Board have issued a declaration of compliance with the German Corporate Governance Code (the Code) in accordance with section 161 AktG, which now 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 2018 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.

In accordance with the compliance guidelines that were introduced worldwide in 2011, the Supervisory Board is kept regularly informed of compliance issues at the FP Group.

Efficiency Review

The Supervisory Board regularly examines the efficiency of its activities. The Supervisory Board initiated the last efficiency review with the aid of an external consultant, the German Institute of Directors, at the end of 2017 and it was successfully completed in the 2018 fiscal year. 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.

Our Thanks

ACT, the associated projects and measures and, above all, the ambitious targets for 2020 and 2023 will demand very high commitment and dedication from each individual in the FP Group. Positive effects were seen again in the 2018 fiscal year – successful progress was made in many projects initiated in 2017, and FP is continuing to stand out positively from the competition in a difficult environment. The implementation of the ACT project JUMP, which is fundamentally redesigning the Group's structure and work processes, demands additional great commitment from all employees and executives. The Supervisory Board therefore particularly wishes to thank 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 commitment and achievements in the fiscal year 2018. 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
28 March 2019

Group Corporate Governance Report

The Management Board and the Supervisory Board submit an annual corporate governance report on the corporate governance of the company. As with the declaration of compliance, this is also a component of the Group's declaration on corporate governance in accordance with section 315d of the *Handelsgesetzbuch* (HGB – German Commercial Code) in conjunction with section 289f HGB. The purpose of the German Corporate Governance Code is to make the rules for the management and supervision of companies that apply in Germany as transparent as possible for both domestic and international investors. The Code's provisions and rules cover the fields of shareholder interests, the Management Board and the Supervisory Board, the transparency of corporate governance and the duties of the auditor. The Management Board and the Supervisory Board of Francotyp-Postalia Holding AG are committed to the interests of shareholders and thus to the implementation of the recommendations and proposals of the German Corporate Governance Code (the Code). In line with the principles of the social market economy, the Management Board and the Supervisory Board also safeguard the company's continued existence and ensure sustainable added value. These principles require not only legality, but also ethically sound conduct on one's own responsibility (the model of the honourable merchant). The Management Board and the Supervisory Board report on potential departures from the recommendations of the Code in both the declaration of compliance and the following extensive disclosures, based on the version of the Code dated 7 February 2017.

Declaration of Compliance with the German Corporate Governance Code

In accordance with section 161 of the *Aktiengesetz* (AktG – German Stock Corporation Act), the Management Board and the Supervisory Board of Francotyp-Postalia Holding AG hereby declare in the declaration of compliance which recommendations of the version of the German Corporate Governance Code dated 7 February 2017, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, it has complied with and will comply with, and which recommendations have not been or are not applied.

2.3.3 Given the high level of administration involved, the company did not enable shareholders to watch the Annual General Meeting using modern communication media, e.g. the Internet, in the 2018 fiscal year. An Internet broadcast of the Annual General Meeting will be offered in the 2019 fiscal year.

3.8 D&O insurance was taken out for the Supervisory Board. This policy does not currently include a deductible for the Supervisory Board. A deductible for the Supervisory Board will be included when the policy is renegotiated.

4.1.3 The Management Board is responsible for compliance with the law and internal policies, and ensures compliance with these throughout the Group companies. A compliance management system has been set up for this purpose and has been unveiled and introduced at the Group. Employees and third parties have the opportunity to report misconduct at the company. Owing to the organisational effort involved, the Group has not introduced a system that allows users to give information under protection (whistleblower system).

5.3.1 – 5.3.3
While the Supervisory Board continues to consist of three persons, no committees will be formed in which the Supervisory Board Chairman or any other Supervisory Board member could occupy an additional chairmanship role, as the composition of the committees would be identical to that of the Supervisory Board. This applies in particular to the duties of an audit or nomination committee. Such duties are also performed by the Supervisory Board as a whole.

5.4.1 The Supervisory Board of Francotyp-Postalia Holding AG is not subject to co-determination, which means that the rules of the law on co-determination cannot be observed for employee representatives.

A time limit for membership of the Supervisory Board has not been set. Given the knowledge, skills and technical experience required by item 5.4.1 sentence 1 of the Code, it does not currently seem reasonable to limit membership in this way.

The Rules of Procedure for the Supervisory Board stipulate an age limit when proposing nominees as members of the Supervisory Board. A Supervisory Board mandate should therefore end no later than the Annual General Meeting following the member's 70th birthday. Here, too, given the requirements for the composition of the Supervisory Board stipulated by item 5.4.1 sentence 1 of the Code and in the interests of continuity, this recommendation will not be applied for the time being.

7.1.2 Given the large amount of consolidation work involved, the quarterly and half-yearly reports are published, at the latest, within two months of the end of the reporting period, in compliance with the Stock Exchange Rules and the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act).

Berlin, 28 March 2019

For the Supervisory Board

Klaus Röhrig,
Chairman of the Supervisory Board

Management Board

Rüdiger Andreas Günther,
Management Board, CEO

Patricius de Gruyter,
Management Board

Sven Meise,
Management Board

Basic Information on the Structure of Corporate Governance and the Underlying Rules

Francotyp-Postalia Holding AG, Berlin, is subject to German stock corporation law, and is governed by the executive bodies that are the Management Board, the Supervisory Board and the Annual General Meeting. Corporate governance is based on the close and trusting cooperation of all executive bodies and an active and continuous flow of information between them. At the Annual General Meeting in particular, shareholders can put questions to the management and exercise their voting rights.

Assuming responsibility is self-evident for the FP Group. The company assumes responsibility for products and processes, employees, customers and partners, and for the environment and society. The company maintains an open approach and ongoing dialogues with its stakeholders. German stock corporations are required by law to have a dual management system composed of a management board and a supervisory board. In accordance with the Articles of Association, the Supervisory Board of Francotyp-Postalia Holding AG comprises three members elected by the Annual General Meeting. The Chairman and Deputy Chairman are elected from among the Supervisory Board's members. The Supervisory Board's Rules of Procedure, which it created itself, govern its working methods.

In accordance with the Articles of Association, the Supervisory Board of Francotyp-Postalia Holding AG holds four meetings each calendar year, two of which are to take place every six calendar months. Extraordinary meetings are convened by the Chairman of the Supervisory Board as required and at his due discretion. In accordance with the Articles of Association, the Supervisory Board can appoint one or more persons to the Management Board of the company. The Management Board of Francotyp-Postalia Holding AG comprises three members.

The Management Board manages the company independently in the interests of the company, with the aim of creating sustainable added value, while taking into account the interests of its shareholders, employees and other groups affiliated with the company. In accordance with the Rules of Procedure for the Management Board issued by the Supervisory Board, the Management Board manages the company's business in line with uniform plans and policies. The Management Board therefore bears joint responsibility for the management of the entire company. As part of the overall responsibility for the governance of the company, the three members of the Management Board are required to work together in a loyal and trustful manner for the good of the company within the remit of their assigned duties. The Management Board develops the strategic direction of the company and coordinates this with the Supervisory Board. In addition to complying with statutory provisions and internal company policies, the Management Board also ensures appropriate risk management and monitoring within the company and the Group companies. More information can be found in the report on risks and opportunities in the Group management report. Management Board meetings are held at regular intervals, every two weeks if possible.

Committees of the Supervisory Board

Owing to the size of the company and the number of members of the Supervisory Board prescribed by the Articles of Association, generally no other committees are formed. For this reason, the Supervisory Board as a whole decides on and monitors issues relating to the remuneration system for the Management Board, including the principal elements of contracts. Likewise, the Supervisory Board as a whole assumes the duties of an audit committee, with the Chairman of the Supervisory Board performing the role of the chairman of said committee. At least one member of the Supervisory Board possesses the requisite specialist knowledge in the area of accounting.

Cooperation between the Management Board and the Supervisory Board – Diversity

The common goal of the cooperation between the Management Board and the Supervisory Board is achieving sustained increases in enterprise value. The Management Board and the Supervisory Board meet at regular intervals to jointly coordinate the strategic direction of the company. The Management Board also regularly reports to the Supervisory Board on all issues relating to planning, business development, risk, risk management, internal accounting and compliance. The Management Board reports on and explains any discrepancies between actual business performance and the plans and goals prepared. The Supervisory Board has stipulated in the Rules of Procedure for the Management Board how the Management Board must provide information and reports. These Management Board Rules of Procedure also stipulate that the Supervisory Board has the right of veto with respect to decisions or measures that could materially affect the company's financial position and financial performance, and also concerning transactions of major importance.

Francotyp-Postalia Holding AG has taken out D&O insurance for the members of the Management Board in accordance with the provisions of the German Corporate Governance Code. The policy is subject to a deductible of at least 10% of the loss up to at least one and a half times the annual fixed remuneration of the member of the Management Board in accordance with section 93(2) AktG. D&O insurance was also taken out for the Supervisory Board. This policy does not currently include a deductible for the Supervisory Board. A deductible for the Supervisory Board will be included when the policy is renegotiated.

Diversity Concept

The subject of diversity is of crucial importance to the entire FP Group. The concepts, goals and non-financial performance indicators are presented in detail in the sustainability report, which is available to view and download at https://www.fp-francotyp.com/nachhaltigkeitsbericht.

Notwithstanding this report, the Supervisory Board must also always consider the issue of diversity within the meaning of the German Stock Corporation Act and the German Corporate Governance Code when it comes to the composition of the Supervisory Board and the corresponding nominations to the Annual General Meeting. This includes not only the composition of the Supervisory Board recommended in accordance with the German Stock Corporation Act and the German Corporate Governance Code, with female and male members, but also consideration of the experience of individual members based on age, professional experience and internationality. The key factor for nomination is the company's interests, together with the requirements stipulated in item 5.4.1 sentence 1 of Code for the knowledge, skills and technical experience a member of the Supervisory Board must possess. For its composition, the Supervisory Board must include what it considers to be an appropriate number of independent Supervisory Board members according to item 5.4.2 of the Code. This allows the Supervisory Board – following an appropriately conducted application and nomination process and taking into account a balanced composition for the Supervisory Board in terms of knowledge, skills, experience and independence – to put forward the most suitable candidates.

The intended age limit for Supervisory Board nominees stipulated in the Supervisory Board's Rules of Procedure must also be viewed in this context. A Supervisory Board mandate should end no later than the Annual General Meeting following the member's 70th birthday. The Supervisory Board is currently deviating from this regulation, in order to be able to cover the broadest possible range of experience and to ensure continuity in the Supervisory Board.

Furthermore, at least one member of the Supervisory Board must satisfy the criterion of internationality. At least one member already has the required traits.

In order to ensure that the Supervisory Board's advice for and monitoring of the Management Board is independent, the Supervisory Board's Rules of Procedure stipulate that more than half of the members of the Supervisory Board are to be independent in accordance with the German Corporate Governance Code. The Supervisory Board estimates that there are currently no concrete indications that any Supervisory Board member has relevant circumstances or relationships, especially with companies, with members of the Management Board or with other Supervisory Board members, that could cause a substantial and not merely temporary conflict of interest and therefore count against independence. No member of the Supervisory Board performs board functions or consulting activities at significant competitors. With regard to the Supervisory Board member Klaus Röhrig, the Supervisory Board believes that his function as founding partner of Active Ownership Capital S.à.r.l. does not impair his independence according to the German Corporate Governance Code. The Code does not contain an exhaustive definition of independence, but merely names examples of circumstances that count against the independence of a Supervisory Board member. Accordingly, Supervisory Board members are not to be considered independent if they have a personal or business relationship with the company, its governing bodies, a controlling shareholder or a company affiliated with the controlling shareholder that may cause a substantial and not merely temporary conflict of interest. The Supervisory Board is tasked with assessing the independence of individual Supervisory Board members on the basis of these indicators. Active Ownership Capital S.à.r.l. is not a controlling shareholder with an effective majority at the Annual General Meeting. There are no other discernible circumstances that would count against Klaus Röhrig's independence.

The German Stock Corporation Act and the Code also stipulate that the supervisory boards of listed companies must define targets for the share of women. At present, there are still no women on the company's Supervisory Board. In view of the fact that the Supervisory Board was last elected in 2016 and the Supervisory Board is composed of three members in accordance with the Articles of Association, a target of 0% for the share of women has been set for the time being in accordance with a resolution of 6 June 2017 for the period until 30 June 2019 at the latest. The resolution of 6 June 2017 replaces the original resolution of the Supervisory Board from 2015, which applied until 30 June 2017.

New regulations on the filling of Management Board positions must be viewed under the same conditions. As with the Supervisory Board, the company's interests are the key factor when filling management positions. In the case of Management Board positions, it is also important to ensure continuity in the company's forthcoming strategic development. In accordance with the regulations in the German Stock Corporation Act and the German Corporate Governance Code, the Supervisory Board has therefore resolved a target of 0% for the share of women in the Management Board for the period until 30 June 2019. Nevertheless, the Supervisory Board will take the issue of diversity into account when seeking suitably qualified candidates for Management Board positions that need to be filled.

In addition, the Management Board is required to set a target for the share of women in the first and, if appropriate, second levels of management below the Management Board. The Management Board defined the first level of management below the Management Board as the managing directors of the domestic and foreign companies and German divisional heads or equivalent staff functions in the company. The FP Group does not have a second level of management below the Management Board. The Management Board stipulated once again on 26 June 2017 that the share of women in the first level of management below the Management Board of the FP Group should be at least 9%. This target has temporarily not been met. The Management Board is adhering to diversity stipulations in order to achieve this target again in its efforts to fill management vacancies.

Remuneration of the Management Board and the Supervisory Board

Francotyp-Postalia Holding AG complies with the recommendations of the Code concerning disclosure of the remuneration of individual members of the Management Board and Supervisory Board. The basic features of the remuneration systems and remuneration are presented in the remuneration report, which can be found in the combined management report.

Conflicts of Interest

When making decisions and performing their duties, the Management Board and the Supervisory Board are required to act in the company's interest, and they must not pursue personal interests or confer advantages on other persons, or make personal use of business opportunities of the company. All members of the Management Board must disclose any conflicts of interest to both the Supervisory Board and other members of the Management Board. Likewise, all members of the Supervisory Board must disclose any conflicts of interest to the Supervisory Board. In its report, the Supervisory Board must notify the Annual General Meeting of any conflicts of interest and how they were dealt with. No conflicts of interest requiring disclosure arose in the 2018 fiscal year.

Efficiency Review

The Supervisory Board regularly examines the efficiency of its activities. The Supervisory Board initiated the last efficiency review with the aid of an external consultant at the end of 2017 and it was successfully completed in the 2018 fiscal year.

Shareholders and Annual General Meeting

The Management Board convenes an Annual General Meeting at least once a year. At the Annual General Meeting, the shareholders receive the consolidated and annual financial statements and the related management reports and resolve, when necessary, the appropriation of the unappropriated surplus and their official approval of the actions of the members of the Supervisory Board and the Management Board. Those present at the Annual General Meeting also elect the auditor each fiscal year.

At the Annual General Meeting, shareholders of Francotyp-Postalia Holding AG exercise their rights of control and their voting rights. They have the option of exercising their voting rights themselves or having them exercised through an authorised representative of their choice, including a shareholder association. The company also makes it easier for shareholders to exercise their rights in person by providing a proxy who can also be reached during the Annual General Meeting. The company publishes the documents required for the Annual General Meeting and the agenda on its website, where they can be accessed easily by shareholders. The documents are also sent directly to shareholders by their banks. The Articles of Association do not allow postal votes.

Naturally, it is in the interests of the company and of the shareholders to ensure that the Annual General Meeting is conducted quickly. In accordance with the Articles of Association, the chairman of the meeting has the option to impose appropriate limits on the time for which shareholders are permitted to ask questions and to speak. Motions and resolutions will be broadcast on the Internet at the Annual General Meeting on 28 May 2019.

Transparency

For Francotyp-Postalia Holding AG, corporate governance means responsible and transparent management and control of the company. In particular, this includes equal treatment of shareholders when passing on information. The Supervisory Board Chairman is prepared, within reason, to discuss issues specific to the Supervisory Board with investors. These are issues for which the Supervisory Board alone is responsible and on which it alone can make decisions. For matters that must be decided jointly by the Management Board and the Supervisory Board, discussions will be held either by the Management Board alone or by the Supervisory Board Chairman together with the Management Board.

We disclose all new facts and circumstances to shareholders, financial analysts and the like without delay. This involves disseminating the information in German and English both on the Francotyp-Postalia Holding AG website and through the use of systems that ensure the simultaneous publication of information both in Germany and abroad.

All important regular publications and dates are published well in advance in the financial calendar. In accordance with legal guidelines, Francotyp-Postalia Holding AG publishes the relevant information on its website if members of the Management and Supervisory Boards or related parties have purchased or sold FP shares or related derivatives. In accordance with Article 19 of the Market Abuse Regulation (MAR), these persons are required to disclose transactions if their value reaches or exceeds EUR 5,000 per calendar year.

In addition to the statutory obligation to report and disclose dealings in shares of the company without delay, the ownership of shares in the company or related financial instruments by Management Board and Supervisory Board members must be reported if these directly or indirectly exceed 1% of the shares issued by the company. As the total ownership of all Management Board and Supervisory Board members exceeds 1% of the shares issued by the company, total ownership figures for the Management Board and the Supervisory Board are listed here separately:

SHAREHOLDER

	Number of shares	%
(Direct)		
Botho Oppermann (Supervisory Board member)	300,000	1.84
Rüdiger Andreas Günther	19,887	0.12
Sven Meise	9,416	0.06
Patricius de Gruyter	5,000	0.03
(Indirect)		
Klaus Röhrig (Chairman of the Supervisory Board) via Active Ownership Fund SICAV-FIS SCS	1,550,000	9.51
Klaus Röhrig (Chairman of the Supervisory Board) through Active Ownership Investments Limited	130,000	0.80

Accounting

The principal sources of information for shareholders and third parties are the company's consolidated financial statements and, during the fiscal year, the quarterly and half-year reports. Given the large amount of consolidation work involved and in derogation from the recommendation of the Code, the quarterly and half-year reports are published, at the latest, within two months of the end of the reporting period, in compliance with the Stock Exchange Rules and the German Securities Trading Act.

The consolidated financial statements and interim reports are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The separate financial statements required by law for tax and dividend payment purposes are prepared in compliance with the German Commercial Code (HGB). An internal control system and uniform accounting principles ensure a true and fair view of the net assets, financial position and results of operations and the cash flows of all Group companies. The Management Board also ensures appropriate risk management and monitoring within the company.

The Management Board reports to the Supervisory Board on all existing risks and their development regularly and in good time. The Supervisory Board advises on risk management and is explicitly involved in the monitoring of the effectiveness of the risk management system, the internal control and audit systems, the accounting process and the audit, in particular their independence, in accordance with section 107(3) AktG as amended by the Bilanzrechtsmodernisierungsgesetz (BilMoG – German Accounting Law Modernisation Act). A list of relationships with shareholders qualifying as related parties, as defined by IAS 24, is published by the company in its consolidated financial statements.

Audit of the financial statements

In accordance with the resolution by the 2018 Annual General Meeting, the Supervisory Board engaged KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, to conduct the audit of the 2018 annual financial statements and consolidated financial statements. In compliance with the recommendations of the Code, it was agreed with the auditor that it will inform the Chairman of the Supervisory Board immediately of any grounds for exclusion or bias which might arise during the audit, unless said grounds are eliminated without undue delay. The auditor is also required to immediately report any material findings or occurrences arising during the execution of the audit, which may be relevant to the Supervisory Board's performance of its duties. The auditor is further required either to notify the Supervisory Board or make a corresponding note in its audit report should it discover circumstances indicating inaccuracies in the declaration of compliance with the Code given by the Management Board and the Supervisory Board, in accordance with section 161 AktG.

Compliance

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. Owing to the organisational effort involved, the Group has not introduced a system that allows users to give information under protection (whistleblower system). The company does its utmost to minimise this risk as far as possible, to uncover misconduct and to deal with it systematically. Compliance with legal and ethical regulations and principles is of central importance. Regulations and principles are set out, together with the responsible handling of insider information, in the compliance policy. They provide all employees with guidance regarding corporate integrity in business. Executives and employees receive compliance policy training.

Shares

ACT stimulates entire company

The German share index (DAX) got 2018 underway with a record high of approximately 13,600 points in January, followed by phase of heavy price losses. After tracking sideways, the losses became even more severe in the autumn. Price developments were impacted by tensions over trade between the US and China and by the budget dispute with Italy. The index reached its low for the year at 10,382 points on 27 December. On the last trading day of 2018, the DAX was at 10,559 points – a drop of 18% over the year as a whole.

The SDAX small cap index enjoyed a stable performance in the first half of the year. However, the index experienced heavy losses in autumn, losing as much as around 20% over the course of the year.

FP's shares began 2018 on the stock market at a price of EUR 4.74, and hit their high for the year two days later at EUR 4.94. The share price grew weaker in the months that followed. It drifted sideways for several months after the presentation of the figures for the first half of the year, before coming under pressure again in line with the general difficult market situation in autumn. The shares reached their low for the year at EUR 2.97 on 27 December, before ending 2018 at EUR 3.00. Price performance was positive again at the beginning of the year, climbing by approximately 20% in January 2019 to EUR 3.56 by the end of the month.

The wait-and-see approach of some investors with regard to the measurement of the probability of success of the radical Group transformation (during "ongoing operations" and in a very short space of time) and the expectations harboured by many investors of even faster success meant that some shareholders sold off their FP shares over the course of the year. General capital market uncertainties towards the end of 2018 squeezed prices further. The company does not find the development of its share price satisfactory.

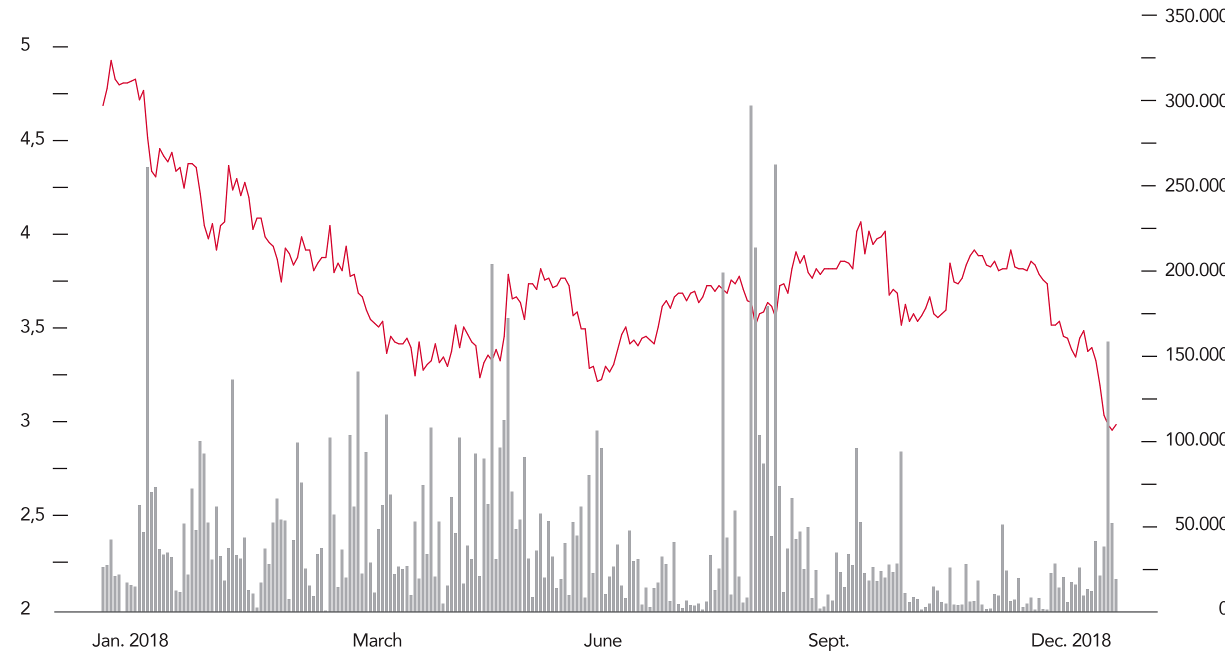
However, the stock analysts following the FP share do not share those investors' scepticism. They see potential and recommend buying FP shares. New investors are also convinced by the ACT strategy and have opened or expanded their positions in 2018. The current shareholder base will continue to be expanded in the future. In 2018 there were already many talks with value investors, who are increasingly interested in our shares. The continuation and further acceleration of the Group transformation and substantial successes in the new digital business areas will be the basis for the entry of additional investors. Investors are increasingly recognising that the ACT strategy is opening up new prospects.

Intensified Investor Relations activities, the rigorous continuation of the ACT strategy and initial successes in the new digital businesses resulted in more active trading in FP shares in 2018 than in the previous year. An average of almost 36,000 FP shares were traded on the Xetra platform each day. This equates to a year-on-year increase of 50%; the high for the year was reached shortly before the announcement of the half-yearly figures on 20 August 2018, with more than 270,000 shares traded in a single day.

In the 2018 fiscal year, the company met the targets for revenue and EBITDA and exceeded the target for adjusted free cash flow. In contrast to its main competitors, FP therefore successfully increased revenue in the core business for the twelfth quarter in a row. FP is decisively moving forward. With the ACT growth strategy and radical measures to increase profitability systematically implemented by the Group, a sustained increase in enterprise value will also be achieved. The company is gathering momentum. The process of its transformation has begun with ACT. And with the radical reorganisation of FP (Project JUMP), the Group is paving the way for sustainable, profitable growth.

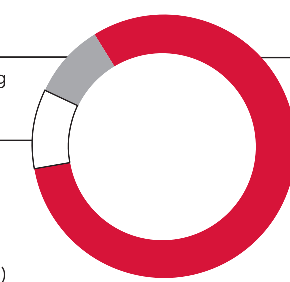
PERFORMANCE OF THE FRANCOTYP-POSTALIA SHARE (01.01.2018–29.12.2018)

Share price in EUR, volume in shares



Broad Shareholder Base

SHAREHOLDERS STRUCTURE IN PERCENT



9.5
Active Ownership Fund SICAV-FIS SCS, Luxembourg

10.3
Obotritia Capital KgaA

80.2
Free float
4.92% Quaero Capital Funds (LUX) SICAV
3.59% Saltarax GmbH, Germany
3.51% Ludic GmbH, Germany
3.30% Magallanes Value Investors
3.25% Universal Investment Company with Limited Liability
3.07% Baring Fund Managers Limited, UK

As at January 2019
(Note: Obotritia increased to 10.3% in January 2019)

Share buyback programme completed

The share buyback programme resolved and initiated in the third quarter of 2017 ended on 12 January 2018. The buyback was limited to 475,000 shares at a maximum total purchase price of EUR 3.0 million. By the end of the programme, the company had purchased a total of 398,493 shares, equivalent to 2.4% of the share capital, at an average price of EUR 4.6667. The treasury shares are to be used to serve pre-emption rights that have been or will be issued and exercised under stock option plans.

Coverage of FP shares expanded further

Analyst ratings play a key role in an investor's decision whether or not to buy a share. FP also significantly expanded its collaboration with analyst firms after the introduction of MiFID II. Dr. Kalliwoda Research began covering the company in 2018. Together with Warburg Research, LBBW and GSC Research, this makes four companies that are tracking FP's shares and publishing analyses on FP. All four institutions recommend the FP share as a buy. Baader Bank also published a first analysis after the end of the reporting period.

Annual General Meeting offers chance for dialogue

Once a year, the Annual General Meeting offers all FP Group shareholders the opportunity to take part in a direct dialogue with Group management. 40.10% of the voting share capital was represented at the Annual General Meeting in Berlin on 29 May 2018. All items on the agenda were approved by a majority.

The FP Group is maintaining consistency in its dividend policy in the framework of implementing its ACT growth strategy. At the AGM on 28 May 2019, the Management Board and Supervisory Board will propose that the meeting approves a dividend payment of EUR 0.03 per share for fiscal year 2018. This corresponds to more than 50% of consolidated net income. As in the previous year, this proposal is to make a distribution from the tax account in line with Section 27 German Corporate Tax Act. For this reason, the payment is to be made without deduction of withholding tax and the solidarity surcharge. The FP Group had paid a tax-free gross dividend of EUR 0.12 per share in the previous year.

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. In the 2018 fiscal year, the FP Group further expanded its IR activities as planned. Thus, FP's Management Board presented the company at a number of conferences and events 2018.

Intensive communication with investors is a top priority for FP. At numerous intensive investor conferences in Lyon, Frankfurt, Amsterdam, Lisbon, Munich, Madrid, Barcelona, Warsaw, Hamburg, Cologne, Düsseldorf and New York, a large number of interested investors gained an insight into FP, the ACT strategy and the resulting prospects.

Particularly noteworthy were the Management Board's presentations at the Berenberg/Goldman Sachs conference and the Baader Bank conference, both in Munich in September 2018.

The Management Board and the IR team brought the 2018 conference calendar to a successful conclusion with 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. 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 information concerning the share buy-back programme, can also be found there.

In the 2019 fiscal year, the company will continue its dialogue with investors and step up its IR activities further. FP's presence at international roadshows and capital market conferences will be further continued in order to strengthen the relationship with existing contacts and build new ones.

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

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
Coverage	Warburg Research, LBBW, GSC Research, Dr. Kalliwoda Research
Announcements	Electronic Federal Gazette
Closing price (Xetra)	EUR 3.00 (28 December 2018)
High (Xetra)	EUR 4.94 (4 January 2018)
Low (Xetra)	EUR 2.97 (27 December 2018)
Market capitalisation as at 29 December 2018	EUR 48.9 million
Earnings per share (basic)	EUR 0.06
Earnings per share (diluted)	EUR 0.06

GROUP MANAGEMENT REPORT

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), headquartered in Berlin and a history spanning 96 years, is an expert in secure mail business and secure digital communication processes. The FP Group's 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 2018 reporting year, the FP Group broadened its strategic focus on high-security products and solutions for the Internet of Things (IoT). The company is represented in many developed countries with subsidiaries and a dense network of dealers.

The company's activities are divided into three product segments: Franking and Inserting, Mail Services, and Software Solutions.

1.1.1 Product segments

Franking and Inserting segment

The FP Group develops and manufactures franking systems. Moreover, it sells and rents out franking and inserting systems and also offers extensive services. Customers can use franking systems to frank their mail quickly and automatically. This makes their everyday office life easier and saves postage costs. The main revenue generator is the after-sales 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 and the Teleporto service.

Mail Services segment

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 regional office of Deutsche Post AG or an alternative postal distributor. This business is operated by the FP Group, which is the leading independent consolidator of business mail on the German market with eight sorting centres throughout Germany.

Software Solutions segment

In the Software Solutions segment, the FP Group consolidates its business with hybrid mail services and solutions for secure fully 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. FP also provides output management services. With this service, the sender dispatches the document via the internet with the highest security standards guaranteed, and the recipient normally receives a physical letter. The FP Group handles the entire production process until letters are handed over to mail delivery companies (FP Output). The FP Group's secure fully digital communication services primarily comprise products for long-term storage and protection of electronic documents using encryption and signature software. A pioneering product in this field is FP Sign, a cloud-based solution for the legally binding digital signing and exchange of contracts and documents that are placed on the market in direct distribution in the case of medium-sized companies, but also through sales partnerships with providers of company software. In addition, FP Sign will also be available to existing franking machine customers from the end of the first quarter of 2019. The Software Solutions segment 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 franking machine technology. With the acquisition of the operations of Berlin-based IoT specialist Tixi.com in summer of 2018, the range was expanded and joint sales were established. The expansion is currently being further accelerated. Customers use the gateways for the secure transmission of data from their devices and machines, which are spread across various locations, to their own servers or cloud servers for the purpose of centralised evaluation and management.

1.1.2 Significant sales markets and competitive position

With its franking systems, the FP Group is represented on the most relevant important markets in the world, which include Germany, the US, the UK and France. With a total of approximately 218,000 installed franking systems, the company's global market share improved from above 10% at the beginning of 2016 to over 11.5%. 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 42% and 47% 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. The sales structure is currently being realigned as part of the ACT project JUMP. Global sales will be handled in three regions in future: North America, Central Region (Germany, Austria and Switzerland) and Middle Europe (remaining European countries and dealer network).

In fiscal year 2018, the FP Group again benefited from the ongoing trend towards smaller franking systems on a number of markets. The FP Group traditionally focuses on the A and B segment for franking systems and has innovative franking systems for smaller and medium volumes of letters with the PostBase family. By launching a new product generation under the PostBase Vision brand in the 2019 fiscal year, the FP Group intends to further strengthen its technological leadership 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 segment, the FP Group guarantees the extensive collection of business mail and has thus established itself as the leading independent 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. FP Input solutions are also offered at the company's eight sorting centres, with data processing taking place on a centralised basis in Berlin.

In the course of the 2018 fiscal year, FP developed versions of the FP Sign product in multiple different languages. As a result, the product can be offered to franking machine customers at all subsidiaries and other companies in various countries as from the 2019 fiscal year.

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. ACT heralded a new era and makes the Group 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 second year in which ACT was implemented.

Revenue growth in the franking machine business is viable

The performance of the FP Group in the 2016 and 2017 fiscal years already indicated the potential still to be tapped in the core business with franking systems. This trend continued in 2018. The revenue growth of 2.1% with adjustments for currency effects achieved in the Franking and Inserting segment in fiscal year 2018 is repeatedly an important indicator that the strategic assumptions are correct. This growth is based on the FP Group's good position on the changing market for franking systems. FP has an innovative and customer-oriented product range. The FP Group thus appeals to a broad spectrum of businesses worldwide, from small customers to customers with medium and large volumes of letters. Around 80% of the roughly 200,000 customers are small and medium-sized companies with up to 250 employees. The majority of these companies 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 state-of-the-art technological 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 will start launching PostBase Vision, a new generation of franking systems, in the middle of the 2019 fiscal year. PostBase Vision has a newly developed printing system as well as a variety of elements for even more convenient and efficient operation, for connecting to other customer systems and for additional online offers of further products and services.

Digitalisation is happening gradually

Digitalisation is taking place rather slowly, particularly when it comes to communication and document processes. One major reason for this is that there is considerable uncertainty about the right and secure way to use digital media and communication channels. Businesses are sticking to tried and tested processes and media for confidential information and are using e-mail mainly to send simple correspondence.

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.

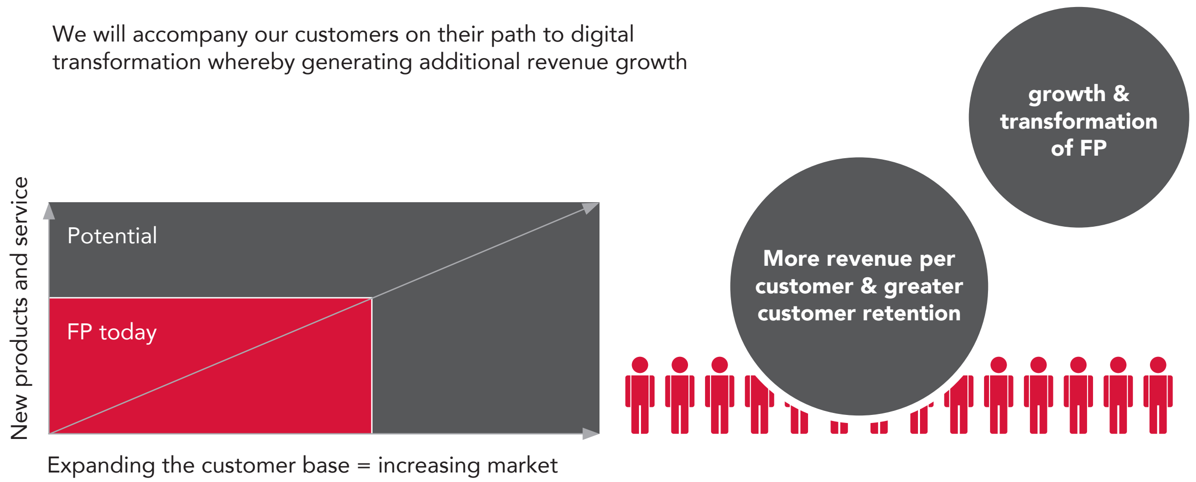
The digitalisation of these processes takes place gradually and in most cases does not result in previously fully analogue, paper-based communication and document processes becoming exclusively digital immediately. Instead, the two communication channels operate side by side. Digitalisation is therefore 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

When drawing up the ACT strategy, the FP Group analysed and reassessed the relevant facts from different perspectives. The conclusion was that FP can further expand its existing customer base of around 200,000 companies by exploiting the above-mentioned 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. Overall, this leads to better 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.

PostBase Vision

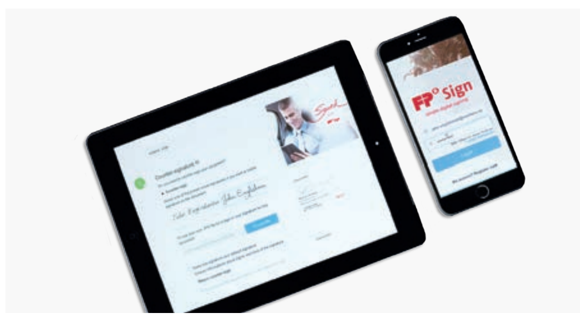


Attack: expanding the customer base, revenue growth and increasing the market share in the core business

The FP Group's core business with franking systems has more growth potential than was assumed initially. More and more business customers are choosing systems for smaller letter volumes. With its innovative PostBase family, the FP Group is optimally prepared for changes in customers' requirements. This is already allowing the company to increase its revenue. With a targeted market development strategy, especially in the US and France, which are still the most attractive markets, the FP Group now wants to acquire further market share in the core business and expand its customer base. The transformation of international sales that started in 2018 and will result in the division being consolidated in three large sales regions under common management also serves this purpose.

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

The FP Group is anticipating changes in customer requirements and is evolving to become a partner for digitalising processes relating to in- and outbound business communication in companies and authorities. Further, 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 dropping off parcels (FP Parcel Shipping, from mid-2019, starting in the US and Germany), web shop services and the option of using hybrid mail services of the FP Group. The Input/Output management services are being expanded systematically with the help of the company's sorting centres throughout Germany. The FP Group is increasing its market opportunities with additional innovations. For example, FP Sign is a pioneering product. With this new 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).



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 is thus one of the pioneers of the Internet of Things and operates one of the most modern and secure IoT networks. The technology stack of the franking machine is therefore particularly well suited for gateways with edge computing functionalities. In the course of the 2018 fiscal year, FP started marketing such gateways for high-security data transmission in Germany and internationally. FP is thereby opening up completely new sales markets and circles of customers.

1.2.2 Clear targets for dynamic growth

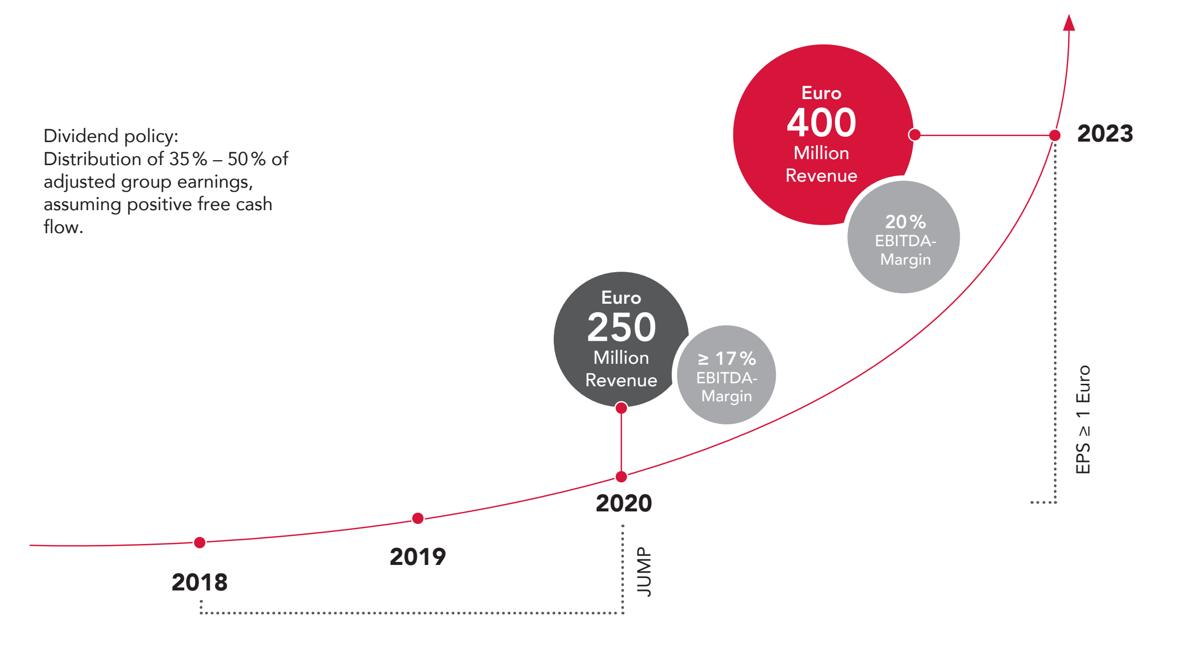
The FP Group is pursuing ambitious targets as part of the ACT strategy. By 2023, its 100th anniversary, the company wants to double its revenue to around EUR 400 million and achieve an EBITDA margin of approximately 20%. FP intends to generate revenue of around EUR 250 million and an EBITDA margin of at least 17% as early as the 2020 fiscal year.

In order to attain these targets, FP is developing into a more agile, dynamically growing company. To this end, the structure and organisation of the global FP Group are being changed as part of the ACT project JUMP and optimised according to a new target operating model in order to significantly increase the FP Group's global clout. At the same time, a uniform global ERP/CRM landscape is being introduced to support the future standard processes worldwide. As part of this, Group structures and processes are being fundamentally reorganised, from a generally function-oriented approach to a more process-oriented one. Large parts of the repetitive and automated activities are being concentrated in Shared Service Centres. In addition, competence centres are being set up in order to look to the future and implement ACT even more successfully. At the same time, responsibilities of Management Board members have been redefined, and the ten existing national sales companies are being replaced by three large regional organizations. This leverages synergies and improves efficiency across the Group. As part of the ACT project JUMP, FP is thus creating the scope for the necessary and planned growth in revenue and earnings in the traditional and digital segments.

The FP Group remains constant in its dividend policy: subject to positive free cash flow, the company plans to distribute 35% to 50% of the Group's adjusted net income.

1.2.3 Corporate growth through acquisitions, equity investments and mergers

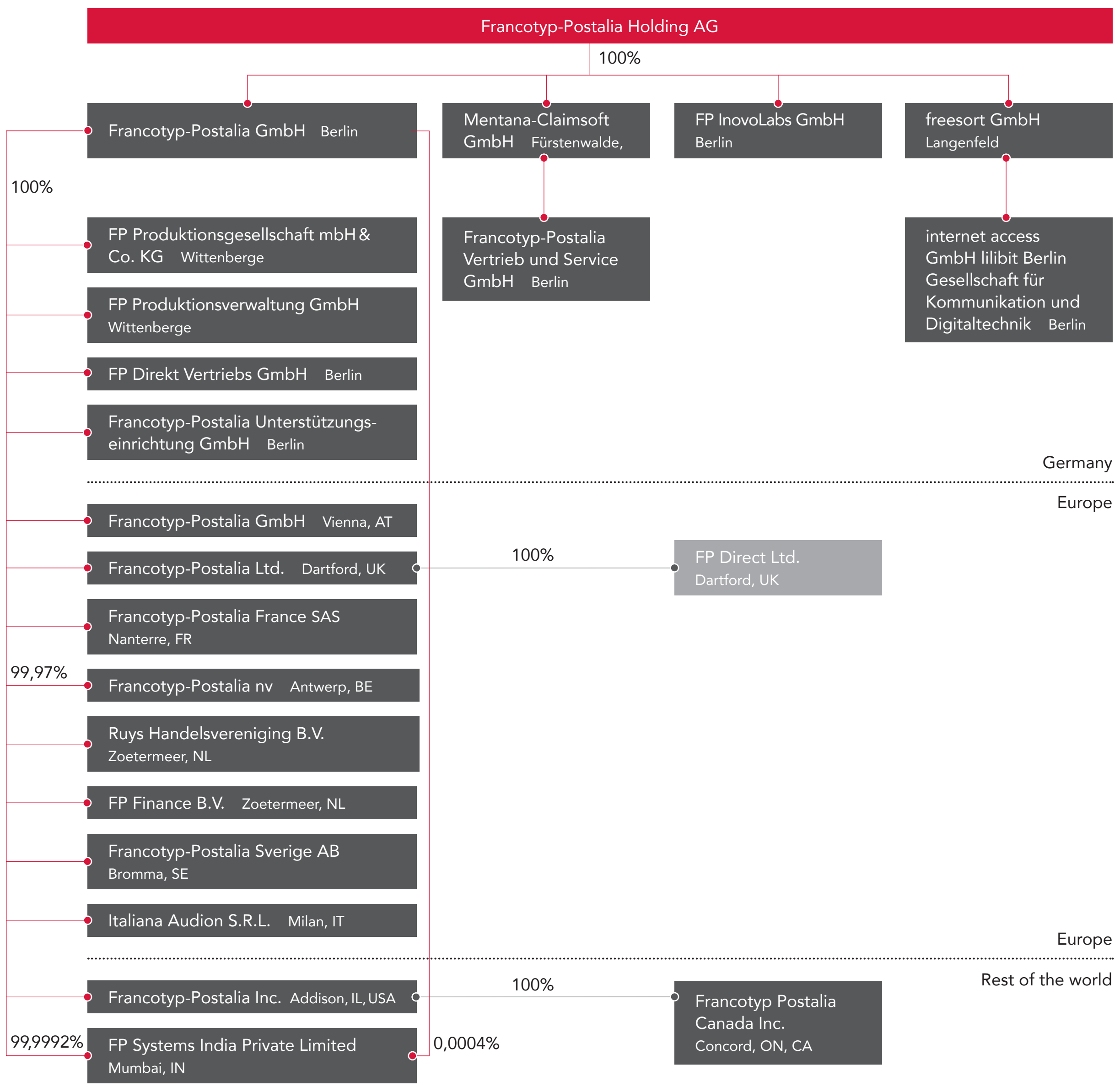
The requirements of the ACT strategy are based on the assumption that the targets for the 2020 fiscal year can essentially be met without acquisitions. Nevertheless, opportunities for expanding the business by means of acquisitions or investments will be examined carefully and, provided they are strategically suitable and the purchase price is reasonable, will be taken. Against this backdrop, the FP Group acquired the operations of Berlin-based IoT specialist Tixi.com and an online dealer for franking machine supplies in the US in the 2018 fiscal year.



1.3 Organisation

1.3.1 Group structure and locations

The chart below shows the Group structure as at 31 December 2018.



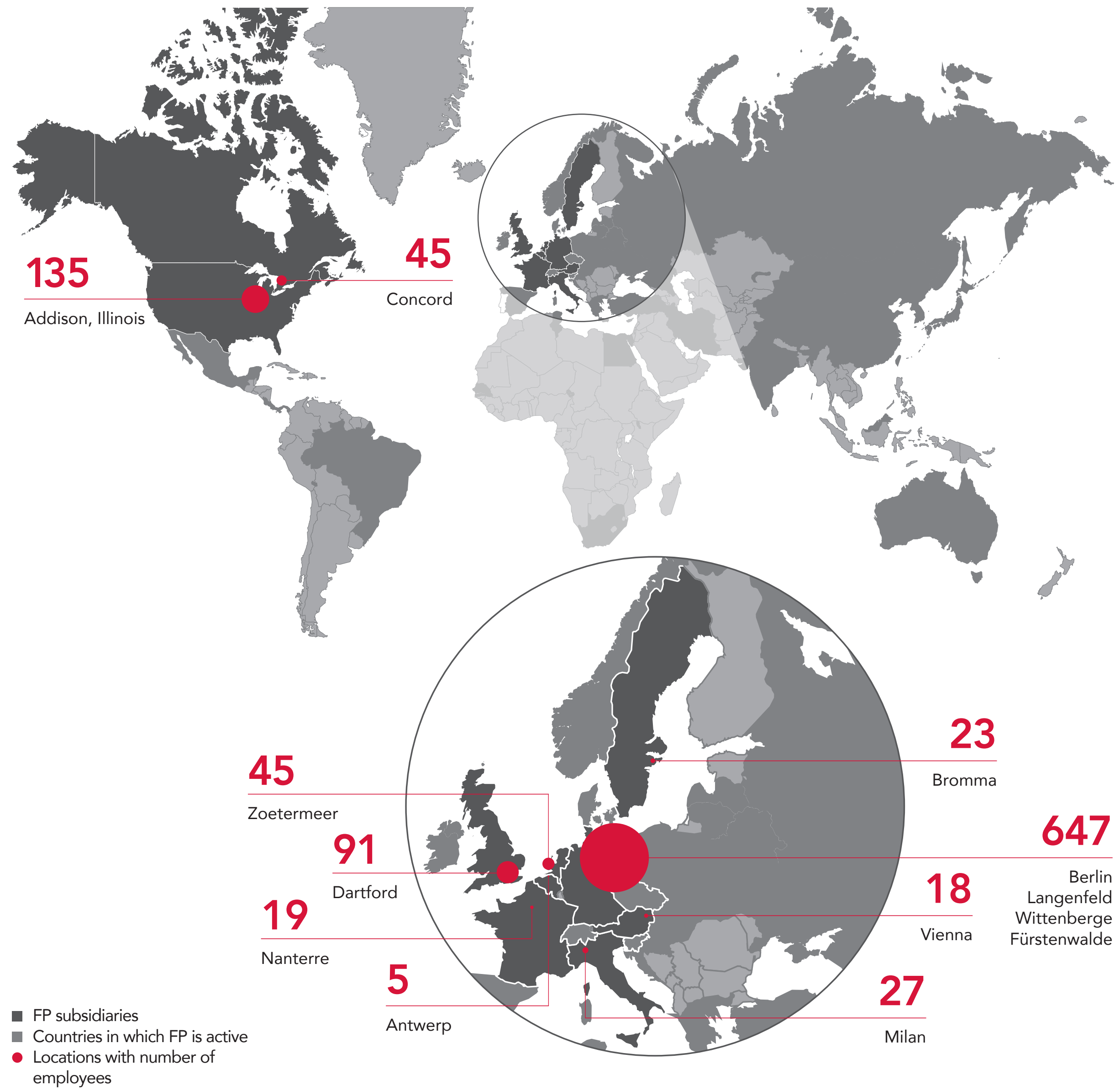
■ Company not included in consolidation

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, where the franking systems and the new digital products and business models are also located.

Since 2012, the FP Group has been manufacturing its franking systems exclusively on a modern and flexible production line dedicated to high quality requirements in Wittenberge, Brandenburg in Germany.

In the 2018 fiscal year, franking and inserting systems were distributed worldwide by subsidiaries on the markets in Germany, the UK, the Netherlands, Belgium, Austria, Italy, Sweden, the US, Canada and France, and also via a dense network of dealers. A chart of subsidiaries can be found in the notes to the consolidated financial statements. The organisational and leadership structure is being realigned with the implementation of the ACT project JUMP. Sales will be set up in three large regional organisations in future: North America, Central Region and Middle Europe.

OUR LOCATIONS WORLDWIDE



1.3.2 Management and controlling

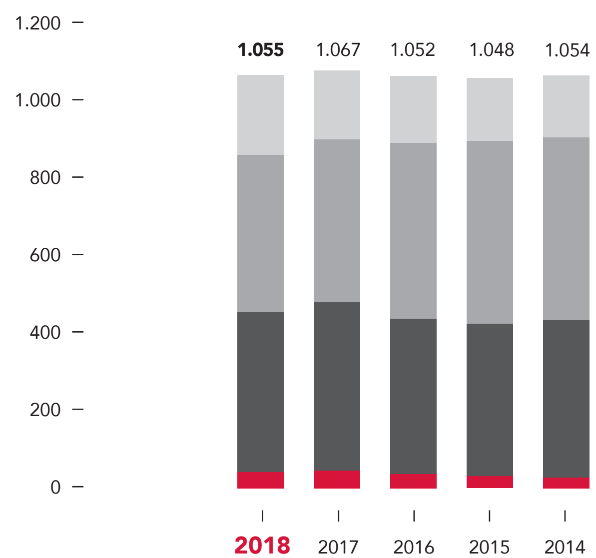
The FP Group is managed by the Management Board independently. It consists of three members who are appointed by the Supervisory Board. The members of the Management Board are jointly responsible for managing the business. In the course of the implementation of the ACT project JUMP, the Supervisory Board redefined the schedule of responsibilities of the Management Board by resolution on 10 August 2018. 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. The establishment of an Executive Committee that includes the Management Board and meets regularly will increase the intensity and efficiency of this cooperation in the course of the 2019 fiscal year.

The Supervisory Board with three members monitors and advises the Management Board. There were no changes of personnel within the Supervisory Board in fiscal year 2018. As at 31 December 2018, the Supervisory Board comprised the following members: Klaus Röhrig (Chairman), Robert Feldmeier (Deputy Chairman) and Botho Oppermann.

1.3.3 Employees

NUMBER OF EMPLOYEES by segment as the reporting date



Production	204	176	170	162	158
Sales Germany	402	417	450	466	468
International Sales	408	429	396	390	401
Central Functions	41	45	36	30	27

The increase in the number of employees in the Production segment of the FP Group in the 2018 fiscal year is attributable essentially to the first-time consolidation of the IoT specialist Tixi.com in June 2018 and the concentration of the production-related activities at the Wittenberge site that had begun in the previous year.

The decline of employees in the Sales Germany segment in the reporting year was essentially due to the continuous realignment of sales and customer service in the Franking and Inserting segment. Measures to increase efficiency were initiated in the Software segment in the previous year, which resulted in a lower number of employees year on year. The decline of employees in the International Sales segment in the 2018 fiscal year results essentially from adaptations made in the UK Sales segment.

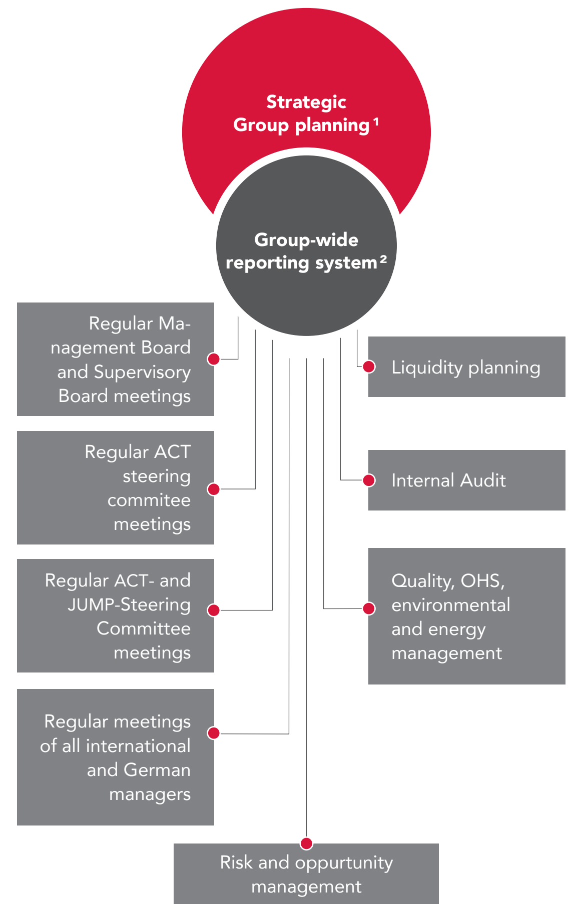
The structure and organisation of the global FP Group are being changed with the ACT project JUMP and optimised according to a new target operating model in order to significantly increase the FP Group's global clout. At the same time, a uniform ERP/CRM landscape is being introduced to offer worldwide support for the future uniform processes. Not only the Sales organisation will be restructured in the 2019 fiscal year, the internal procedures will also be reviewed and realigned to be more process-oriented. Many administrative functions that were previously carried out locally will be concentrated in two Shared Service Centres, one in North America and the other in Berlin/Brandenburg. This leverages synergies and improves 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. FP is also creating scope for the necessary and planned revenue and earnings growth in the traditional and digital areas, which will also require new employees. 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 Management

1.4.1 Management system

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.

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

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. This indicator is ascertained in Germany, as the organisational structure here is best suited to recognising and analysing servicing incidents. The results are applied on a comparative basis to the international subsidiaries, where they can be used, for example, to calculate costs for sales partners.

The improvement indicator also records the quality of FP products, especially the quality of new franking systems. It is 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. 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.

Progression of the non-financial performance indicators is planned for the 2019 fiscal year. The aim is to improve the significance of managing the quality of the products offered by the FP Group. For example, the database for service incidents will be expanded for the quality indicator. The improvement indicator will now take into account only products that are currently being produced.

The FP Group also uses these two non-financial performance indicators internally with respect to the issue of sustainability. In doing this, the company makes use of the Global Reporting Initiative (GRI). 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 Research and development: Targets

- Supporting the key strategic measures under the ACT strategy to develop new, innovative products and overhaul existing products based on the evaluation of markets and technology
- Developing new products on the basis of FP's own DNA, in particular in the market for signature products and the field of the industrial IoT (Internet of Things)
- Strong development and expansion of the IoT field by focusing internal teams as well as purchasing and onboarding technological expertise
- Developing a successor for PostBase in the A segment of franking machines with innovative and state-of-the-art product features
- Developing and obtaining a FIPS licence (Federal Information Processing Standard) for a new generation of hardware security modules for franking systems and products in the IoT field
- Further increasing efficiency and innovative capacity by implementing new, agile methods of innovation
- Further increasing efficiency regarding the use of property rights and trademarks; reorganising the property rights and trademarks segment for this purpose
- Continued close cooperation with universities and start-ups

1.5.2 News from research and development (products, local variants and software programs, organisation and processes)

- IoT value chain: development of the FP Secure Gateway (Internet of Things, IoT) and marketing of IoT solutions
- May 2018: acquisition of the operations of IoT specialist Tixi.com, resulting in access to any IoT data sources
- January 2019: 15% stake in Juconn GmbH – target: access to the innovative cloud platform for IoT business models and expansion of the incubator role
- Implementation of the security standard IMI-PC (Intelligent Mail Indicia Performance Criteria) of USPS for US franking systems and integration in PostBase Vision
- Further development of the cloud-based digital signature solution FP Sign and internationalisation in important countries
- Development of FP Sign mobile apps for Android and iOS and rollout via app stores
- Development and rollout support for the international FP customer portal discoverFP
- Shipping solution for shipping parcels, also as part of discoverFP
- Market research for the future FP Product Roadmap
- Finalisation of the use of alternative printing technology for franking products and use of web technologies in combination with the FP portal solution "discoverFP"
- Realisation of eleven additional country variants for the international rollout of the FP PostBase family (e.g. Taiwan, Philippines, South Africa)

1.5.3 Innovation is in FP's DNA – core areas of expertise

Secure infrastructures

The billing services in the core business of franking are based on the development and operation of secure and internationally approved infrastructures for billing services. These billing services are an important core element of the digital transformation. This transformation comprises the shift from the sale of hardware-based product solutions towards the provision of solution-oriented services which customers can use and pay for in the exact scope and for the exact duration they need. "Pay-as-you-use" services thus require precisely these billing services in order to bill all types of services.

As a high-tech company, FP enjoys a tradition in innovation for decades. The transfer of monetary data streams has contributed to the establishment of our unique expertise, not only in the development of highly specialised functionalities that meet the requirements of the different postal authorities and companies across the globe. This innovative strength is also what characterises the DNA of FP with its components of sensor systems, actuator technology, connectivity and cryptography. It predestines the company to advance into the fields of Industry 4.0 and the Internet of Things (IoT). For this reason, alongside measures for continuous improvement and product maintenance, high priority is attached to developing new, innovative products and services. Agile development methods have been established practice for years. The further expansion of cooperation with universities and start-ups is another important element. The digital transformation of companies brings challenges at many levels, and collaborations are needed in order to not only maintain, but significantly increase, the ever-accelerating pace of innovation cycles. The creative energy of the FP Group's development engineers provides the platform for innovative analogue and, most importantly, digital products and services.

Cryptography (security and encryption software)

Secure billing services require modern encryption technologies. Encryption means cryptography. For over 15 years, Francotyp-Postalia has been growing its expertise in applied cryptography and adapting it continuously to new technologies and requirements. Mastering this technology is vital for all FP products and demonstrates outstanding R&D discipline. Cryptography renders 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. In the case of franking systems, this largely secures high-security transmission of monetary values and sensor data. In the IoT environment, all types of data are transmitted securely from their place of origin to all types of cloud services. FP offers high-performance, needs-based, optimum cost and scalable security solutions here.

Sensor systems/actuator technology

The sensors used in the franking systems and other devices recognise external and internal operating conditions. For example, they detect temperature, speed or brightness. This information is recorded in the franking systems and used to control drive components, or actuators, via special software programs. This ensures that transportation, printing and system protection is of high quality.

With the acquisition of the tried and tested Tixi.com interface technology, data can also be gathered from almost all data sources such as industrial management systems, energy meters, all types of analogue and digital sensors, and made available for evaluation and use in digital services. The applications realised in 2018 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 oil filters in injection moulding machines, ships or hardening shops.

Software

Software is of critical importance to the success of FP products in use around the world. FP is increasingly consolidating its software development in competence centres. These ensure that FP keeps its finger on the pulse of the different areas of software technology. Software development today therefore encompasses much more than "simple" machine control, and ranges from PC and web applications and embedded software to the servers used to manage data and carry out cryptography. The expansion of the competence centres was continued in 2018. Two distinct areas of competence have been formed. The first is application development, which focuses on PC and server software and the development of mobile applications for Android and iOS. The second is the development of embedded software, which focuses on industrial IoT and the further development of the products in the core business of Franking and Inserting.

Connectivity

All the products and services of FP are closely interlinked today. FP has a growing installed base of more than 150,000 PostBase, PostBase One and PostBase Mini systems, which are all linked to the FP Repository. This system is used to monitor the condition of the franking systems and a wide variety of services can be offered or executed. Each product and service is a complex system that is connected to and communicates with other systems. The discoverFP portal combines all the different services and establishes a connection to hybrid or fully electronic mailing systems. Cloud systems can be used to access parcel services and to exchange or sign (FP Sign) contracts and documents legally, securely and confidentially, even on the move. In addition to the connection beyond product boundaries, services that are only possible through bonding with other subsystems are also made available within a product.

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 works in accordance with agile processes and methods 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 are developed, tested and analysed in the experimental laboratory, and important decisions on product design are made based on the overall findings. This affects the innovative solutions for data gathering and evaluation in the IoT environment in particular to an increasing degree. The "time to PoC", i.e. the time in which "proof of concept" solutions for verifying business models for customers can be developed, created and tested for handover to the customer, is becoming increasingly crucial. At the same time, the technical centre offers space to make necessary changes in real time and carry out further testing. The fact that it was further expanded and equipped with state-of-the-art technology is an advantage here. For example, the number of available 3D printers has been increased. High-speed cameras and climate cabinets also provide research environments that can visually detect processes more quickly and simulate long lifetimes. This gives FP an insight into the long-term performance of the products being developed. Alternative printing technologies and simulated ageing processes are just two examples of the insights that the technical centre has provided in the areas of design and electronics.

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 development of new 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.

1.5.4 Data security has top priority – certification conditions and processes for products and services of the FP Group

Most FP products and services require certification from a regulatory authority. For franking systems these are the respective postal authorities in all sales regions worldwide, for software products usually the BSI (German Federal Office for Information Security), to name just the most important.

The high approval requirements of the individual regulatory authorities already make it clear that FP products are not just about smooth and safe operation for the consumer. An important criterion for approval of products and services is that data security must be ensured at all times. The transfer of billions in postal funds between the cloud-based infrastructures of the national postal companies and the customers' franking systems requires high-security online communication channels. The amounts transferred between the parties must be settled and assigned exactly. The postal authorities therefore demand the highest security standards from manufacturers for each new model. These tests are carried out using accredited testing laboratories.

In addition to initial approval, the respective postal companies regularly monitor whether the security requirements are also reliably met during the lifetime of the product. These audits not only look at the level of security; the review and evaluation are also important elements. Security at this high level can only be guaranteed by well-defined and long-established processes. Long-standing consistency and quality is a particular core competence of Francotyp-Postalia and demonstrates how high the barriers are for companies that want to enter the franking machine market. There are also interfaces with excellent potential for synergies with modern products such as FP Sign. Confidentiality, security and legal obligation are essential requirements for the success of products and services in this context.

TYPICAL APPROVAL PROCESS

Securing the function/risk management

Independent tests
Life cycle test; Usability test; endurance test;
Pre test ESD, EMV; drop test

Industrial property rights and trademarks

Postal
Concept of Operations

Security Environment
Radio approval for Bluetooth and WIFI (RED);
EMV/ESD testing (CE, FCC, ISED); product safety (CB report)
for franking machine and peripherals: IEC 60950-1,
Fire protection test (UL); GS report

Environment
Energy Star 2.0; environmental testing (shock, vibration,
drop, impact, air conditioning, cold, heat test)

↓

Accredited labs
NEMKO, Messtechnik Nord, PENUMBRA, eurofins

↓

CE declaration of conformity

↓

Approval from licensing authority
Readability tests, Life cycle test

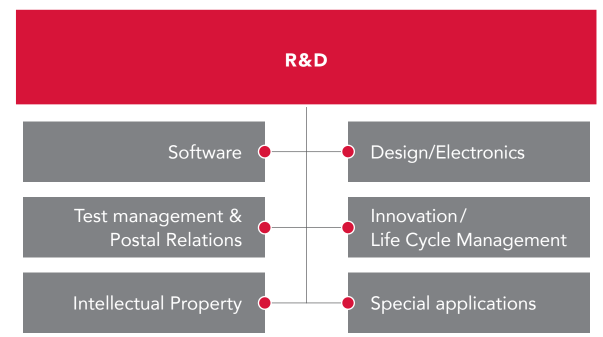
↓

Audit from licensing authory (regular)
Regular audits within the production by
Approval Authority/Postal Authority

■ for example

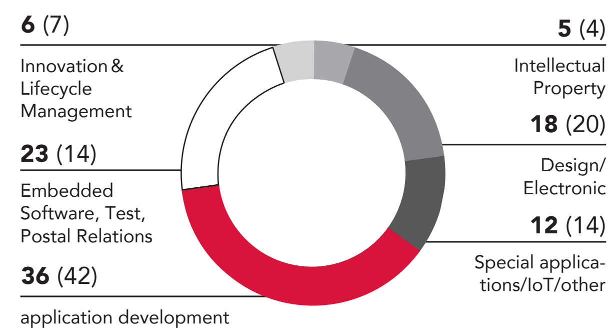
1.5.5 Structure of research and development and employees

a. Research and development divisions



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

(in %, previous year in brackets)



c. Research and development employees

At the end of 2018, 73 employees (previous year: 69) were permanent staff in the research and development divisions of the FP Group (including subsidiaries), which represents 6.9% of the Group's total workforce (previous year: 6.5%). Additional external employees are temporarily recruited for certain projects, as required. At the end of 2018, external staff accounted for up to 11% of the permanent R&D workforce.

d. Cooperation with universities

Cooperation with universities and other educational institutions is essential for any company that wishes to be ready for the future. The FP Group has therefore been in active discussions with various institutions for a long time. FP offers students working on their bachelor's and master's dissertations opportunities to interact with experienced FP engineers and developers and use FP's laboratories and workshops for their own research and developments. FP also offers interested students opportunities to spend a semester at a foreign subsidiary.

1.5.6 Selected research and development topics

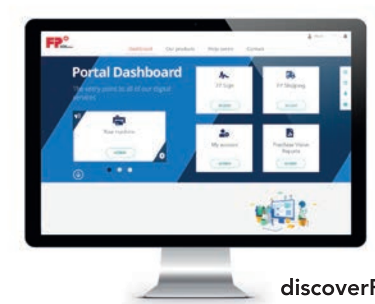
a. PostBase Vision as the successor of tried and tested PostBase Classic

PostBase Vision is the consistent further development of the PostBase "Classic" franking system, which was introduced in 2012. PostBase Vision, to be launched from the middle of the 2019 fiscal year, maintains the outstanding quality and functionality of the globally successful PostBase franking system while making it even more future-proof and user-friendly. 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. The design of the intuitive graphical user interface has been improved to be even more customer-oriented and connectivity with the new interfaces such as Wi-Fi and Bluetooth is now considerably more convenient. The franking system is still based on the tried and tested one-button concept. New visual guidance features such as LEDs assist the user with the letter feed and handling cartridges, which now require just a 1" print head. This makes it considerably easier for users to handle the ink cartridges. They receive additional support from LEDs that accentuate the scale and through acoustic signals.

Customers can choose from five modern colour designs for the Post Base Vision, each of which matches the current office design world. The discoverFP connection, the portal to the digital FP world, is a new feature.

b. discoverFP customer portal

In the first quarter of 2018, FP activated the discoverFP customer portal in the first countries (UK, Netherlands, Belgium). The worldwide technical rollout with access to the first value-adding portal functions took place in the course of 2018 and will be continued in the 2019 fiscal year.



discoverFP

Starting with an overview of the relevant franking system data for existing customers and with an integrated help centre and the option to access invoices, orders and contracts, the aim of discoverFP is to support all current and future customers with the digital transformation of their own communication business processes. The solutions and services required for this, based on Francotyp-Postalia's ACT strategy, are to be successively adapted to new target groups of customers. Agile project methodology ensures that customer feedback is quickly incorporated into the development of further portal functions (e.g. shipping solutions), meaning that these services are subject to a process of continuous improvement in the interests of customers.

c. FP secure gateway

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 with other devices, a group of devices or a device centre. The possibilities for communication range from the transfer of simple status updates, e.g. the current temperature, to complex management of industrial facilities. Yet however varied the applications may be, a high level of data security is required. 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 ensured – unauthorised persons must not be able to read the content. The latest FP product "FP Secure Gateway" is the perfect solution for security requirements in the IoT environment. FP Secure Gateway has a scalable number of input sensors. The information recorded by sensors is transmitted to a data centre and protected in accordance with the required level of security. 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.

The flexible and robust design allows it to be used in industrial environments and thereby also meets the requirements of solution providers in the field of Industry 4.0. This product's security features make it stand out in relation to other products.

The hardware security modules, for example, are certified according to FIPS 140-2 level 3. FIPS stands for "Federal Infrastructure Processing Standard". It is a computer security standard of the US government for the approval and certification of cryptographic modules, with the primary objective of use by public authorities.

The standard is divided into four security levels:

Level 1 Software security only – no physical security mechanisms

Level 2 Software security and physical security mechanism that makes manipulations of the device visible, e.g. in the case of the break of the sealing of the printed circuit board

Level 3 Software security and strong physical security, including the deletion of critical security parameters such as private keys in the hardware security module in the event of device manipulation, e.g. when the circuit board encapsulation is broken

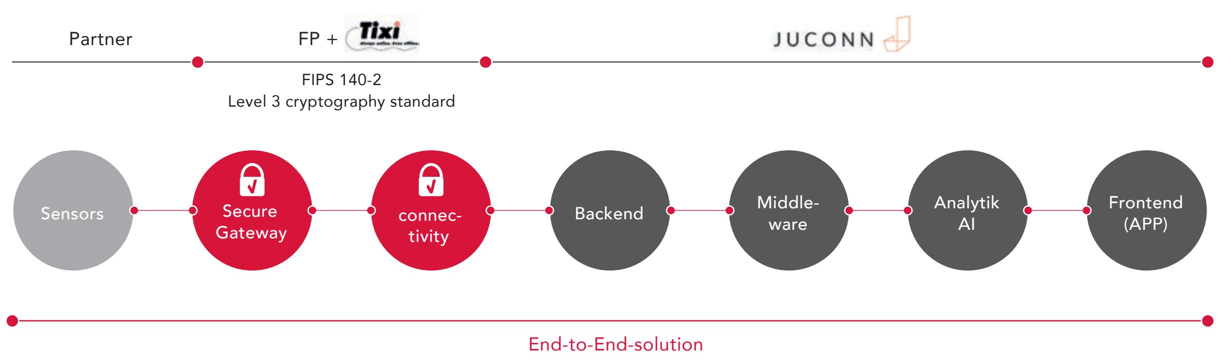
Level 4 Highest security level that includes additional physical protection measures against hazards and manipulation, such as protection against environmental influences (high voltage, extreme temperatures, chemicals or X-radiation)

In sum, this means that the hardware security module technology provided by FP meets one of the highest security standards available. In addition to our security module, we also manage our own PKI and our FP-specific configuration management platform for managing our installed basis of over 150,000 IoT devices.

As a result, we offer the following unique features:

1. We offer scalable, modular solutions that address the needs of our customers.
2. In addition, FP can integrate flexible billing and reporting systems from the traditional range of products.
3. FP can connect all types of data sources.
4. FP is flexible when it comes to connecting downstream solutions and the relevant IoT cloud platforms such as Juconn, AWS, cumolocity and other platforms.
5. FP can provide its customers with a proof of concept in less than two weeks. This will allow us to gain the customers' trust and confidence.

FP IOT VALUE CHAIN



The secure infrastructure enables billions of pieces of valuable data to be transferred every year and shows that FP has already been offering outstanding data security for many years. Based on FP's core areas of expertise (DNA) and the basic technologies used in traditional FP products, a new field of application, "pay as you go", is thus being opened up in the IoT.

With the acquisition of Tixi.com, we have closed a gap in the upstream section of the value chain and provide easy access to sensors and control units.

Through the participation in Juconn FP has closed a gap in the downstream section, which includes the dashboards, monitoring functions and the use of analysis and block chain functionalities, in order to offer our customers real end-to-end solutions.

d. FP Sign

The signature solution FP Sign was equipped with further new functions in 2018, in particular in the area of workflow management and document handling, as well as international language versions. National and international identity services were also integrated.

In the digital age, FP Sign gives companies an all-important competitive edge by enabling them to sign documents online and share them within minutes – whether in the office or on the move. FP Sign can be used in any industry. However, increased demand can be seen in particular among recruitment agencies, tax consultants, legal practitioners, insurance companies and banks.

Companies can use FP Sign to digitally sign contracts, offers, forms, certificates and so on quickly and securely and have documents countersigned by their customers, suppliers and employees. Different signature levels ensure the legal security of documents. The cloud-based software solution is hosted in computer centres which are BSI-certified, which means that it meets the very highest security standards in Germany.

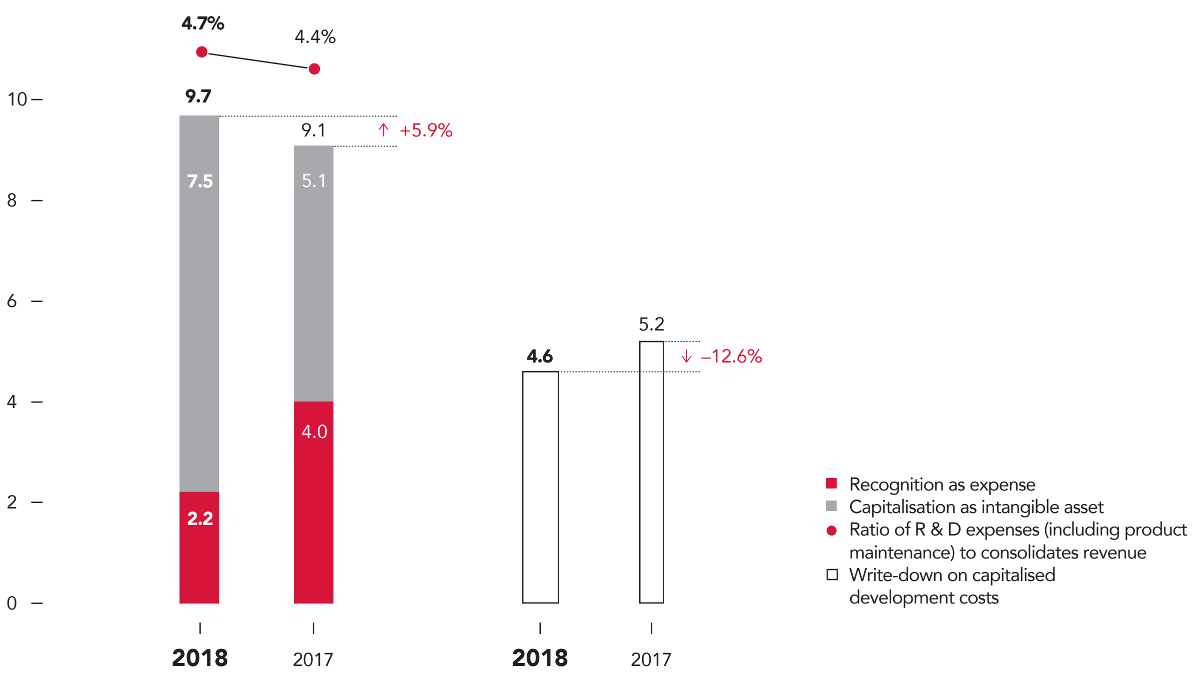
Further core features of FP Sign:

- eIDAS compliance
- End-to-end monitoring and transparency of digital business processes
- Seamless integration in business applications due to state-of-the-art APIs
- Mobile app for working on the move

1.5.7 Research and development costs

In fiscal year 2018, research and development costs were up 5.9% year on year. The share of capitalised development costs in the period's total research and development costs (capitalisation rate) increased from 56.3% in the previous year to 77.5% in the reporting period in the context of implementation of the ACT strategy and, in particular, the planned investment in new products. Amortisation of internally generated intangible assets decreased by 12.6% to EUR 4.6 million in the year under review.

RESEARCH AND DEVELOPMENT COSTS in EUR million



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 3.7% in 2018. Higher growth in developing countries was offset by lower growth rates in the developed countries, which are particularly relevant to the FP Group. Significant growth was recorded in the US, FP's largest foreign market, in 2018. The economy in the euro zone and Germany also performed well, as shown in the figure below:

TABLE OF GDP GROWTH IN 2018

World	+3.7 %
United States	+2.9 %
Eurozone	+1.8 %
Germany	+1.5 %

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 USA and other markets. Having initially appreciated against the US dollar shortly after the start of 2018, the euro fell as from the second quarter of 2018; as at 31 December 2018, the rate was USD 1.15, thus approximately 4% below the previous year's closing price. However, in the 2018 fiscal year, on average the euro traded against the US dollar at approximately 5% above the level in the previous year. 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, experienced some fluctuation in 2018. With a closing price of 0.90 pound sterling as opposed to 0.89 pound sterling at the end of 2017, the exchange rate remained almost unchanged year-on-year. In the 2018 fiscal year, on average the euro traded against the pound sterling at approximately 1% above the level in the same period of the previous year. The value of the euro also increased against the Canadian dollar and the Swedish krona in 2018 (+4% and +6% respectively). Weaker foreign currencies have a damping effect on 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. Various post office statistics report that over 300 billion letters continue to be sent worldwide every year – mostly in Europe and North America. According to the Universal Postal Union, global mail volumes have fallen continuously over the past years. Volumes stabilised again for the first time in 2017 and even increased slightly by just under 0.3% as compared to 2016; figures for 2018 have not been published yet. However, experts are not expecting a reversal of the trend, but rather a further slight decline that will continue to change the market for franking systems and result in slight declines overall.

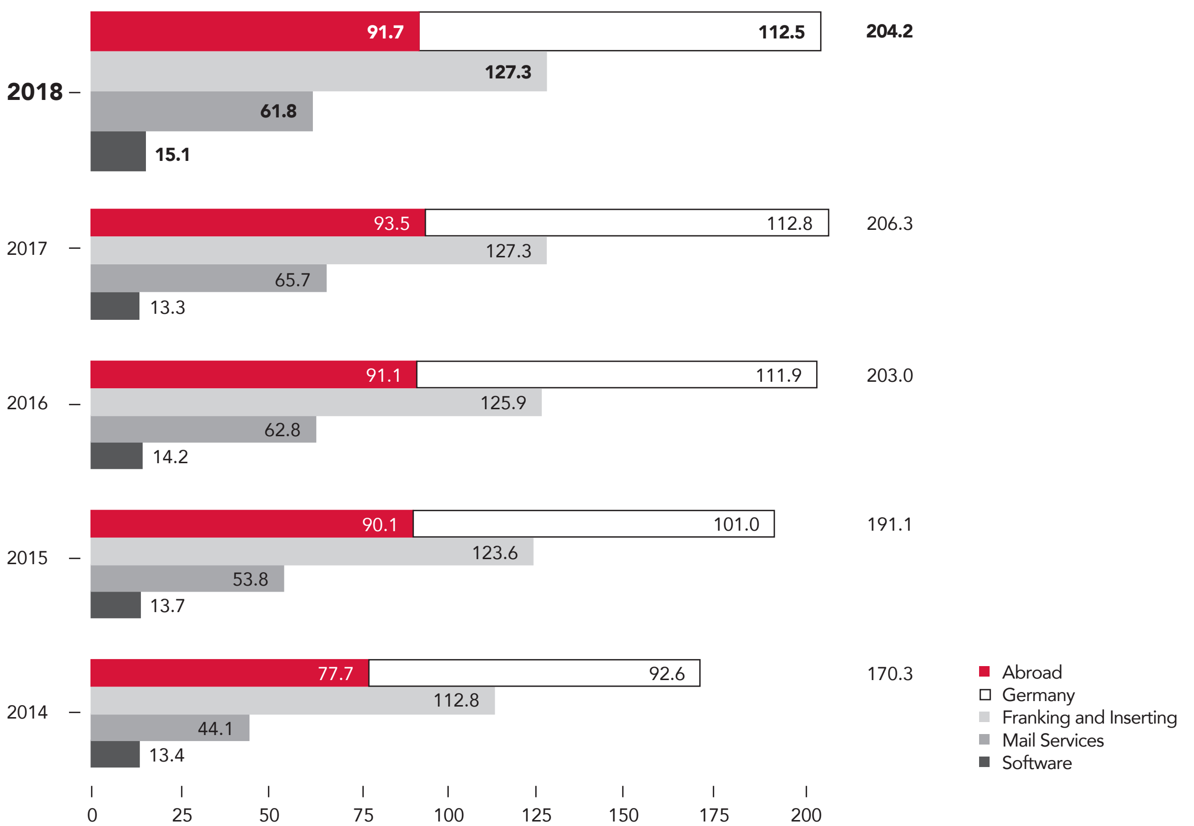
3. Income Situation

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

in EUR million	2018	2017	Change in %
Revenue	204.2	**206.3**	**–1.1 %**
Change in inventories	–0.3	0.5	n/a
Other own work capitalised	14.1	10.8	29.8 %
Overall performance	218.0	**217.7**	**0.1 %**
Other income	1.9	4.8	–60.5 %
Cost of materials	101.6	102.9	–1.2 %
Staff costs	64.7	59.2	9.3 %
Net impairment losses on trade receivables	0.0	–	n/a
Other expenses	36.4	34.1	6.9 %
EBITDA	17.1	**26.3**	**–35.1 %**
Amortisation. depreciation and write-downs	17.3	19.1	–9.0 %
EBIT	–0.3	**7.3**	**n/a**
Net interest income	1.5	0.2	571.3 %
Other financial result	0.1	–0.4	n/a
Income taxes	0.4	–2.4	–85.3 %
Consolidated net income	0.9	**4.6**	**–80.7 %**

3.1.1 Revenue development

CONSOLIDATED REVENUE (in EUR million)



In fiscal year 2018, the FP Group generated revenues of EUR 204.2 million (-1.0% year-on-year) and increased revenues by 0.3% to EUR 206.9 million after adjustment 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 127.3 million, the company generated revenues on a par with the previous year in the traditional franking and inserting business in fiscal year 2018, despite the strong euro. Exchange rate effects across all currencies were negative, totalling EUR 2.7 million. Adjusted for currency effects, the FP Group achieved growth of 2.1% year-on-year in its core business in fiscal year 2018. Compared with the competition, FP therefore performed well once more, further expanding its business volume. FP again gained market share in 2018 in its key markets, particularly in the strategically important markets of the US and France.

In the German domestic market, the FP Group generated sales of EUR 112.5 million in fiscal year 2018, on a par with the previous year.

In the Franking and Inserting segment, the company's revenue in Germany was up 5.6% at EUR 35.8 million in fiscal year 2018. Revenue in the Mail Services segment fell by 6.0% year on year. The decline in revenue is due primarily to the reduction in mail volume compared with the previous year (-4.9%) as well as changes in the customer and product mix in the context of realignment of the segment. In fiscal year 2018, FP increased its revenue by 13.5% to EUR 15.1 million in the Software segment. Partly bolstered by postage cost effects of EUR 0.9 million, business with hybrid mail services contributed to growth again after the decrease in fiscal year 2017. With the expansion of sales partnerships for the signature solution FP Sign, the FP Group laid important foundations for future growth in the Software segment in the year under review. In addition, FP further expanded its range of services following the acquisition of the Berlin-based IoT specialist Tixi.com in June 2018. As expected, the revenue contribution of the new products and solutions in the Software segment was not yet material in the year under review.

The FP Group's largest foreign market in fiscal year 2018 was again the US. Due to the strong euro, revenue there fell by 4.1% to EUR 44.2 million. Adjusted for currency effects, the FP Group increased its revenue by 0.3% year-on-year to EUR 46.2 million. Despite growing uncertainty surrounding the Brexit negotiations, FP increased its revenue in the UK from EUR 15.5 million in the previous year to EUR 15.9 million in fiscal year 2018. Based on the euro, foreign revenue decreased by 1.9% to EUR 91.7 million in total compared with EUR 93.5 million in the previous year due to the strong negative impact of currency effects. The exchange rate effects across all currencies were negative, totalling EUR 2.7 million in the year under review. Adjusted for currency effects, the FP Group achieved growth of 1.0% in foreign business in fiscal year 2018.

REVENUE by product and service

in EUR million	2018	2017	Change %
Product sales income	**43.1**	**43.7**	**–1.3 %**
Franking*	34.7	35.0	–0.7 %
Inserting	7.2	7.4	3.9%
Other	1.3	1.3	1.7 %
Recurring revenue	**161.2**	**162.6**	**–1.0 %**
Equipment hire*	32.8	33.2	–1.1 %
Service/customer service	19.3	18.6	4.2 %
Consumables	23.3	22.8	2.1 %
Teleporto	8.7	9.0	–3.3 %
Mail Services	61.8	65.7	–6.0 %
Software	15.1	13.3	13.5 %
Total	**204.2**	**206.3**	**–1.0 %**
Non-recurring revenue	21.1 %	21.2 %	
Recurring revenue	78.9 %	78.8 %	

* The revenues shown include both revenues from contracts with customers (IFRS 15) and revenues from rental and leasing transactions (IAS 17).

The slight decrease in product sales income in the core business in the year under review is largely due to restraint in indirect sales in the US in the fourth quarter of 2018 ahead of the launch of the new PostBase Vision generation of franking machines announced for 2019, and to lower purchasing volumes with international dealers compared with the previous year. A sharp rise in revenue in the domestic market of Germany had a positive impact on product sales income in fiscal year 2018. Negative currency effects on product sales totalled EUR 0.7 million in the reporting year. Adjusted for currency effects, in fiscal year 2018 the FP Group generated product sales revenue growth of 0.4% thus slightly above the previous year's level.

The decrease in revenue from the leasing of franking systems in fiscal year 2018 is mainly due to the strong euro compared with the US dollar; adjusted for currency effects, the FP Group increased its rental revenue further by 2.6% compared to the previous year. Revenue from services and consumables also rose. The increase in service business is primarily attributable to costly software updates in connection with postage changes in Austria, the Netherlands, Sweden and Belgium. Recurring revenue was also negatively affected by exchange rate effects in the year under review (EUR -1.9 million); adjusted for this, the FP Group recorded slight growth of 0.3% in recurring revenue in fiscal year 2018.

The first-time application of IFRS 15 (Revenue from Contracts with Customers) had no material impact on the development of revenue in fiscal year 2018. Further information can be found in the notes to the consolidated financial statements in Section I.

3.1.2 Other own work capitalised

The sharp increase in own work capitalised in the year under review (+29.8% year on year) is primarily due to the planned ACT investment in new products and increased investment in leased products mainly for the US and France lease markets. Development costs reported in own work capitalised significantly increased by EUR 2.4 million to EUR 7.5 million compared to the previous year – primarily due to the development of the new PostBase franking system, the further development of the discoverFP customer portal and the enhancement of FP Sign. The additions to leased products reported therein amounted to EUR 6.2 million in fiscal year 2018 compared with EUR 5.5 million in the previous year.

3.1.3 Other income

The decline in other income in the year under review resulted mainly from lower income from statute-barred liabilities of EUR 0.7 million (previous year: EUR 2.8 million) and from the significant decline in income from cost subsidies and grants (EUR 0.0 million compared with EUR 0.9 million in the previous year).

3.1.4 Costs of material

The cost of materials fell by a total of 1.2% in fiscal year 2018, mainly due to the decrease in franking service expenses in Mail Services. The cost of purchased services decreased accordingly by 1.4% year on year to EUR 66.7 million. Expenses for raw materials, consumables and supplies also declined slightly to EUR 34.9 million in the year under review compared with EUR 35.2 million in the previous year. The performance of the euro against the US dollar in particular had an impact here. At 49.8%, the cost of materials ratio remained approximately at the previous year's level.

3.1.5 Staff costs

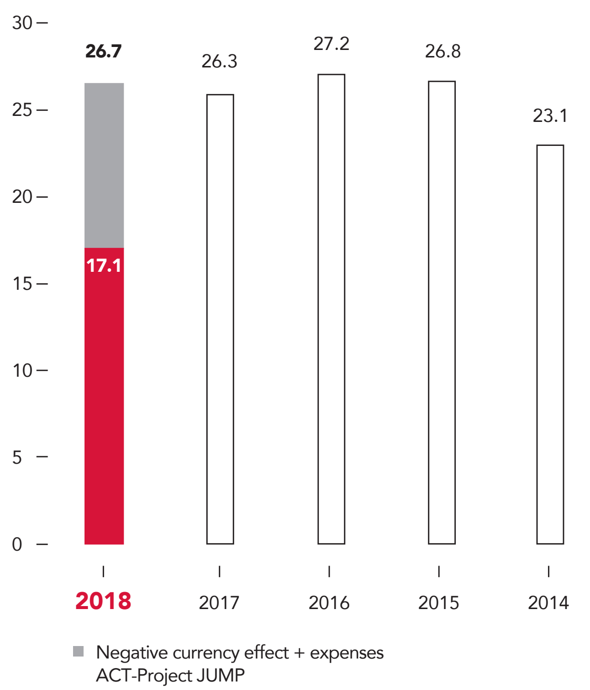
Staff costs rose by 9.3% year on year to EUR 64.7 million in fiscal year 2018. In addition to general salary increases, the increase is largely due to non-recurring staff-related expenses for the ACT project JUMP of EUR 5.7 million. The implementation phase of the project started in the fourth quarter of 2018 – on an annualised basis, initial savings of EUR 0.3 million have already been achieved (of which EUR 0.1 million pro rata in 2018). Furthermore, the effects of the expansion of the international sales team and the headcount increase in administrative areas of the Group in connection with the implementation of the ACT strategy in the previous year were apparent in the year under review. The drop in the number of employees in the Sales Germany segment reduced staff costs by EUR 0.8 million in the reporting year, while exchange rate effects reduced the burden by EUR 0.6 million. The staff cost ratio increased to 31.7% in fiscal year 2018, compared with 28.7% in the previous year, largely due to extraordinary expenses for the ACT project JUMP. Adjusted for JUMP, the staff cost ratio rose slightly to 28.9% year-on-year.

3.1.6 Other expenses

Other expenses rose by 6.9% to EUR 36.4 million in the year under review. This was mainly caused by increased expenses for fees and consulting (EUR 5.3 million compared with EUR 4.3 million in the previous year), higher marketing expenses of EUR 3.6 million (previous year: EUR 3.2 million) and a rise in miscellaneous other expenses (EUR 4.9 million compared with EUR 4.4 million in the previous year). Expenses for consulting services in the ACT project JUMP amounted to EUR 2.4 million in fiscal year 2018. The reversal of provisions of EUR 0.8 million for which the reason had ceased to exist, primarily in relation to legal costs (EUR 0.2 million) and onerous contracts (EUR 0.4 million), led to a reduction in other expenses in the year under review.

3.1.7 EBITDA

EBITDA (in EUR million)



In fiscal year 2018, the FP Group generated EBITDA of EUR 17.1 million (-35.2% year-on-year). The FP Group's EBITDA margin decreased to 8.4% after 12.8% in the previous year. As planned, the ACT project JUMP had an effect on earnings in fiscal year 2018. EBITDA includes extraordinary expenses for the project totalling EUR 8.0 million. The implementation phase started in the fourth quarter of 2018 – on an annualised basis, initial savings of EUR 0.3 million have already been achieved. EBITDA was additionally reduced in the year under review by currency effects, especially the performance of the euro against the US dollar. The negative exchange rate effects in fiscal year 2018 totalled EUR 1.5 million.

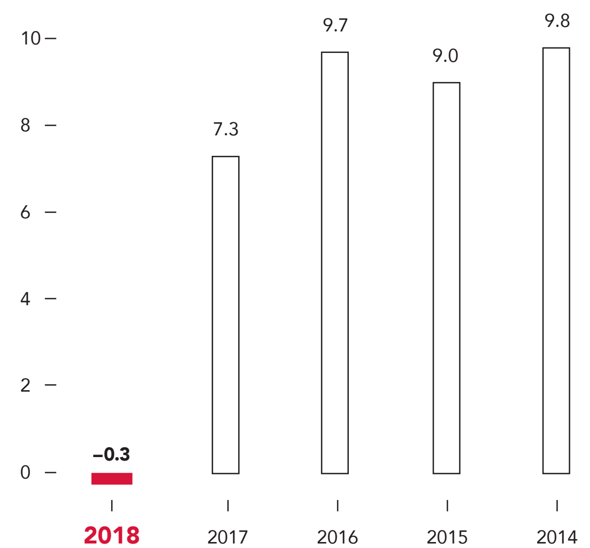
Adjusted for exchange rate effects and the expenses for the ACT project JUMP, EBITDA increased by 1.3% year on year to EUR 26.7 million in fiscal year 2018 (corresponding to a 12.9% EBITDA margin, after 12.8% in the previous year).

3.1.8 Amortisation, depreciation and write-downs

Both in absolute terms (EUR -1.7 million, -9.0%) and in relation to revenue (8.5% in the year under review compared with 9.2% in the previous year), amortisation, depreciation and write-downs decreased as planned in fiscal year 2018 compared with the previous year. The development is largely attributable to a decline in depreciation on leased products including finance lease assets by EUR 1.1 million to EUR 8.5 million and amortisation of internally generated intangible assets by EUR 0.7 million to EUR 4.6 million.

3.1.9 EBIT

EBIT (in EUR million)



Due to the lower EBITDA as a result of the extraordinary expenses for the ACT project JUMP, EBIT for fiscal year 2018 declined to EUR -0.3 million compared with EUR 7.3 million in the previous year despite the decrease in amortisation, depreciation and write-downs.

3.1.10 Net interest income

The significant improvement in net interest income of EUR 1.5 million (previous year: EUR 0.2 million) resulted primarily from tax-related non-recurring 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 (previous year: EUR 0.5 million), from higher finance lease interest income of EUR 2.0 million (previous year: EUR 1.6 million) and from much lower non-recurring interest expenses from ongoing tax audits of EUR 0.1 million (previous year: EUR 0.7 million).

3.1.11 Other financial result

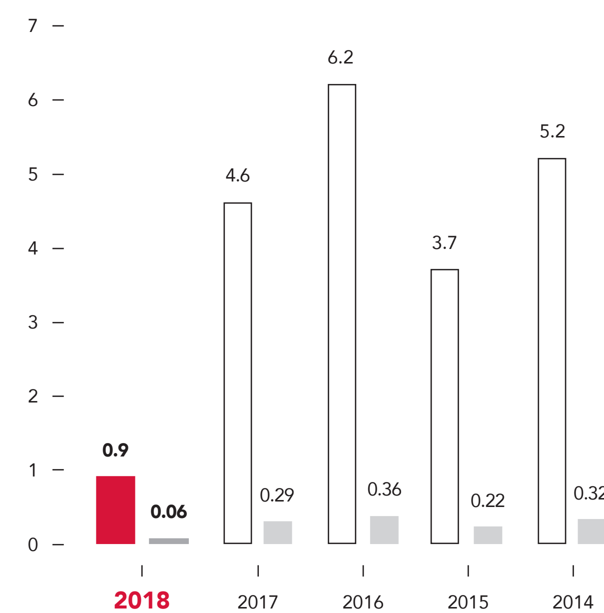
The FP Group posted an other financial result in fiscal year 2018 of EUR 0.1 million compared with EUR -0.4 million in the previous year. This development is due primarily to exchange rate effects affecting the measurement of statement of financial position items at the reporting date.

3.1.12 Income taxes

Income taxes amounted to EUR -0.4 million in fiscal year 2018 after EUR -2.4 million in the previous year. This corresponds to a tax rate of 28.4% (previous year: 34.3%).

3.1.13 Consolidated net income

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



In fiscal year 2018, consolidated net income declined as a result of lower earnings before tax, partially compensated for by income taxes being lower year on year. As a result, earnings per share (EPS) fell to EUR 0.06 (basic and diluted) in fiscal year 2018, compared with EUR 0.29 (basic) and EUR 0.28 (undiluted) in the previous year.

3.1.14 Summary of results per segment

SUMMARY OF RESULTS PER SEGMENT

	Revenue [1]			EBITDA		
in EUR million	**2018**	2017	Change in %	**2018**	2017	Change in %
Production	4.2	4.9	–14.0 %	10.2	11.0	–7.5 %
Sales Germany	112.0	113.3	–1.1 %	2.3	4.5	–49.5 %
International Sales	88.1	88.7	–0.7 %	22.9	20.5	11.6 %
Central Functions	–	–	–	–10.7	–8.2	–30.8 %
Group [2]	204.2	206.3	–1.0 %	17.1	26.3	–35.1 %

1) Revenue with third parties.
2) Further information on the Group reconciliation can be found in section II of the notes to the consolidated financial statements.

4. Financial Position

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

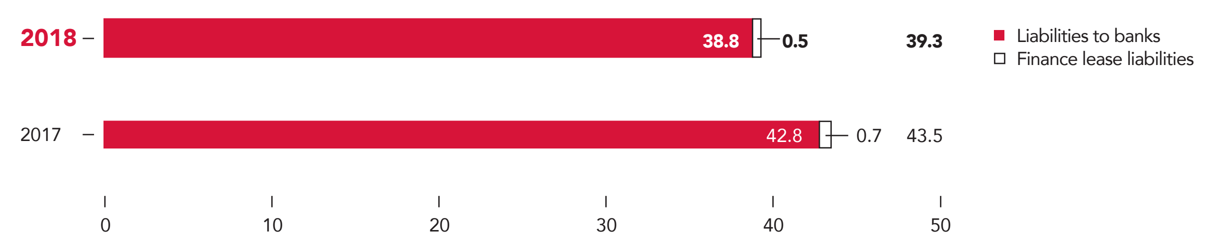
The FP Group is maintaining consistency in its dividend policy in the framework of implementing its ACT growth strategy. At the AGM on 28 May 2019, the Management Board and Supervisory Board will propose that the meeting approves a dividend payment of EUR 0.03 per share for fiscal year 2018. This translates into a distribution rate of the consolidated result of more than 50%.

As in the previous year, the proposal is to make a distribution from the tax account in line with Section 27 German Corporate Tax Act (not in contributions to nominal capital). For this reason, the payment is to be made without deduction of capital gains tax and the solidarity tax surcharge. The FP Group had paid a tax-free gross dividend of EUR 0.12 per share in the previous year. Please refer to section IV of the notes to the consolidated financial statements for information on how the net income giving rise to a dividend entitlement is determined. If the AGM approves the proposed dividend, the total amount distributed for dividend-bearing shares will be EUR 0.5 million. The Management Board proposes that the remaining accumulated profit of EUR 4.5 million to be carried forward.

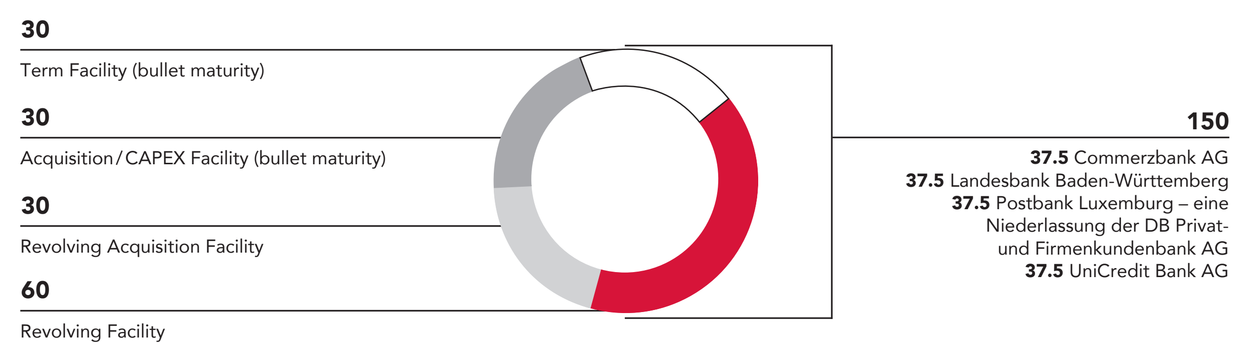
4.3 Financing Analysis

To finance itself, the FP Group uses primarily cash flow from operating activities, along with existing or adjusted loan agreements with financial institutions and finance leases.

FINANCIAL LIABILITIES (in EUR million)



SYNDICATED LOANS (in EUR million)



With a strong international banking consortium in place since 2016, the FP Group extended and increased the syndicated loan agreement under an amendment agreement in fiscal year 2018, effective 28 September 2018, and ahead of schedule. Based on the amendment agreement concluded, the finance volume was increased by EUR 30 million to a total of EUR 150 million (previously EUR 120 million) by means of an additional revolving acquisition facility, in conjunction with an increase option of EUR 50 million (previously EUR 30 million). At the same time, improved terms and conditions came into effect (margin plus reference interest rate and commitment fee). The amended syndicated loan agreement has a term of five years to 2023 (previous term: 2021) and can be extended by up to two years. The financing documentation on the basis of the British Loan Market Association (LMA) now therefore covers the entire implementation period of the ACT growth strategy and gives FP greater financial scope for its implementation, including future M&A activities.

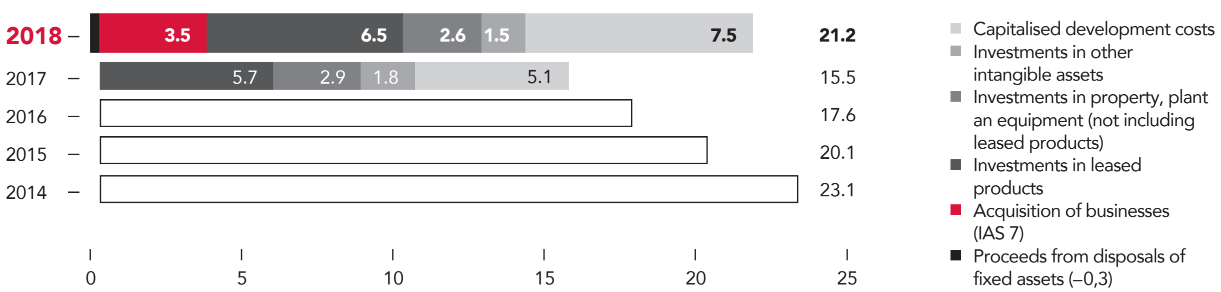
Other key conditions of the syndicated loan agreement include the option to utilise part of the loan facility in foreign currencies. Furthermore, the FP Group has entrepreneurial headroom to enter into additional financial obligations. Overall, the syndicated loan agreement forms a future-proof and very sound basis for the FP Group's financial stability and flexibility.

The recognition of the syndicated loan agreement was modified accordingly when the amendment agreement came into force.

Information on changes to company equity in fiscal year 2018 can be found in section 5.2 EQUITY.

4.4 Investment Analysis

INVESTMENT (in EUR million)



In fiscal year 2018, 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.

At EUR 21.6 million, investments in fiscal year 2018 were significantly above the level of the previous year (EUR 15.5 million). In connection with the implementation of the ACT strategy, investments for the capitalisation of development costs increased by EUR 2.4 million to EUR 7.5 million. The FP Group also invested a total of EUR 3.5 million in the acquisition of the operations of the Berlin-based IoT specialist Tixi.com and a US online dealer in the year under review. In the previous year, the FP Group invested EUR 1.4 million in the acquisition of a customer list in the UK including leased products.

In fiscal year 2018, investment in leased products, mainly in the US, the UK, Canada, the Netherlands, Belgium and France, increased by EUR 0.8 million to EUR 6.5 million.

4.5 Off-Balance Sheet Financial Instruments

The FP Group uses operating leases to lease business premises or vehicles, for example. Furthermore, there are tax loss carry-forwards of EUR 6.7 million (previous year: EUR 5.7 million) that were not recognised.

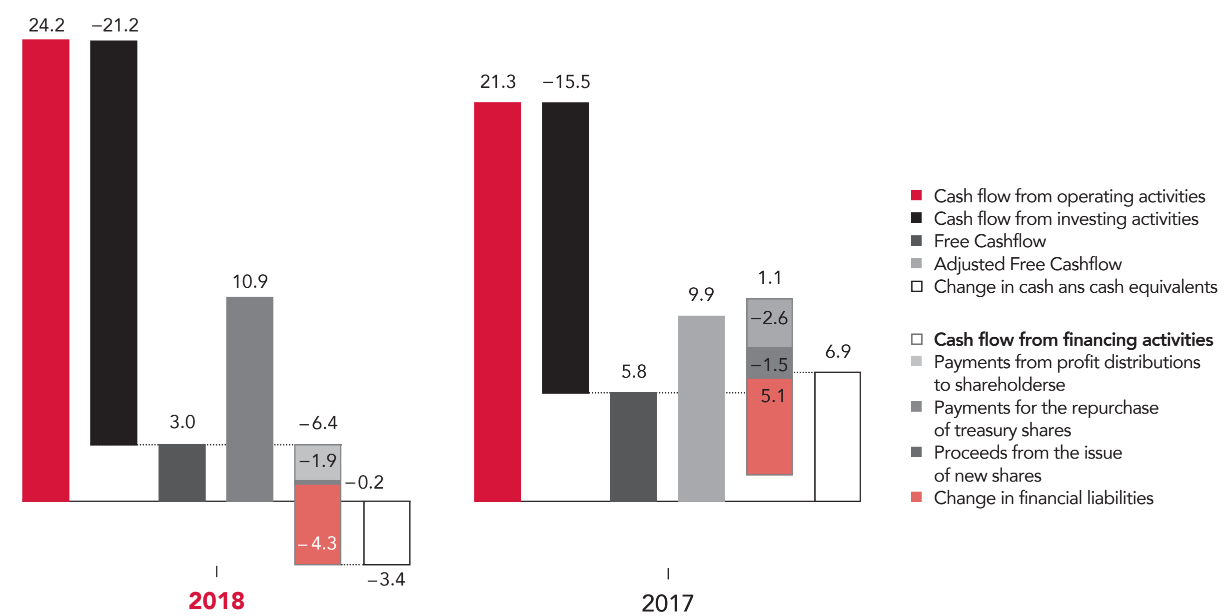
4.6 Liquidity Analysis

LIQUIDITY ANALYSIS (in EUR million)

	1.1.–31.12.2018	1.1.–31.12.2017
Cash flow from operating activities	24.2	21.3
Cash flow from investing activities	–21.2	–15.5
Free cash flow	*3.0*	*5.8*
Adjusted free cash flow*	*10.9*	*9.9*
Cash flow from financing activities	–6.4	1.1
Change in cash and cash equivalents	–3.4	6.9
Change in cash due to currency translation	0.5	–1.4
Cash at beginning of period	24.1	18.7
Cash at end of period	**21.2**	**24.1**

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

LIQUIDITY ANALYSIS (in EUR million)



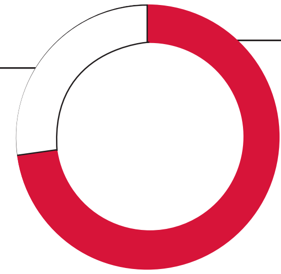
The increase in cash flow from operating activities with lower EBITDA in the year under review resulted from non-recurring incoming payments of EUR 5.9 million from the successful conclusion of mutual tax agreement procedures in accordance with the EU Arbitration Convention and the German-American double taxation treaty (previous year: EUR 1.5 million) and from an improvement in net working capital. The first payments for the ACT project JUMP of EUR 1.4 million reduced cash flow from operating activities in fiscal year 2018.

In fiscal year 2018, cash flow from investing activities increased primarily on account of the rise in investment in new products, the acquisition of the operations of the Berlin-based IoT specialist Tixi.com and a US online dealer, and higher investment in leased products. Please see the 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 3.0 million in the year under review as a result of the tax-related non-recurring payments. Adjusted for investments in finance lease assets of EUR 2.9 million (previous year: EUR 2.7 million) and investments in M&A of EUR 3.5 million (previous year: EUR 1.4 million) and payments for the ACT project JUMP of EUR 1.4 million, the FP Group generated adjusted free cash flow of EUR 10.9 million in fiscal year 2018 (previous year: EUR 9.9 million).

In fiscal year 2018, the change in cash flow from financing activities is attributable primarily to payments for distributions to shareholders of EUR 1.9 million and to the repayment of financial liabilities of EUR 4.3 million.

COMMITED, 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:

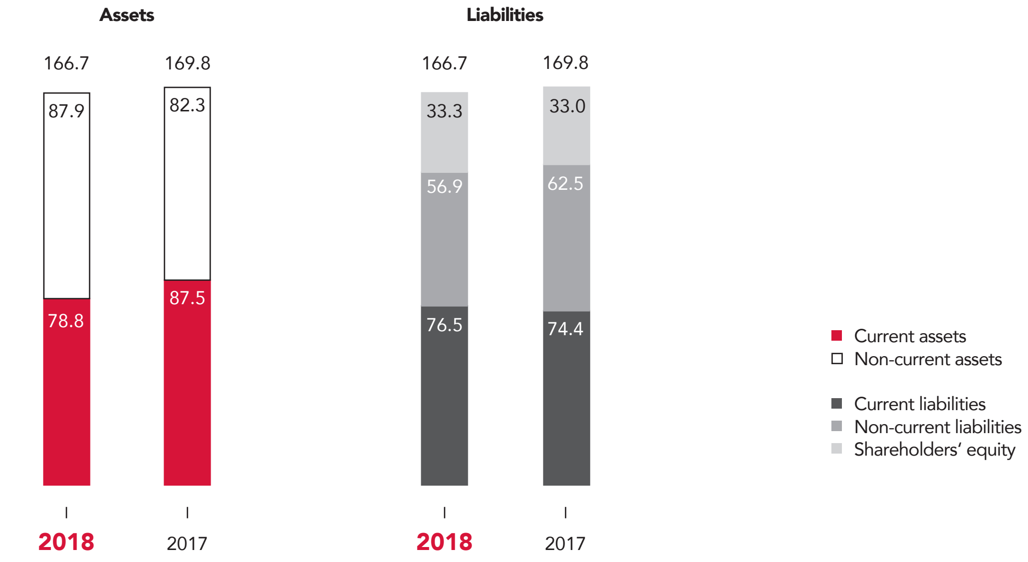
$$\text{Leverage} = \frac{\text{Total net debt}}{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}} \leq 3{,}0\times$$

$$\text{Interest Cover} = \frac{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}}{\text{Net interest income (adjusted for IAS 23 Borrowing Costs)}} \geq 5{,}0\times$$

The credit conditions were consistently complied with throughout the reporting year. In fiscal year 2018, the FP Group was able to meet its payment obligations at all times.

5. Net Assets

STATEMENT OF FINANCIAL POSITION STRUCTURE (in EUR Million)



Implementation of the ACT growth strategy and the development in operating business in fiscal year 2018 also shaped the FP Group's Balance Sheet as at 31 December 2018.

5.1 Non-Current and Current Assets

NON-CURRENT AND CURRENT ASSETS

in EUR million	2018	2017	Reason for change
Intangible assets	40.8	35.1	Increase in the context of investment in new products (EUR 3.8 million) and as a result of acquisition of operations (EUR 2.8 million), of which increase in goodwill EUR 2.0 million
Property, plant and equipment	29.9	31.8	Decline in leased products and finance lease assets due to depreciation (EUR –1.6 million; adjusted for currency effects EUR –2.1 million)
Other assets	13.4	11.6	Increase in finance lease receivables (EUR 1.8 million)
Tax assets	3.8	3.8	
Non-current assets	**87.9**	**82.3**	
Inventories	11.2	10.6	Slight increase as part of working capital management
Trade receivables	19.0	23.2	With regard to the receivables adjusted in accordance with IFRS 9 as of January 1, 2018 (EUR 19.5 million), a slight decline as part of the working capital management.
Other assets	17.8	25.3	Increase in finance lease receivables (EUR 1.1 million), decrease in tax reimbursement claims (EUR –5.7 million), decrease in miscellaneous other assets (EUR –0.9 million)
Securities and cash	30.9	34.9	Decrease in cash and cash equivalents (EUR –2.9 million) and decrease in postage credit, managed by the FP Group (EUR –1.1 million)
Current assets	**78.8**	**87.5**	

5.2 Equity

As at 31 December 2018, 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 2017: 16,301,456).

During the period from 13 October 2017 to 12 January 2018, the company carried out a share buyback programme that had been resolved upon by the Management and Supervisory Boards. In total, up to 475,000 shares were to be acquired for a maximum total purchase price of EUR 3.0 million. As at 31 December 2018, the company held 397,393 treasury shares or 2.4% of the share capital (previous year: 351,168 shares or 2.2% of the share capital). The calculated value of treasury shares is openly deducted from equity. The difference of the purchase price is offset against capital reserves. 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) HGB (German Commercial Code).

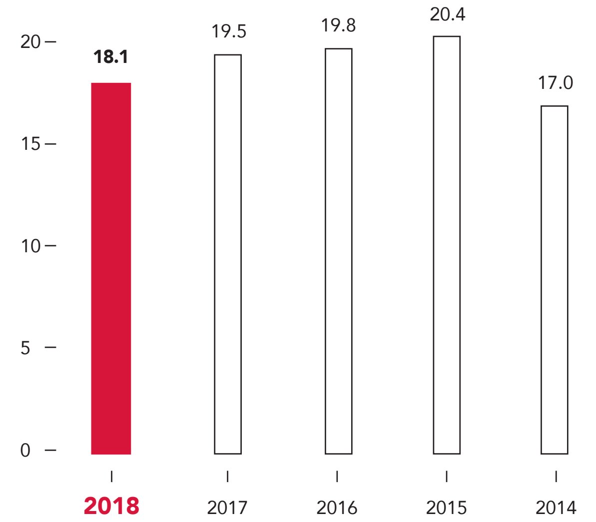
5.3 Non-Current and Current Liabiities

NON-CURRENT AND CURRENT LIABIITIES

in EUR million	2018	2017	Reason for change
Provisions for pensions and similar obligations	16.2	16.5	Slight decline predominantly due to benefit payments
Other provisions, deferred tax liabilities and other liabilities	1.6	2.8	Decline mainly in relation to deferred tax liabilities adjusted as of January 1, 2018 in accordance with IFRS 9 and IFRS 15 (EUR –1.6 million)
Financial liabilities	39.1	43.1	Decrease in liabilities to banks (EUR –4.0 million)
Non-current liabilities	**56.9**	**62.5**	
Tax liabilities	3.3	5.1	Decrease due to additional tax payments from ongoing audits (EUR –1.8 million)
Other provisions	11.9	8.0	Increase as a result of addition to provisions for the ACT project JUMP (EUR 5.2 million), decrease as a result of reversal of provisions for which the reason had ceased to exist (EUR –1.5 million)
Financial liabilities	0.2	0.4	
Trade payables	14.0	11.2	Increase as a result of the ACT project JUMP (EUR 1.4 million) and in the context of development of operating business
Other liabilities (including hedging derivatives)	47.1	49.7	Decline in Teleporto liabilities (EUR –3.2 million; adjusted for exchange rate effects EUR –2.9 million), decline in deferred income (EUR –0.2 million), increase in liabilities from derivatives (EUR 0.4 million)
Current liabilities	**76.5**	**74.4**	

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)



* Figures for 2014–2015 adjusted in 2016.

Net debt is calculated from financial liabilities less cash and cash equivalents. Financial liabilities include liabilities to banks and 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	31.12.2018	31.12.2017
Financial liabilities	39.3	43.5
Cash and cash equivalents	21.2	24.1
Net debt	**18.1**	**19.5**
Shareholders' equity	33.3	33.0
Net debt ratio	**54 %**	**59 %**

Following the high level of investment and initial payments for the ACT project JUMP, the FP Group's net debt fell by 6.8% in fiscal year 2018, largely as a result of tax-related non-recurring payments. Equity was also slightly up by 1.1% year-on-year as at 31 December 2018, resulting in a significant improvement in the company's net debt ratio as at the reporting date.

5.4 Leasing

The FP Group offers both operating and finance leases. These business models are reflected in the company's statement of financial position. The "leased products" and "finance lease assets" items under non-current assets contain assets with a carrying amount of EUR 18.0 million (as at 31 December 2017: EUR 19.6 million), which are mostly leased to customers under operating leases. Finance leases with customers are reported in finance lease receivables; the non-current and current amounts totalled EUR 18.2 million as at 31 December 2018 (as at 31 December 2017: EUR 15.3 million). Without these business models, total assets would be EUR 130.5 million instead of EUR 166.7 million.

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

6.1 Comparison of Actual / Forecast Business Performance in 2018

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 2018

in EUR million	2018 forecast*	ACTUAL 2018	Note
Revenue	Slight increase year on year (EUR 206.3 million)	EUR 204.2 million EUR 206.9 million*	A slight increase overall as planned, taking account of currency effects (EUR –2.7 million). Growth in core business adjusted for currency effects was driven by robust product sales and higher recurring income. Declining revenue in the Mail Services segment due primarily to a reduction in the processed mail volume as well as changes in the customer and product mix in the context of realignment of the segment. Growth in the Software segment exceeded expectations, partly on account of postage cost effects.
EBITDA	Slight increase year on year (EUR 26.3 million)	EUR 17.1 million EUR 26.7 million*	A slight increase taking account of currency effects (EUR –1.5 million) and high expenses for the ACT project JUMP (EUR 8.0 million), as planned.
Adjusted free cash flow**	Positive, but down significantly year-on-year (previous year: EUR 9.9 million)	EUR 10.9 million	Increase – despite planned high level of investment in new products – bolstered by improvement in net working capital and tax-related non-recurring payments (EUR 5.9 million).
Quality indicator	Slight improvement year on year (previous year: 16.4)	14.6	Further strong improvement as a result of the advanced replacement of the installed base with franking systems from the PostBase family.
Improvement indicator	Slight improvement year on year (previous year: 0.14***)	0.13	Slight improvement largely as a result of quality improvements in production

* 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.
*** Previous year's figure of 0.12 adjusted in 2018.

6.2 Business Development in 2018

As planned, the 2018 fiscal year was marked by the implementation of the ACT strategy and, in particular, the ACT project JUMP.

The FP Group progressed positively as planned in fiscal year 2018, focusing on the interim targets set for fiscal year 2020. The transformation of the company ensures growing momentum in all segments and at all levels of the company. Taking account of negative currency effects, the FP Group generated a slight increase in revenue year-on-year. FP also increased its EBITDA slightly in fiscal year 2018, adjusted for negative currency effects and expenses for the ACT project JUMP. Adjusted free cash flow was up year on year. Consequently, FP met or exceeded the forecast for fiscal year 2018 with all three key figures.

In terms of revenue, the company particularly benefited from the success of the PostBase franking system, as well as from the expansion of Software business. Negative exchange rate effects impacted both revenue and EBITDA. In addition, the ACT project JUMP had an effect on earnings in fiscal year 2018, as planned. The implementation phase started in the fourth quarter of 2018 – on an annualised basis, initial recurring savings have already been achieved. The planned increase in investment in new products was reflected in free cash flow. Free cash flow adjusted for investments in finance lease assets, M&A and payments for the ACT project Jump was also influenced by an improvement in net working capital as well as non-recurring incoming payments from the successful conclusion of two mutual tax agreement procedures. The Management Board therefore judges the business performance in fiscal year 2018 to have been generally positive.

7. 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.

Risk and opportunity management is an integral part of the value-oriented 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) AktG (German Stock Corporation Act). This system is also used for the early detection of risks that may be a threat to the continued existence of the FP Group. The FP Group regards risk management as a continuous and consistent process.

In addition to this, risks identified during the course of the year that have a high probability of occurrence and significant potential to cause damage are communicated to the Management Board immediately by means of the reporting lines (ad-hoc notification). 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 in a timely manner.

Organisation

On behalf of the Management Board, the risk coordinator monitors the implementation of a uniform risk strategy and methodology and the identification, analysis and evaluation of opportunities and risks, as well as subsequent realisation of opportunities and management of risks. He is supported by the report recipients. All report recipients form a committee that regularly communicates on the identification, analysis and evaluation of opportunities and risks. They assess all the reported information, 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

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.

The report officers ascertain the opportunities and risks for their subject area and are responsible for realising opportunities and avoiding risks. They are invited by the risk coordinator 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, which are assessed by the report recipients and resolved upon by the Management Board.

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 risk coordinator, and if necessary orders any further action to be taken. 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. Owing to the organisational effort involved, the Group has not yet introduced a system that allows users to give information under protection (whistleblower system). The company does its utmost to minimise the risk of compliance violations as far as possible, to uncover misconduct and to deal with it systematically. Compliance with legal and ethical regulations and principles is of central importance. Regulations and principles are set out, together with the responsible handling of insider information, in the compliance policy. They provide all employees with guidance regarding corporate integrity in business. Executives and employees receive compliance policy training.

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 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 financial statements auditing 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:

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

- accounting guidelines at Group level;
- a clearly-defined separation of function 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.

Durch die Verpflichtung aller Tochtergesellschaften, ihre Geschäftszahlen monatlich in einem standardisierten Reporting-Format an die Francotyp-Postalia Holding AG zu berichten, werden unterjährige Soll-Ist-Abweichungen zeitnah erkannt, um kurzfristig darauf reagieren zu können.

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, UK and Sweden. 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-term financial liabilities. In order to manage interest rate risks, FP Holding did not conclude any new interest rate derivatives in fiscal year 2018. 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. 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

All market-related risks, operational risks and financial risks, as well as regulation, law and compliance, reputational and brand risks including environmental and sustainability risks are assessed twice per year. The reported risks are evaluated by the report recipients.

The identified risks are then assessed in accordance with their potential for damage and their probability of occurrence in order to determine whether they are material and could constitute a threat to the continued existence of the company. These risks are recorded separately and placed under further observation. To diagnose which risks may be material, all risks are subdivided into five different categories (1 to 5) according to their probability of occurrence and the amount of damage they could potentially cause.

The FP Group's risk matrix is divided into minor risks (risk group C, risk indicator ≤ 3), latent risks (risk group B, risk indicator > 3 and < 10) and material risks (risk group A, risk indicator ≥ 10). To clearly differentiate the risk management system from the monitoring system in accordance with section 91(2) AktG (German Stock Corporation Act), the material risks include the sub-area of key risks (risk group A1, risk indicator ≥ 15), which could be a threat to the continued existence of the company.

The risk group for material risks (A) comprises risks for which the probability of occurrence before a suitable countermeasure is taken has been estimated as at least "unlikely (qualitative)/20% to 39% (quantitative)" (classes 2 to 5) and the amount of potential damage has been estimated as at least "minor = impact of damage 5% to 7% of planned Group EBITDA" (classes 2 to 5).

The risk indicator is calculated by multiplying a risk's probability of occurrence class by its amount of damage class. The risk is assigned to a risk group on the basis of its risk indicator. If the multiplication results in a risk indicator of 10 or above, this is a material risk (A). A risk indicator of 15 or above defines a key risk (A1), which indicates that the company's continued existence could be under threat. This report provides information on the material risks identified.

Explanation of Classes for Probability of Occurrence and Amount of Damage

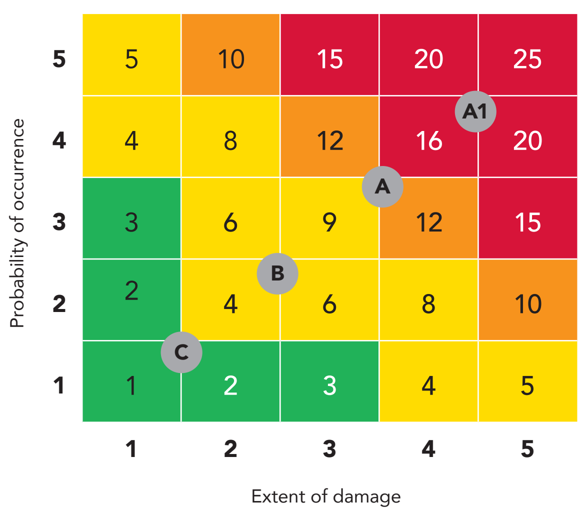
EVALUATION OF THE EXTENT OF DAMAGE

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%

RISK MATRIX OF THE FP GROUP



Meaning of risk indicators

Key risks A1	≥ 15 – risks jeopardise the company's success and the company as a going concern. Risk-mitigating measures must be implemented.
Material risks A	≥ 10 – Increased risk / risks jeopardise the company's success and possibly the company as a going concern. Urgent project recommendation to implement risk-mitigating measures.
Latent risks B	> 3 and < 10 – Risk above residual risk. It should be tracked. Recommended to implement individual measures / manage risks on a selective basis.
Minor risks C	≤ 3 – Risk is in the area or residual risk. Current no need for action. No further measures are necessary / risk should be accepted.

A total of nine individual risks (A) has been identified for the FP Group as at the reporting date. Seven of these are key risks (A1), that could probably threaten the continued existence of the Group.

7.1 Risks Faced by the FP Group

7.1.1 Market-related risks

Changes in customer needs as a result of the digital transformation

Since the middle of the last decade, volumes of letter mail have been declining 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. In light of these changes in customer behaviour, demand for franking systems and consumables could fall or could evolve in favour of smaller franking systems more quickly than expected. The FP Group limits this risk with intensive market observation and by actively accompanying customers (ACT) through provision of digital products such as FP Sign and FP Parcel Shipping.

7.1.2 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 defined for 2020 and 2023. 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. There are risks involved in running the activities and measures in parallel in both segments, as resources may be limited and there could be a potential lack of setting the priorities right. The FP Group is countering this risk with strict project management based on performance indicators and clear monitoring of costs and efficiency.

Employee adjustment risk

The company's success depends to a significant degree on the commitment, motivation 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. In addition, there is great demand on the employment market for specialists in the areas of sales as well as research and development, particularly those with expertise in digital technologies and trends. 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.

Staff shortage risk

There is currently great demand on the labour market for skilled staff from all areas, in particular information technology (IT), and for activities in areas that support the creation of value, especially for recurring, transaction-related, standardised and repeating 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.

Staff loyalty risk

In addition to the projects and measures already under way, the FP Group is rolling out the ACT project JUMP in the fiscal years from 2018 to 2020. This involves implementing efficient and stable organisational structures to provide support for the transformation of the FP Group in a cost-efficient manner. There is a risk that employees will deliberately cause harm to the company in the course of the reorganisation planned as part of the JUMP project. The FP group limits this risk which impacts all segments by implementing professional change management as well as active and extensive communication.

Cross-border/interdepartmental IT risks

The business processes of the FP Group that are supported by information technology are exposed to IT security risks. There is a risk of network and system failures, for example with regard to the FP Repository, and of external attacks and data losses due to human error. The company counters these potential IT risks by using modern hardware and software that meets highest security standards. A global IT assessment was carried out in 2016 to ensure that business processes are handled securely. This is the basis for the improvement measures for the next 3 years, which will make the FP Group fit for the future. The project was continued in 2018 and possible adjustments to IT systems were examined. The FP Group further minimises these risks by implementing an information security management system (ISMS) and by raising staff awareness of how all information that is relevant to the business should be handled. In addition, the FP Group runs several physically separate data centres covering different parts of the IT landscape redundantly, optimally minimising the risk of a complete system failure. With the use of postal server systems such as FrankIT, IBIP, Orchid, etc., the IT segment is constantly obliged to meet requirements based on various standards such as BSI basic protection, ISO 27001, NIST 800-34 or COBIT 4.1. It is also compulsory to take a business continuity management (BCM) process into account as well as an information security management system. A risk management process within IT has been established reflecting the BSI standard 100-3 for the operation of sensitive postal server systems. Regular audits and security certificates document and inform customers of FP's standard of security.

7.1.3 Financial risks

Currency risk

The FP Group's procurement costs arise predominantly in euro as the company has its production facilities in Germany. Currency risks arise when revenue is realised in other currencies such as the US dollar or pound sterling. Any rise in the euro against other currencies therefore has an adverse effect on consolidated revenue, earnings and the cash flow reported in euro. While the FP Group prepares its consolidated financial statements in euro, a range of subsidiaries of the FP Group preparetheir financial statements in other currencies, meaning that the corresponding items need to be converted into euro when consolidated. The FP Group is therefore exposed to risks that may arise as a result of fluctuation of the relative values of the benchmark currencies, in particular between the euro and the US dollar. The FP Group limits these currency risks by concluding currency hedging transactions and by purchasing in the US dollar region. The currency risk does not impact the Sales Germany segment.

Depreciation risks

The FP Group assesses each year whether there are any signs of impairment on assets that are relevant in accordance with IAS 36 (particularly intangible assets and property, plant and equipment). Processes are also in place at the FP Group to monitor the value of balance sheet assets on an ongoing basis and in particular to identify triggering events as the basis for implementation of impairment tests relating to specific causes. If such signs are found, an impairment test is carried out. Any impairment is in principle recognised in income. Although impairment would not have any impact on the FP Group's EBITDA, it would affect consolidated net income and equity.

The recoverable amount determined in the annual impairment test of the cash-generating unit (CGU) freesort, to which a goodwill of EUR 5.9 million is allocated, further declined on the reporting date as compared to 31 December 2017, but remains greater than the carrying amount of the CGU. The realignment of the Mail Services product segment pursued by the FP Group is improving the recoverability of the cash-generating unit.

The FP Group is predominantly investing in the development of new and innovative digital products in the context of the ACT strategy. The FP Group counters the resulting depreciation risks by conducting intensive market observation, training the sales personnel and transforming the sales force, as well as providing active support to customers in the context of the digital transformation.

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

In the FP Group's view, the process of the UK's withdrawal from the European Union (EU), and in particular a no-deal withdrawal (hard Brexit), could 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, disorganised logistical challenges in the context of trade and significant depreciation of the pound sterling, could have the potential to significantly damage the company's future net assets, financial position and results of operations. FP is constantly monitoring the further withdrawal process in order to initiate and implement local and Group-wide measures. The risk does not impact the Sales Germany segment..

7.1.4 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 risks of "lawsuit in connection with advertising by fax in the US", "repayment obligation resulting from irregularities in the Mail Services segment", intense competition on the market for postal services" and "cost risks arising from De-Mail contracts" were no longer classified as material risks in the course of the 2018 fiscal year. The risk of "successful implementation of strategic and operational projects and measures" was classified as "operational risk".

No risks are currently discernible that could lead to permanent, significant impairment of the net assets, financial position or results of operations of the FP Group when the possible extent of damage and probabilities of occurrence are taken into account. Overall, the risks are manageable; from today's viewpoint, the Group's continued existence is not under any threat. 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.

OVERVIEW ON RISKS IN THE FP GROUP

	Extent of damage	Probability of occurrence	Risk group	Trend[1]
Market-related risks				
Changes in customer needs as a result of the digital transformation	5	3	A1	→
Operational risks				
Successful implementation of strategic and operational projects and measures	5	4	A1	→
Employee adjustment risk	5	4	A1	↗
Employee shortage risk	4	4	A1	↗
Employee loyalty risk	3	5	A1	↗
Cross-border IT risks	4	3	A	→
Financial risks				
Devaluation risks for goodwill and other assets	4	4	A1	→
Potential impact of Brexit on future net assets, financial position and results of operations	5	3	A1	↗
Currency risk	4	3	A	↘

1) Development of risk quotient year on year

↗ Increased / new risk
→ Unchanged risk
↘ Lower risk

7.2 Opportunities for the FP Group

The FP Group qualitatively determined opportunities for fiscal year 2018. As in the previous year, they were not quantified for management purposes or displayed in an opportunity matrix.

With the ACT strategy, details of which were published at the end of 2016, the FP Group has once again subjected its opportunities in a changing market to a fundamental review and reassessment (cf. section on Strategy).

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 redesign of the structural and procedural organisation for the purpose of increasing efficiency, quality and speed. Following careful planning and preparation in the 2018 fiscal year, it is currently being implemented as part of the ACT project JUMP.

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 medium-term targets for the period up to 2020. The FP Group has also set long-term targets for the period up to 2023 as part of ACT.

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.

The following section will therefore focus on future trends or events that could lead to positive deviations from the forecast for 2019 and medium-term targets if they develop more positively than assumed in the forecast.

7.2.1 Market opportunities

Despite a decline in the average number of postal consignments delivered worldwide, there are a number of 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. 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, the FP Group is gradually building up its presence on the franking machine market in France and is primarily winning customers with PostBase. 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. By launching a new product generation under the PostBase Vision brand in the 2019 fiscal year, the FP Group intends to further expand its favourable market position in its main sales areas. This may result in opportunities for the FP Group that go beyond the operational framework already identified and would allow it to introduce franking systems more quickly than planned to traditional and new markets and to gain more customers for FP systems.

Digitalisation is advancing in many areas, but more slowly than experts initially expected. The FP Group has defined this development as a market opportunity and has launched associated strategic projects within the Customer Journey component of the ACT strategy. The FP Group can benefit from this trend in established markets and in Germany in particular, by providing advice and support to companies in the digitalisation of their business processes and reorganising processes on request.

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 continued in the 2018 fiscal year and initial successes have been achieved. The acquisition of the operations of Berlin-based IoT specialist Tixi.com opened up further sales opportunities that were included in the planning of and forecast for the 2019 fiscal year. Negotiations regarding a minority interest in Munich-based start-up Juconn GmbH were started and carried out in the fourth quarter of the 2018 fiscal year. They were concluded successfully and finalised in the first quarter of the 2019 fiscal year. The cooperation that was intensified on this basis expands the position of the FP Group along the IoT value chain and enables FP to offer complete end-to-end solutions to its customers. This results in valid opportunities for the FP Group to generate revenue and earnings in this business area.

7.2.2 Product opportunities

The FP Group's innovative products are the guarantor for the company's success. The continuous development of the franking systems along with new solutions for digital and hybrid mail transmission will contribute to this. Thanks to the PostBase family and its latest generation, the PostBase Vision, the FP Group has a modern and high-performance product range in the core business, enabling it to continue growing in this area.

Furthermore, ACT opens up additional opportunities in the development of new products and services in the field of franking systems. Market opportunities in fiscal year 2018 were further evaluated and corresponding development projects were set up within the discoverFP and FP Parcel Shipment projects. They have the potential to generate further added value for the Group beyond the opportunities that have already been determined, particularly if the markets continue to develop as they currently are.

At the same time, the company is continuing to market software solutions such as FP Sign, a new platform-based solution for the secure, confidential and legally binding digital signing of contracts and exchange of documents. By expanding its solutions expertise beyond Germany, FP can secure further options in the global e-signature market.

7.2.3 Sales opportunities

Its current market share of more than 11.5% of the franking systems installed worldwide gives the FP Group a stable basis, which is to be further strengthened in line with the ACT strategy. Targeted sales measures are being implemented continuously in this context in order to expand the customer base. To reach a large number of customers and increase its market penetration, the company is making more use of telesales and leasing services, for example. The discoverFP customer portal was further developed as an additional distribution channel and its initial technical rollout took place in fiscal year 2018. The offer of new digital solutions in the existing and new sales channels can further strengthen customer retention and open up the possibility of generating additional revenue with the individual customers as part of the Customer Journey.

The sales organisation is being realigned in the course of the implementation of the ACT project JUMP. In particular, the Chief Sales Officer has across-the-board responsibility for sales of traditional and new digital products and services (apart from IoT). In addition, sales will no longer be spread across numerous national subsidiaries, but replaced with one sales organisation with three regions. The purpose of this is not only to trim the length of management and reporting lines, but to support worldwide sales of new digital products and services to the FP Group's roughly 200,000 small and medium-sized customers. A successful start with this new organisation could leverage further revenue and earnings potential, even beyond the current forecast for the 2019 fiscal year.

A key assumption for the expansion of the customer base is that the FP Group's brand awareness will increase significantly. The area of brand management was therefore further expanded and strengthened in fiscal year 2018. The combination of improved brand awareness and the development and strengthening of sales could lead to success more quickly than expected and exceed the assumptions on which current forecasts are based.

7.2.4 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 JUMP project was planned and prepared carefully. The effects to be expected on the basis of this planning, even from a conservative point of view, were evaluated in detail and incorporated into the forecast for the 2019 fiscal year and the outlook.

7.2.5 Opportunities as a result of currency effects

The FP Group's international orientation in its business activities means that not only risks may arise due to foreign currency effects, but also opportunities. Positive foreign currency effects can result from items in the Balance Sheet and pending transactions in foreign currencies. Positive results can also arise from all cash flow that is not listed in euro.

Every FP company has opportunities in connection with exchange rate fluctuations if it concludes transactions with international contract partners that result in future cash flows.

To be able to take advantage of any opportunities that arise, the FP Group has set up its own Treasury division.

7.2.6 Other opportunities

Compensation claims resulting from irregularities in the Mail Services segment

In the 2017 fiscal year, irregularities were reported in the context of internal recording and billing of letter volumes. The FP Group found that it had suffered financial damage in the time-critical consolidation business as a result of breaches of duty by individuals. As a consequence, FP asserted claims for damages 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 has been 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 2019 or its medium-term goals.

7.2.7 Overall statement on opportunities

As in the previous year, opportunities and risks are balanced. When looking at the timeline, the FP Group will be focusing more on overcoming the risks arising from its transformation in the 2019 fiscal year, while the full realisation of the opportunities will be possible as from 2020.

8. Forecast

	2019 forecast
Revenue	Strong increase compared with 2018
EBITDA (adjusted for extraordinary expenses)	Adjusted for expenses for the ACT project JUMP – strong increase compared with 2018
Free cash flow (adjusted)*	Positive, considerably below the previous year
Quality indicator	Slight improvement compared with 2018
Improvement indicator	Slight improvement compared with 2018

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

The forecast for macroeconomic conditions is based on information provided by the International Monetary Fund (IMF).

The following premises also apply, and are the fundamental assumptions for the ACT strategy:

- 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
- Revenue growth and gain in market share in the franking system business
- Expansion of Mail Services business, assuming that the increase in the price of postage by Deutsche Post AG announced for 2019 has a significant positive impact on the FP Group's revenue in fiscal year 2019
- Growth in Software business through international sales of FP Sign and expansion of sales of high-security products and solutions for IoT

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.

8.1 Expected Macroeconomic and Microeconomic Conditions

The International Monetary Fund (IMF) anticipates robust development for the global economy this year: however, it forecasts a lower growth rate in global gross domestic product (GDP) compared with 2018. The IMF expects solid, but slightly lower growth rates for the eurozone and Germany in 2019. In the US, the FP Group's most important foreign market, GDP growth is expected to increase significantly.

TABLE OF EXPECTED GDP GROWTH IN 2019
(according to IMF)

World	+3.5 %
United States	+2.5 %
Eurozone	+1.6 %
Germany	+1.3 %

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 business in particular. At the same time, it could benefit from the ongoing digitalisation of the economy. Even if the relocation of mail communication to digital channels is likely to continue in the years to come, franking systems remain a key element of mail processing.

8.2 Expected Business Performance of Francotyp-Postalia

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. With regard to franking systems, the company will continue to grow its activities in the world's most attractive markets, the US and France, in fiscal year 2019. In addition, the overall competitive position is to be further improved. The company has created the right framework conditions for this; with the complete PostBase family, FP keeps offering the industry's most up-to-date product range for small and medium-sized letter volumes. The FP Group shall further strengthen its technology leadership by launching its new product generation under the PostBase Vision brand from the middle of fiscal year 2019. At the same time, the company is enhancing its portfolio of software solutions. With FP Sign, the FP Group has an innovative cloud-based solution for the legally binding digital signing and exchange of contracts and documents. The company is very well-placed to grow strongly in the future market of the Internet of Things following its acquisition of Tixi.com and its investment in Juconn.

The FP Group invests in its core business and develops new digital products and business models from its core areas of expertise in sensor technology, actuator technology, connectivity and cryptography. At the same time, in the fourth quarter of 2018, as scheduled, the company started the implementation phase of the ACT project JUMP, which will optimise the structure and organisation of the global FP Group and optimise them in line with a new target operating model. At the same time, a uniform global ERP/CRM landscape is being introduced to support the future standard processes worldwide. As part of this, Group structures and processes are being fundamentally reorganised, from a generally function-oriented approach to a more process-oriented one. Large parts of the repetitive and automated activities are being concentrated in Shared Service Centres. In addition, competence centres are being set up in order to look to the future and implement ACT even more successfully. At the same time, responsibilities of Management Board members have been redefined, and the ten existing national sales companies are being replaced by three large regional organizations. This leverages synergies and improves efficiency across the Group. As part of the ACT project JUMP, FP is thus creating the scope for the necessary and planned growth in revenue and earnings in the traditional and digital segments.

8.3 Expected Development of Performance Indicators

For fiscal year 2019, the FP Group expects a strong increase in revenue. Here, the company envisages positive development in all three segments.

Adjusted for expenses for the ACT project JUMP, the company also expects a strong year-on-year rise in EBITDA.

With investment in ACT and new products again expected to be at a high level on a par with the previous year, the FP Group anticipates that the free cash flow for fiscal year 2019 will be positive yet considerably below the previous year after adjustment in finance lease assets, M&A as well as payments for the ACT project JUMP.

The anticipated development of financial performance indicators for the 2019 fiscal year is based on the assumption of constant exchange rates.

The non-financial performance indicators are likely to improve slightly in 2019. A slight positive development compared to the previous year's figure is expected for both the quality indicator and the improvement indicator.

9. Takeover-related disclosures

9.1 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 of December 31, 2018, 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 % oft he voting rights
Herr Klaus Röhrig	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/de/stimmrechtsmitteilungen/c8b5f191a4415969

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 Supervisory 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. The shareholders are generally entitled to a subscription right to the new shares. 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.

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 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 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.

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 individual members of the Management Board 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.

Compensation agreement on the part of the parent company in the event of a takeover offer
In the event of a change of control, there are agreements with the members of the Management Board whose details are defined separately. The agreed change of control clauses comply with the recommendation in section 4.2.3 paragraph 5 of the German Corporate Governance Code.

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

The declaration on corporate governance in the FP Group contains the information required in accordance with section 315d HGB in conjunction with section 289f HGB and is published on the homepage of the FP Group (http://www.fp-francotyp.com/FP/unternehmen/investoren/corporate-governance).

9.3 Non-Financial Group Declaration in Accordance with Section 315b German Commercial Code (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.

10. Remuneration Report

The report follows the recommendations of the German Corporate Governance Code (GCGC) 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.

10.1 General Remuneration System

The remuneration of members of the Management Board is set at an appropriate level by the Supervisory Board based on performance assessments. 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 for two members of the Management Board includes the additional components of a bonus commitment for sustainable development of "earnings per share" and a participation via virtual company shares.

10.2 Fixed Components

10.2.1 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. Patricius de Gruyter's (CSO) and Sven Meise's (CDO/COO) basic remuneration amounts to EUR 310,000 per year.

10.2.2 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.

10.3 Variable Components

10.3.1 Variable remuneration
The short-term variable remuneration component 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 annual bonus of the CEO/CFO depends on the free cash flow generated and the EBITA obtained, and 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 will, in consultation with the member of the Management Board, define 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 has expired. 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, each member of the Management Board receives 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 following regulations for the long-term bonus apply for the CEO/CFO. The basic requirement for attaining a credit balance is firstly to achieve at least 90% of the budget for the fiscal year (twelve months) agreed by the Supervisory Board. Apart from that, the credits and the malus components are collected according to the achievement of two long-term goals:

- **Sustainability goal 1.** An average annual growth rate for the 2016, 2017, 2018 and 2019 fiscal years of at least 10% for EBIT (earnings before interest and taxes) accumulated across freesort, IAB and Mentana-Claimsoft and in such areas that are integrated into the FP Group's Software and IT Service divisions by way of acquisition during the contractual term.
- **Sustainability goal 2.** The Supervisory Board shall define targets as it reasonably sees fit for each Management Board member for the coming fiscal year at the latest in its last meeting in the preceding fiscal year.

The long-term bonuses of the CDO/COO and CSO are each 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. "EBITDA" 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 "freesort" and "IAB" divisions.

Due to the limited time and scope of his influence, the CSO was promised a pro rata credit balance for fiscal year 2018, based on 100% goal achievement. 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 the CDO/COO and the CSO, 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.

10.3.2 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.

On 1 January of each year (starting on 1 January 2019) for the duration of their appointment, the CDO/COO and the CSO are each credited 30,000 virtual shares of Francotyp-Postalia Holding AG at a strike price. 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, each member of the Management Board must acquire 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 members of the Management Board can, during a period of a further four 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 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 300,000 per tranche.

10.4 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 Mr Günther's Management Board contract, in the event of his contract being revoked this member of the Management Board is also entitled to a lump sum of 1.5 times the annual remuneration due on the day of the legal termination, but not exceeding the remuneration entitlement for the remainder of the contract. If his appointment is revoked, Mr Meise'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 his appointment is revoked, Mr de Gruyter will receive a lump sum of 50% of his 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.

In the event of premature termination of the employment contract without good cause, payments including fringe benefits may not exceed the value of one and a half years' remuneration (CEO/CFO) or one year's remuneration (severance pay cap; CSO and CDO/COO) and may not remunerate more than the remaining term of the service contract.

10.5 Remuneration of Members of the Management Board and Supervisory Board in Fiscal Year 2018

10.5.1 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). As a result, the benefits granted in the year under review and the maximum and minimum achievable values are also indicated.

RÜDIGER ANDREAS GÜNTHER, CEO / CFO, 11.01.2016–31.12.2018

in EUR thousand	2017	**2018**	2018 (min.)	2018 (max.)
Fixed remuneration	400	400	400	400
Additional benefits	19	20	20	20
Total	419	420	420	420
Short-term variable remuneration	348 [1]	332 [1]	0	332
Long-term variable remuneration				
SOP Tranche 2015 (GCGC)	*35*	*35*	*35*	*35*
Long-term bonus	*180 [2]*	*180 [2]*	*0 [3]*	*180*
Total	563	547	35	547
Pension cost	20	20	20	20
Total remuneration	**1,002**	**987**	**475**	**987**

1) This amount comprises payments made in the amount of EUR 332 thousand, utilisation of provisions in the amount of EUR 332 thousand, income relating to other periods of EUR 8 thousand from the reversal of a provision and additions to provisions of EUR 340 thousand. The previous year's figure resulted from payments made in the amount of EUR 228 thousand, utilisation of provisions in the amount of EUR 220 thousand and additions to provisions of EUR 340 thousand.
2) As in the previous year, the amount is the result of an addition to provisions in the amount of EUR 180 thousand.
3) An overall assessment is made after the contract has expired. 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.

THOMAS GRETHE, CSO, 15.06.13–30.06.18

in EUR thousand	2017	**2018**	2018 (min.)	2018 (max.)
Fixed remuneration	265	152	152	152
Additional benefits	20	11	11	11
Total	285	163	163	163
Short-term variable remuneration	113 [1]	27 [1]	0	27
Long-term variable remuneration				
SOP Tranche 2015 (GCGC)	*14*	*14*	*14*	*14*
Long-term bonus	*42 [2]*	*21 [2]*	*0 [3]*	*21*
Total	169	62	14	62
Pension cost	22	12	12	12
Total remuneration	**476**	**238**	**189**	**238**

1) This amount comprises payments made in the amount of EUR 127 thousand, utilisation of provisions in the amount of EUR 97 thousand and income relating to other periods of EUR 3 thousand from the reversal of a provision. The previous year's figure comprised payments made in the amount of EUR 63 thousand, utilisation of provisions in the amount of EUR 50 thousand and additions to provisions of EUR 100 thousand.
2) This amount results from payments made in the amount of EUR 84 thousand and utilisation of provisions in the amount of EUR 63 thousand. The previous year's amount comprised recognition of a provision in the amount of EUR 42 thousand.
3) An overall assessment is made after the contract has expired. 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.

PATRICIUS DE GRUYTER, CSO, 01.06.18–31.12.18

in EUR thousand	2017	2018	2018 (min.)	2018 (max.)
Fixed remuneration	0	181	181	181
Additional benefits	0	10	10	10
Total	0	190	190	190
Short-term variable remuneration	0 [1]	64 [1]	64	64
Long-term variable remuneration				
Long-term bonus	*0 [2]*	*88 [2]*	*88*	*88*
Total	0	152	152	152
Pension cost	0	2	2	2
Total remuneration	**0**	**344**	**344**	**344**

1) This amount comprises additions to provisions in the amount of EUR 64 thousand.
2) This amount results from additions to provisions in the amount of EUR 88 thousand.

SVEN MEISE, CDO / COO, 01.02.15–31.12.2018

in EUR thousand	2017	2018	2018 (min.)	2018 (max.)
Fixed remuneration	265	310	310	310
Additional benefits	26	25	25	25
Total	291	335	335	335
Short-term variable remuneration	117 [1]	197 [1]	0	197
Long-term variable remuneration				
SOP Tranche 2015 (GCGC)	*12*	*12*	*12*	*12*
Virtual stock options	*0*	*4*	*4*	*4*
Long-term bonus	*42 [2]*	*91 [2]*	*0 [3]*	*244*
Total	171	304	16	457
Pension cost	22	22	22	22
Total remuneration	**484**	**661**	**373**	**814**

1) This amount comprises 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. The previous year's amount comprised payments made in the amount of EUR 62 thousand, utilisation of provisions in the amount of EUR 45 thousand and additions to provisions of EUR 100 thousand.
2) This amount results from payments made in the amount of EUR 43 thousand, utilisation of provisions in the amount of EUR 43 thousand, income relating to other periods of EUR 56 thousand from the reversal of a provision and additions to provisions of EUR 147 thousand. The previous year's amount results from recognition of a provision in the amount of EUR 42 thousand.
3) An overall assessment is made after the contract has expired. 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, 11.01.2016–31.12.2018		Thomas Grethe, CSO, 15.06.2013–31.12.2018	
in EUR thousand	2017	2018	2017	2018
Fixed remuneration	400	400	265	152
Additional benefits	19	20	20	11
Total	419	420	285	163
Short-term variable remuneration	228	332	63	127
Long-term variable remuneration				
Long-term bonus	90	*90*	*21*	*84*
Other	0	0	0	0
Total	318	422	84	211
Pension cost	20	20	22	12
Total remuneration	**757**	**862**	**391**	**386**

	Patricius de Gruyter, CSO, 01.06.2018-31.12.2018		Sven Meise, CDO / COO, 01.02.2015-31.12.2018	
in EUR thousand	2017	2018	2017	2018
Fixed remuneration	0	181	265	310
Additional benefits	0	10	26	25
Total	0	190	291	335
Short-term variable remuneration	0	0	62	97
Long-term variable remuneration				
Long-term bonus	*0*	*0*	*21*	*43*
Other	0	0	0	0
Total	0	0	83	140
Pension cost	0	0	22	22
Total remuneration	**0**	**190**	**396**	**497**

Of the share-based payments granted in fiscal years 2015 and 2016 from the 2015 stock option plan, a total of EUR 243 thousand (312,500 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 2018 (2018: EUR 3 thousand; 2017: EUR 4 thousand).

EUR 1,129 thousand was set aside for pension obligations to former Management Board members of Francotyp-Postalia Holding AG as at 31 December 2018 (previous year: EUR 1,121 thousand). EUR 17 thousand (previous year: EUR 17 thousand) was added to provisions in the year under review, of which EUR 0 thousand for service cost and EUR 17 thousand for interest cost.

10.5.2 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. There is no provision for performance-related remuneration.

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 2018 amounted to EUR 113 thousand (previous year: EUR 113 thousand). The total amount is divided into EUR 45 thousand for Mr Klaus Röhrig, EUR 38 thousand for Mr Robert Feldmeier and EUR 30 thousand for Mr Botho Oppermann.

10.6 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	19,887	0.12
Sven Meise	9,416	0.06
Patricius de Gruyter	5,000	0.03
Botho Oppermann (Supervisory Board member)	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	1,550,000	9.51

11. 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.

As an expert in secure mail business and secure digital communication processes, FP Holding indirectly offers corporations and authorities products and services for efficient processing of mail, consolidation of business mail, and digital solutions via its subsidiaries and second-tier subsidiaries. In the 2018 reporting year, the FP Group again increasingly turned its strategic focus towards high-security products and solutions for the Internet of Things (IoT).

Sales take place in Germany and abroad via subsidiaries and a dense network of dealers in around 40 countries.

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.

11.1 Income Situation

INCOME SITUATION (in EUR million)

	2018	2017	Change in %
Revenue	2.8	2.6	11.4 %
Other operating income	0.9	1.4	–32.9 %
Cost of materials	0.5	0.5	8.2 %
Staff costs	6.7	6.2	9.3 %
Other operating expenses and amortisation, depreciation and write-downs	7.4	5.6	32.4 %
Income from investments	5.7	8.6	–33.5 %
Net interest income	0.7	0.2	359.4 %
Taxes on income and earnings	0.7	–2.6	–
Earnings after taxes	–3.8	–2.1	–77.5 %
Net loss	**–3.8**	**–2.3**	**–66.4 %**

11.1.1 Revenue

While FP Holding's service functions remained unchanged, the increase in FP Holding's revenue in fiscal 2018 resulted from increased Group allocations for consulting services to domestic subsidiaries.

11.1.2 Other operating income

Other operating income in the year under review essentially comprised income relating to other periods from the reversal of provisions. In the previous year, income of EUR 0.5 million from receipt of a wage subsidy additionally impacted on other operating income.

11.1.3 Cost of materials

The increase in the cost of materials from purchased services in the year under review resulted mainly from a year-on-year rise in maintenance costs, other staff costs and general cost increases. Lower expenses for staff leasing had a positive impact in the year under review.

11.1.4 Staff costs

The increase in staff costs in fiscal year 2018 was primarily the recruitment of new employees in the previous year in connection with the further professionalisation of FP Holding in line with the FP Group's ACT strategy, as well as general salary increases.

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

The sharp increase in the year under review was mainly due to higher legal and consulting costs of EUR 1.7 million. Expenses for consulting services in the ACT project JUMP impacted other operating expenses by EUR 2.3 million. At the same time, there was an increase of EUR 0.1 million in write-downs on intangible assets and other operating and office equipment.

11.1.6 Income from investments

Various factors influenced income from investments in fiscal year 2018. A slight year-on-year improvement in operating performance and higher profit distributions from foreign affiliates were offset by extraordinary, predominantly staff-related expenses for the ACT project JUMP of EUR 5.4 million. In line with the value development of internally generated intangible assets, distribution-restricted amounts also increased in the year under review. Consequently, FP Holding generated significantly lower income from investments in fiscal year 2018 than in the previous year.

Adjusted for expenses for the ACT project JUMP, income from investments rose by 29.0% year on year to EUR 11.1 million in the year under review.

11.1.7 Net interest income

The sharp increase in net interest income in the year under review resulted mainly from much lower non-recurring expenses from ongoing tax audits of EUR 0.0 million (previous year: EUR 0.7 million).

11.1.8 Taxes on income and earnings

Income from taxes on income and earnings of EUR 0.7 million (previous year: expenses of EUR 2.6 million) resulted primarily from the adjustment of deferred taxes through profit and loss, partly due to corrections to tax accounting in previous years. In fiscal year 2017, taxes on income and earnings were predominantly hit by tax charges for previous years in connection with ongoing audits.

11.1.9 Net loss

The extraordinary impact on other operating expenses and income from investments caused by the ACT project JUMP hit earnings hard in the year under review. Due to the income from taxes on income, the net loss for the year nevertheless changed less strongly to EUR -3.8 million.

11.2 Financial position

LIQUIDITY ANALYSIS (in EUR million)

	1.1.–31.12.2018	1.1.–31.12.2017
Cash flow from operating activities	5.9	–2.5
Cash flow from investing activities	–0.3	–0.3
Free cash flow	*5.6*	*–2.8*
Cash flow from financing activities	–5.6	2.8
Change in cash and cash equivalents	**0.0**	**–0.1**

The significantly positive change in cash flow from operating activities in fiscal year 2018 is mainly attributable to a decrease in intra-Group receivables (EUR -4.3 million) and an increase in intra-Group liabilities (EUR +6.4 million).

In the year under review, with a lower dividend payment of EUR 1.9 million (previous year: EUR 2.6 million), cash flow from financing activities was impacted primarily by repayments of liabilities to banks of EUR -3.7 million (previous year: EUR 5.5 million).

As of December 31, 2018, FP Holding had unused credit lines amounting to EUR 109.0 million FP Holding was able to meet its payment obligations at all times in fiscal year 2018.

11.3 Net Asset Situation

CONDENSED STATEMENT OF FINANCIAL POSITION OF FP HOLDING (in EUR million)

	2018	2017
Non-current assets	76.6	76.7
Current assets	37.5	42.1
Prepaid expenses and deferred tax assets	1.4	2.5
Assets	**155.5**	**121.2**
Shareholders' equity	58.7	64.7
Provisions	8.6	8.8
Liabilities and deferred tax liabilities	48.2	47.7
Liabilities	**115.5**	**121.2**

11.3.1 Non-current assets

Non-current assets remained at more or less the same level as in the previous year in fiscal year 2018.

11.3.2 Current assets

The decrease in current assets resulted in particular from the reduction in intra-Group receivables (EUR -4.3 million). This change was linked to intra-Group financing for subsidiaries.

11.3.3 Equity

Equity declined in the reporting year due to the net loss of EUR -3.8 million and as a result of the EUR 1.9 million dividend payment (in 2018 for 2017). In the period from 13 October 2017 to 12 January 2018, FP Holding carried out a share buyback programme that had been resolved upon by the Management and Supervisory Boards. In the buyback programme, a total of 47,325 treasury shares were acquired in the year under review (previous year: 351,168 shares). The calculated value of treasury shares is openly deducted from equity. The difference of the purchase price is offset against capital reserves. The equity ratio fell from 53.4% to 50.9%.

11.3.4 Provisions

The slight decline in provisions in fiscal year 2018 stemmed from lower provisions for tax payments (EUR 2.1 million, previous year EUR 4.2 million) as a result of additional tax payments from audits along with increased other provisions in the amount of EUR 1.8 million, predominantly provisions for consulting costs for the ACT project JUMP of EUR 1.4 million and a year-on-year rise in provisions for bonuses (EUR +0.3 million).

11.3.5 Liabilities and deferred tax liabilities

The increase in liabilities and deferred tax liabilities of EUR 0.5 million in the year under review largely stemmed from a increase in intra-Group liabilities (EUR +6.4 million). This change was linked to intra-Group financing for subsidiaries. The decrease in liabilities to banks in the year under review (EUR -3.7 million) had a positive effect here, and the net amount of deferred taxes (EUR -1.8 million).

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

The forecast for fiscal year 2018 envisaged a slight increase in income from investments and a significantly reduced net loss. The predicted reduction in the net loss was mainly based on improved net interest income and a sharp fall in expenses from taxes on income and earnings combined with a fall in other expenses and a slight rise in staff costs.

In fiscal year 2018, FP Holding generated income from investments of EUR 5.7 million (EUR 8.6 million) and thus fell short of its forecast. This substantial deviation was chiefly due to extraordinary, predominantly staff-related expenses for the ACT project JUMP of EUR 5.4 million. Adjusted for these expenses, income from investments rose by 29.0 % year on year to EUR 11.1 million in the year under review.

By contrast, FP Holding improved net interest income by more than expected and generated income from taxes on income and earnings in the year under review against a backdrop of lower other income and higher staff expenses and other operating expenses.

Consequently, in contrast with the forecast, FP Holding posted an increased net loss of EUR -3.8 million, mainly as a result of the extraordinary impact from the ACT project JUMP.

11.5 Overall statement on business performance

As planned, fiscal year 2018 was shaped by implementation of the ACT strategy, in particular the ACT project JUMP.

In the fourth quarter of 2018, as scheduled, the company started the implementation phase of the ACT project JUMP, which will optimise the structure and organisation of the global FP Group and optimise them in line with a new target operating model. Alongside this, a uniform ERP/CRM landscape is being introduced worldwide for global support of the future uniform processes. As part of this, Group structures and processes are being fundamentally reorganised, from a generally function-oriented approach to a more process-oriented one. Large parts of the repetitive and automated activities are being concentrated in Shared Service Centres. In addition, competence centres are being set up in order to look to the future and implement ACT even more successfully. Along with redefinition of responsibilities of Management Board members and replacement of the ten existing national sales companies by three large regional organisations, the JUMP measures include strengthening of FP Holding's position as a management holding company by expanding key strategic and support functions. The Management Board therefore judges the business performance in fiscal year 2018 to have been generally positive.

11.6 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 opportunity report". Additional financial burdens may also arise from investments as a result of legal or contractual contingent liabilities (particularly financing).

11.7 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. FP Holding expects income from investments to increase moderately and earnings to be significantly improved in fiscal year 2019, resulting in a low net profit compared with the net loss for the previous year. Against a backdrop of slightly higher staff expenses as well as higher other operating income and expenses from taxes on income and earnings, the forecast net profit is chiefly attributable to an expected rise in income from investments.

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.

12. Responsibility Statement by Legal Representatives in Accordance with Section 315(1) Sentence 5 and Section 289(1) Sentence 5 German Commercial Code (HGB)

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the combined Group management report includes a fair review of the development and performance of the business and the position of the Group and Francotyp-Postalia Holding AG, together with a description of the principal opportunities and risks associated with the expected development of the Group and Francotyp-Postalia Holding AG.

Berlin, 22 March 2019

R.A. Günther

Rüdiger Andreas Günther
CEO

Patricius de Gruyter
Management Board

Sven Meise
Management Board

CONSOLIDATED FINANCIAL STATEMENT

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 2018

in EUR thousand	III and IV Notes	**1.1.–31.12.2018**	1.1.–31.12.2017
Revenue	(1)	204,206	206,343
Increase / decrease in inventories of finished goods and work in progress		–326	523
		203,880	206,866
Other own work capitalised	(2)	14,074	10,839
Other income	(3)	1,887	4,774
Cost of materials	(4)		
a) Expenses for raw materials, consumables and supplies		34,929	35,218
b) Cost of purchased services		66,712	67,662
		101,641	102,880
Staff costs	(5)		
a) Wages and salaries		55,593	50,406
b) Social security contributions		7,922	7,795
c) Expenses for pensions and other benefits		1,216	1,024
		64,731	59,225
Amortisation, depreciation and write-downs	(2, 12)	17,335	19,060
Impairment losses on trade receivables	(15)	1	0
Other expenses	(6)	36,400	34,058
Net interest income	(8)		
a) Interest and similar income		2,848	2,126
b) Interest and similar expenses		1,390	1,909
		1,458	217
Other financial result	(8)		
a) Other financial income		1,106	855
b) Other finance costs		1,045	1,258
		61	–403
Income taxes	(9)	–356	–2,422
Consolidated net income		**896**	**4,649**

in EUR thousand	III and IV Notes	**1.1.–31.12.2018**	1.1.–31.12.2017
Other comprehensive income			
Foreign currency translation of financial statements of foreign entities		1,088	–4,293
of which taxes		26	–16
Provisions for pensions and partial retirement obligations in accordance with IAS 19 (rev, 2011)		–15	211
of which taxes		8	102
Cash flow hedges - effective part of changes in fair value		–233	487
of which reserve for hedging costs		–181	0
of which taxes		82	–210
Cash flow hedges - Reclassification to profit or loss		–40	–161
of which taxes		18	70
Other comprehensive income after taxes		800	–3,756
Total comprehensive income		**1,696**	**893**
Consolidated net income		896	4,649
of which attributable to the shareholders of FP Holding		896	5,857
Total comprehensive income		1,696	893
of which attributable to the shareholders of FP Holding		1,696	893
Earnings per share (basic in EUR)	(10)	0,06	0,29
Earnings per share (diluted in EUR)		**0,06**	0,28

Consolidated Statement of Financial Position as at 31 December 2018

ASSETS

in EUR thousand	IV Notes	31.12.2018	01.01.2018 adjusted	31.12.2017
NON-CURRENT ASSETS				
Intangible assets	**(11)**			
Intangible assets including customer lists		20,283	21,578	21,578
Goodwill		10,448	8,494	8,494
Development projects in progress and advance payments		10,057	5,074	5,074
		40,788	35,146	35,146
Property, plant and equipment	**(12)**			
Land, land rights and buildings		2,806	2,784	2,784
Technical equipment and machinery		4,900	4,659	4,659
Other equipment, operating and office equipment		3,906	4,274	4,274
Leased products		17,585	18,384	18,384
Finance lease assets		450	1,208	1,208
Advance payments and assets under construction		263	446	446
		29,910	31,755	31,755
Other assets				
Associates	(23)	36	36	36
Other equity investments	(23)	0	163	163
Finance lease receivables	(13, 23)	13,073	11,234	11,234
Other non-current assets		246	153	153
		13,355	11,587	11,587
Tax assets				
Deferred tax assets	(20)	1,382	1,386	1,386
Current tax assets		2,446	2,446	2,446
		3,828	3,832	3,832
		87,881	**82,320**	**82,320**
CURRENT ASSETS				
Inventories	**(14)**			
Raw materials, consumables and supplies		4,560	3,892	3,892
Work in progress		769	747	747
Finished goods and merchandise		5,864	5,994	5,994
		11,194	10,633	10,633
Trade receivables	**(15, 23)**	**18,951**	**19,527**	**18,684**
Other assets				
Finance lease receivables	(13, 23)	5,114	4,037	4,037
Income taxes receivable	(20)	157	5,813	5,813
Derivative financial instruments	(23)	19	110	110
Other current assets	(16, 23)	12,500	13,271	13,271
		17,790	23,230	23,230
Securities	**(23)**	**671**	**676**	**676**
Cash and cash equivalents	**(17, 23)**	**30,235**	**34,234**	**34,234**
		78,842	88,300	87,457
		166,723	**170,620**	**169,777**

LIABILITIES

in EUR thousand	IV Notes	31.12.2018	01.01.2018 adjusted	31.12.2017
EQUITY	**(18)**			
Issued capital		16,301	16,301	16,301
Capital reserves		34,743	34,746	34,746
Stock option reserve		1,428	1,318	1,318
Treasury shares		–1,863	–1,625	–1,625
Loss carried forward		–14,107	–16,848	–17,543
Consolidated net income after minority interests		896	4,649	4,649
Total other equity		–4,087	–4,887	–4,887
		33,311	33,654	32,959
NON-CURRENT LIABILITIES				
Provisions for pensions and similar obligations	(19)	16,225	16,528	16,528
Other provisions	(21)	1,369	1,139	1,139
Financial liabilities	(22, 23)	39,089	43,138	43,138
Other liabilities	(22, 23)	28	70	70
Deferred tax liabilities	(20)	223	1,827	1,576
		56,934	62,701	62,450
CURRENT LIABILITIES				
Tax liabilities	(20)	3,261	5,091	5,091
Provisions	(21)	11,937	7,965	7,965
Financial liabilities	(22, 23)	193	412	412
Trade payables	(22, 23)	13,969	11,210	11,210
Other liabilities	(22, 23)	47,118	49,586	49,689
of which telepostage EUR 24,081 thousand (previous year: EUR 27,281 thousand)				
		76,478	74,264	74,367
		166,723	**170,620**	**169,777**

Consolidated Cash Flow Statement for the Period from 1 January to 31 December 2018

in EUR thousand	Notes	1.1.–31.12.2018	1.1.–31.12.2017
1. Cash flow from operating activities			
Consolidated net income		896	4,649
Net income tax recognised in profit or loss	(9)	356	2,422
Net interest income recognised in profit or loss	(8)	–1,458	–217
Amortisation, depreciation and write-downs on non-current assets	(11, 12)	17,335	19,060
Increase (+) (previous year: decrease (-)) in provisions and tax liabilities	(19, 20, 21)	4,104	–400
Loss (+) on the disposal of non-current assets		169	711
Decrease (+) in inventories, trade receivables and other assets not attributable to investing or financing activities (without finance lease)	(13, 14, 15)	1,175	3,221
Increase (-) in receivables from finance lease		–2,916	–2,727
Increase (+) (previous year: decrease (-)) in trade payables and other liabilities[1] not attributable to investing or financing activities	(22)	997	–3,836
Other non-cash income		226	293
Interest received	(8)	2,848	2,126
Interest paid	(8)	–1,150	–1,794
Income taxes received	(9)	5,514	1,011
Income taxes paid	(9)	–3,855	–3,265
Cash flow from operating activities		24,241	21,253
2. Cash flow from investing activities			
Payments for the capitalisation of development costs	(2, 11)	–7,404	–5,088
Payments for capitalised interest for development costs		–89	–51
Proceeds from disposals of non-current assets	(11, 12)	337	0
Payments for investments in intangible assets	(11, 12)	–1,538	–1,758
Payments for investments in property, plant and equipment	(11, 12)	–9,027	–8,578
Payments for the acquisition of non-controlling interests (IAS 7)	(11)	–3,509	0
Cash flow from investing activities		–21,230	–15,474

1) Postage credit balances managed by the FP Group of EUR 9,754 thousand (previous year: EUR 10,820 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 671 thousand (previous year: EUR 676 thousand).

in EUR thousand	III and IV Notes	1.1.–31.12.2018	1.1.–31.12.2017
3. Cash flow from financing activities			
Payments for distribution to shareholders	(18)	–1,908	–2,606
Bank loan repayments	(22)	–4,046	–6
Repayment of finance lease liabilities	(22)	–232	–1,175
Proceeds from the assumption of finance lease liabilities	(22)	0	353
Proceeds for the purchase of treasury shares	(18)	–241	–1,625
Proceeds from the issue of new shares	(22)	0	212
Proceeds from the assumption of bank loans	(22)	5	5,938
Cash flow from financing activities		–6,422	1,091
Cash and cash equivalents[1]			
Change in cash and cash equivalents	V,	–3,411	6,870
Change in cash due to currency translation		474	–1,434
Cash at beginning of period	V,	24,090	18,655
Cash at end of period	**V,**	**21,153**	**24,091**

1) Postage credit balances managed by the FP Group of EUR 9,754 thousand (previous year: EUR 10,820 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 671 thousand (previous year: EUR 676 thousand).

Consolidated Statement of Changes in Equity for the Period from 1 January to 31 December 2018

						Total other equity							
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 hedging transactions	Equity attributable to FP Holding	Non-controlling interests	**Total**
IV Notes (18)[1]													
As at 1.1.2017	**16,215**	**34,620**	**1,179**	**0**	**–14,937**	**2,954**	**132**	**–3,529**	**–439**	**–249**		**35,946**	**35,946**
Consolidated net income 1.1.–31.12.2017	0	0	0	0	4,649	0	0	0	0	0		4,649	4,649
Foreign currency translation of financial statements of foreign entities	0	0	0	0	0	–4,257	–36	0	0	0		–4,293	–4,293
Adjustment of provisions for pensions and early retirement according to IAS 19	0	0	0	0	0	0	0	211	0	0		211	211
Cash flow hedges	0	0	0	0	0	0	0	0	0	326		326	326
Other comprehensive income 1.1.–31.12.2017	0	0	0	0	0	–4,257	–36	211	0	326		–3,756	–3,756
Total comprehensive income 1.1.–31.12.2017	0	0	0	0	4,649	–4,257	–36	211	0	326		893	893
Distributions	86	126	139	0	0	0	0	0	0	0		351	351
Stock option settlement	0	0	0	0	-2,606	0	0	0	0	0		–2,606	–2,606
Acquisition of non-controlling interests	0	0	0	–1,625	0	0	0	0	0	0		–1,625	–1,625
As at 31.12.2017	**16,301**	**34,746**	**1,318**	**–1,625**	**–12,894**	**–1,303**	**96**	**–3,318**	**–439**	**77**		**32,959**	**32,959**
Changes in accounting and valuation methods: First-time Adoption of IFRS 9 and IFRS 15	0	0	0	0	695	0	0	0	0	0	0	695	695
As at 1.1.2018 (adjusted)	**16,301**	**34,746**	**1,318**	**–1,625**	**–12,199**	**–1,303**	**96**	**–3,318**	**–439**	**77**	**0**	**33,654**	**33,654**
Consolidated net income 1.1.–31.12.2018	0	0	0	0	896	0	0	0	0	0	0	896	896
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	0	0	0	0	0	0	0	–15	0	0	0	–15	–15
Cash flow hedges	0	0	0	0	0	0	0	0	0	–147	–126	–273	–273
Other comprehensive income 1.1.–31.12.2018	0	0	0	0	0	1,173	–85	–15	0	–147	–126	800	800
Total comprehensive income 1.1.–31.12.2018	0	0	0	0	896	1,173	–85	–15	0	–147	–126	1,696	1,696
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 non-controlling interests	0	0	0	–243	0	0	0	0	0	0	0	–243	–243
As at 31.12.2018	**16,301**	**34,743**	**1,428**	**–1,863**	**–13,211**	**–130**	**11**	**–3,333**	**–439**	**–70**	**–126**	**33,311**	**33,311**

1) The changes in equity are explained in the notes to the consolidated financial statements in the following sections.

NOTES

I. General information

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 96 years and is an expert in the secure mail business and digital communication processes. Its business activities focus on products and services for efficient mail processing, the consolidation of business mail and digital solutions for businesses and authorities.

The Management Board of Francotyp-Postalia Holding AG approved the consolidated financial statements for submission to the Supervisory Board on 22 March 2019. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and to state whether it adopts them.

Declaration of Compliance

FP Holding has prepared its consolidated financial statements as at 31 December 2018 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).

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 2018 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.

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.

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 2018, the Group applied IFRS 15 and IFRS 9 for the first time. As at 1 January 2018, several new standards become effective. However, these had no material impact on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 sets out a comprehensive framework for determining whether, how much and when revenue should be recognised. It replaces the existing guidance on the recognition of revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. According to IFRS 15 revenue is recognised when a customer obtains control of a good or services. The determination when control is transferred at a point in time or over time requires discretionary decisions.

In the transition to IFRS 15, the Group applied the modified retrospective method (without convenience options), according to which the cumulative effect as at 1 January 2018 is recognized. As a result the comparative information for 2017 is not restated. This means it is presented as was previously the case in accordance with IAS 18, IAS 11 and the corresponding interpretations. In addition, the disclosure requirements according to IFRS 15 are not generally applied to comparative information.

The table below shows the impact of the transition to IFRS 15 on retained earnings after taxes as at 1 January 2018.

EUR thousand	Note	Effect from the application of IFRS 15 1 January 2018.
Retained earnings		
Installation services with recognition at a point in time	(a)	103
Tax effect		–31
Effect as at 1 January 2018		–72

Impact on the consolidated statement of financial position:

31 December 2018 EUR thousand	Note	As reported	Adjustments	Amounts without application of IFRS 15
Non-current assets		**82,320**	**0**	**82,320**
Current assets				
Inventories		10,633	0	10,633
Trade receivables		18,684	0	18,684
Other assets		23,230	0	23,230
Securities		676	0	676
Cash and cash equivalents		34,234	0	34,234
Total assets		**169,777**	**0**	**169,777**
Shareholders equity				
Total other equity	(a)	–17,543	72	–17,471
Other		50,502	0	50,502
Non-current liabilities	**(a)**	**62,450**	**31**	**62,481**
Current liabilities				
Tax liabilities		5,091	0	5,091
Provisions		7,965	0	7,965
Financial liabilities		412	0	911
Trade payables		11,210	0	11,210
Other liabilities	(a)	49,689	–103	49,586
Total liabilities		**169,777**	**0**	**169,777**
Balance sheet total		**169,777**	**0**	**169,777**

(a) in connection with the service agreements installation services are sold which in the past were also recognised over time. Here there were changes as a result of the switch to recognition at a point in time.

IFRS 15 had no material impact on accounting methods in respect to other sources of revenue (see Notes II. and III.1.).

See Note III.1. for further information on the Group's accounting methods in connection with revenue recognition.

IFRS 9 Financial Instruments

IFRS 9 specifics the requirements for recognition and measurement of financial assets, financial liabilities and some contracts to buy or sell non-financial contracts. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the introduction of IFRS 9, the Group has implemented amendments to IAS 1 Presentation of Financial Statements according to which impairment on financial assets is to be recognised in a separate item of the statement of consolidated income. Previously the Group recognised the write-downs on trade receivables in other expenses. In the 2017 fiscal year, according to IAS 39 the Group thus reclassified impairments in the statement of consolidated income year of EUR 843 thousand from other expenses to write-downs on trade receivables.

For reasons of materiality, impairment of other financial assets, similar to the presentation in line with IAS 39, is not shown separately in the statement of consolidated income, but recognised in the financial result.

In addition, the Group applied amendments to IFRS 7 Financial instruments: Disclosures for the notes for the 2018 fiscal year. However, in general these were not used for the comparative information.

The table below shows the impact of the transition to IFRS 9 to the opening balance figures of other reserves and retained earnings (for description of the transitional method, see (iv)).

In EUR thousand	Note	Impact from the first-time application of IFRS 9 on the opening balance
Retained earnings		
Effects from the expected credit losses in accordance with IFRS 9	(ii)	843
Of which related taxes		–220
Impact as at 1 January 2018		623

i. Classification and measurement and measurement of financial assets and financial liabilities

IFRS 9 contains three material categories to classify financial assets: measured at amortised cost, at fair value with changes through other comprehensive income (FVOCI) and at fair value with changes through profit or loss (FVTPL). The classification of financial assets according to IFRS 9 takes place on the basis of the business model for managing financial assets and the contractual cash flow characteristics. IFRS 9 eliminates the previous categories of IAS 39: held to maturity, loans and receivables and available for sale. According to IFRS 9, derivatives embedded in contracts where the underlying is a financial asset within the scope of the standards are never accounted for separately. Instead the hybrid financial instrument is assessed in respect to classification.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

In respect to financial liabilities and derivative financial instruments, the first-time application of IFRS 9 had no material impact on the accounting methods of the Group (for derivatives used in hedge accounting, see (iii)).

Further information on how the Group classifies and measures financial instruments and related gains and losses according to IFRS 9 can be found in the notes under IV.23.

The following table and the accompanying information describe the original measurement category in accordance with IAS 39 and the new measurement category in accordance with IFRS 9 as at 1 January 2018 for each class of financial assets and financial liabilities established by the Group.

The impact of the first-time application of IFRS 9 on the carrying amounts of the financial assets as at 1 January 2018 results solely from the provisions on recognising impairment.

in EUR thousand	Original measurement category according to IAS 39	New measurement category According to IFRS 9	Original carrying amount According to IAS 39	New carrying amount according to IFRS 9
Securities				
Securities	HfT	FVTPL	676	676
Asset derivatives with positive time values without a hedging relationship	HfT	FVTPL	0	0
Asset derivatives with a hedging relationship	n/a	n/a	18	18
Equity investments and associates (a)	AfS	n/a	199	199*
Trade and other receivables (b)	LaR	AC	25,496	26,339
Finance lease receivables	n/a	n/a	15,721	15,721*
Cash and cash equivalentsl	LaR	AC	34,234	34,234
Total financial assets			**76,436**	**77,279**
Financial liabilities				
Liabilities to banks	OL	AC	42,847	42,847
Trade payables	OL	AC	11,210	11,210
Other financial liabilities	OL	AC	32,040	32,040
Finance lease liabilities	n/a	n/a	703	703*
Liability derivatives with negative time values without a hedging relationship	HfT	FVTPL	2,215	2,424
Liabilities derivatives with a hedging relationship	n/a	n/a	181	181
Total financial liabilities			**89,015**	**89,015**

* Not in the scope of IFRS 9.

Explanations of the abbreviations:
- FVPTL, Fair Value through Profit and Loss
- FVOCI, Fair Value through Other Comprehensive Income
- AC, amortised cost
- AfS, Available for Sale
- HfT, Held for Trading
- LaR, Loans and Receivables
- n/a, not applicable, not to be assigned to any measurement category
- OL, Other Liability, financial liabilities measured at amortised cost

(a) Equity instruments are always assigned to the FVTPL category. IFRS 9 optionally allows a measurement through other comprehensive income to be recognised at fair value. The FP Group applies this option for measurements at fair value through other comprehensive income on an individual basis. If these equity instruments are sold or written down, then the unrealised gains and losses from these instruments up to this point in time are reclassified to retained earnings and not recognised in profit and loss. Under IAS 39 equity instruments were classified as available for sale. Unrealised gains and losses as well as impairments were shown in the profit and loss on disposal. These equity instruments are included in other financial assets.

(b) Trade receivables and other receivables, which were classified as loans and receivables in accordance with IAS 39, are now classified at amortised cost. With the transition to IFRS 9, a reduction of impairment for these receivables by EUR 843 thousand was recognised in retained earnings as at 1 January 2018.

The following table reconciles the carrying amounts of the financial assets in accordance with IAS 39 to the carrying amounts according to IFRS 9 at the time of transition to IFRS 9 of 1 January 2018.

in EUR thousand	IAS 39 Carrying amount as at 31 December 2017	Reclassification	Remeasurement	IFRS 9 Carrying amount as at 1 January 2018
Securities				
Amortised cost				
Trade and other receivables				
Brought forward: *Loans and receivables*	25,496	0	0	0
Remeasurement	0	0	843	0
Brought forward: *Amortised cost*	0	0	0	26,339
Total cost	25,496	**0**	**843**	**26,339**

ii. Impairment of financial assets

IFRS 9 replaces the incurred loss model of IAS 39 with an expected credit loss model ("ECL"). The new impairment model is to be applied to financial assets recognised at amortised cost, to contract assets and to debt instruments measured at FVOCI, but not to equity instruments held as investment securities. According to IFRS 9, credit losses were previously recognised in line with IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairments are likely to increase and become more volatile. The Group determined that the impairment losses resulting from the application of the impairment requirements of IFRS 9 are as follows as at 1 January 2018:

In EUR thousand	
Impairment losses as at 31 December 2017 in accordance with IAS 39	**1,800**
Reduced impairment losses as at 1 January 2018 on: Trade receivables and other receivables, as at 31 December 2017	843
Impairment losses as at 1 January 2018 in accordance with IFRS 9	**957**

Additional information on the determination of Group impairment can be found in the notes under IV.14.

iii. Hedge accounting

The foreign exchange future contracts existing as at 31 December 2017 meet the IFRS 9 requirements for cash flow hedges. The risk management strategy and hedging documents are coordinated to meet the requirements of IFRS 9; thus, these relationships are considered continuing hedging transactions.

In accordance with IAS 39, the FP Group designated the total changes of fair value for foreign exchange future contracts as part of the cash flow hedge. The ineffective part of changes of fair value of derivatives was recognised in the income statement before 1 January 2018. Since adopting IFRS 9, the FP Group designates only the cash elements as part of the cash flow hedge and recognises all changes (including the forward element as hedging costs) of the fair value of currency futures contracts in equity. The adoption of IFRS 9 did not result in a retroactive reclassification of foreign exchange future contracts.

iv. Transition

The changes of the accounting policies as a result of applying IFRS 9 were applied retrospectively, with the exception of the cases below:

- The Group has utilized the option not to restate comparative information for previous periods in respect to changes in classification and measurement (including the impairment). Differences between the carrying amounts of the financial assets and financial liabilities due to the application of IFRS 9 are recognised in the profit or loss carried forward as at 1 January 2018. Thus the information provided for 2017 does not generally satisfy the requirements of IFRS 9, but those of IAS 39.
- The following assessments are based on the facts and circumstances that existed at the time of first-time recognition:
  - Designation of the business model in which a financial asset is held.
  - Designation and dedesignation in relation to specific financial assets and financial liabilities recognised as FVTPL.
  - Designation of specific equity investments held as investment securities, which are not held for trading purposes, as FVOCI.

- All designated hedging relationships in accordance with IAS as at 31 December 2017, as at 1 January 2018 satisfied the hedge accounting criteria according to IFRS 9 and are thus regarded as continuing hedging relationships.

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments relate to the first-time application of IFRS 9 for insurers. As a result of different effective dates for IFRS 9 and the new standard for insurance contracts (IFRS 17), without these amendments for a transitional period there is increased volatility in the results and twice the transitional expense and work.

The amendments provide for two options:

- Deferral of the first-time application of IFRS 9: Companies whose primary activities is the insurance business and which apply IFRS 4 to existing insurance contracts continue to apply IAS 39 instead of IFRS 9 for fiscal years starting before 1 January 2021. This applies only if IFRS 9 has not already been applied. From fiscal year 2018, selected disclosures are to be included in the notes which allow a certain comparability with companies which already apply IFRS 9. In the context of the endorsement, under certain conditions the EU expanded the scope of this option to insurance companies within financial conglomerates.
- Transitional method: Companies which apply IFRS 4 to existing insurance contracts for certain financial assets may reclassify an amount from “through profit or loss” to “other comprehensive income” so that the result through profit and loss according to IFRS 9 corresponds to that in accordance with IAS 39.

As the Group does not fall within the scope of IFRS 4, there is no impact.

Improvements to IFRS 2014 – 2016

With the Annual Improvements to IFRSs (2014–2016), three IFRSs were amended, of which the following two amendments are not applicable until 2018:

IAS 28 clarifies that the option on how to measure an investment in an associate or joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity is available on an investment-by-investment basis.

Furthermore, the limited options in IFRS 1. Appendix E (IFRS 1.E3-E7) for those applying IFRS for the first time are discontinued.

There were no changes.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

The amendments relate to the consideration of exercise conditions in the measurement of cash-settled share-based payment transactions, the classification of share-based payment transactions which provide for a net settlement of taxes to be withheld and modifications of payment transactions from “cash settled” to “equity settled”.

They will have no material impact.

Amendments to IFRS 15 – Clarifications to IFRS 15

See further information on IFRS 15.

Amendment to IAS 40 – Transfers of Investment Property

The amendment to IAS 40 serves to clarify in which cases the classification of a property as “investment property” starts and ends if the property is under construction or in development. As a result of the non-exhaustive list in IAS 40.57, the classification of property under construction of development was not clearly regulated. This list is now explicitly considered non-exhaustive so that property under construction or development can also be included in the regulation.

They will have no material impact.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses an application issue regarding IAS 21 The Effects of Changes in Foreign Exchange Rates. It clarifies at what time the exchange rate is to be calculated for the translation of transactions that include the receipt or payment of advance consideration in a foreign currency. Decisive for the determination of the exchange rate for the underlying asset, income or expense is the date at which the asset or liability resulting from the advance consideration is initially recognised.

The interpretation is effective for the first time for reporting periods beginning on or after 1 January 2018. Earlier adoption is permitted

They 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, HAS BEEN ENDORSED BY THE EU

Standard	Note	Impact on the consolidated financial statements
IFRS 16 Leases	IFRS 16 introduces a single accounting model according to which leases are to be recognised on the lessee's statement of financial position. A lessee recognises a right-of-use asset, which shows his right to the use of the underlying asset and a liability from the leasing relationship which shows his obligation to make lease payments. There are exceptions for short-term leases and leases for assets with low value. Accounting at the lessor is similar to the current standard, i. e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces the existing provisions on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease.	The Group is required to apply IFRS 16 from 1 January 2019. The Group has assessed the estimated effect of the first-time application of IFRS 16 on the consolidated financial statements, as shown below. The actual effect resulting from the application of this standard as at 1 January 2019 can differ because – the Group has not concluded tests and assessments of the controls of its new IT systems and – the new accounting policy could be subject to amendments until the time of the publication of the first consolidated financial statements after the first-time application. **I. Leases in which the Group is the lessee** The Group will recognise new assets and liabilities for its operating leases (Note IV.25.). The type of expenses in connection with these leases will change as the Group now recognises impairments for right-of-use assets and interest expenses from the lease liability. Previously the Group recognised lease payments under an operating lease on a straight-line basis over the term of the lease and assets and liabilities only at the level at which there is a time difference between the actual lease payments and the expenses recognised. No material impact on the finance leases of the Group is anticipated. Based on currently available information, the Group estimates that it will recognize additional lease liabilities of EUR 13,713 thousand as at 1 January 2019. **II. Leases in which the Group is the lessor** No significant changes are expected for leases in which the Group is the lessor. **III. Transition** The Group intends to apply IFRS 16 using the modified retrospective method for the first time as at 1 January 2019. For this reason, the cumulative effect from the application of IFRS 16 will be recognised as an adjustment of the opening amounts of retained earnings as at 1 January 2019. Comparative information is not restated. The Group intends to use the convenience option relating to retaining the definition of a lease when making the transition. This means that the Group will apply IFRS 16 to all contracts concluded before 1 January 2019 and which are identified as leases in accordance with IAS 17 and IFRIC 4.

Standard	Note	Impact on the consolidated financial statements
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. The amendments must be applied for the first time as at 1 January 2019.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.
IFRIC 23 Uncertainty over Income Tax Treatments	The tax treatment of certain circumstances and transactions can depend on future recognition by the tax authorities or courts. IAS 12 Income Taxes governs how current and deferred taxes are to be accounted for. IFRIC 23 complements the IAS 12 requirements with regard to accounting for uncertainties over the income tax treatment of circumstances and transactions. The interpretation is effective for the first time for reporting periods beginning on or after 1 January 2019. Earlier adoption is permitted.	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 was published in May 2017 as replacement for IFRS 4 "Insurance Contracts". The IFRS measurement model is based on the calculation of the current fulfilment figures of the insurance contracts so that recognition in each reporting period is to be adjusted on the basis of changes in estimates. Insurance contracts are recognised according to a building block approach. The following building blocks are integrated into the measurement: – discounted probability-weighted cash flows – an explicit risk adjustment and – a contractual service margin representing the amount not earned from the contract and which is recognised as income over the period in which the company grants coverage. The standard provides an option whereby the impact from changes in the discount rate may be recognised either in profit and loss or directly in other comprehensive income. Exercising this option is likely to reflect the way in which the insurer accounts for its financial assets according to IFRS 9. For specific insurance contracts with a short duration, the option of a practical expedient (the so-called premium allocation approach) may be used for determining the provisions for future insurance cover. These short-term contracts are frequently concluded by property and casualty insurers. For specific contracts of life insurers where the insured participates in the returns of the underlying assets, the general measurement model of the standard in the form of the variable fee approach is used. When applying this method, the share of the company in the fair value changes of the underlying assets are included in the contractual service margin. The results of the insurers which use this model are likely to be less volatile than with the use of the general model. The new rules will effect the financial statements and key financial figures of all companies which issue insurance contracts or investment contracts with a discretionary participation feature. The standard is to be applied from 1 January 2021.	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.

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. Subject to EU endorsement, 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 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 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. Subject to EU endorsement, the amendments must be applied for the first time as at 1 January 2019.	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.

Standard	Note	Impact on the consolidated financial statements
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. Subject to EU endorsement, the amendments are effective for the first time for reporting periods beginning on or after 1 January 2019. Earlier adoption is permitted	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.
Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement	The amendments to IAS 19 demand that in the case of a change, curtailment or settlement of a defined benefit plan, the current service cost and the net interest for the remaining current fiscal year are to be recalculated using the current actuarial assumptions used for the necessary remeasurement of the net liability. Net interest for the remainder of the fiscal year is then determined on the basis of the remeasured net liability. Subsequently in the case of a plan change, curtailment or settlement in accordance with IAS 19.99–112 it is mandatory that the past service cost, or the gain or loss on settlement is recognised and measured. In doing so, account should not be taken of effects from the asset ceiling. Only subsequently may a company determine the impact of the asset ceiling after a plan change, curtailment or settlement and recognise each change of the effect. The amendments are effective for the first time for reporting periods beginning on or after 1 January 2019. Earlier adoption is permitted	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.

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 2018. With effect from 1 January 2018, FP Hanse GmbH, Hamburg was merged with Francotyp-Postalia Vertrieb und Service GmbH, Berlin.

In addition to Francotyp-Postalia Holding AG, the 2018 consolidated financial statements include ten (previous year: eleven) 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	31.12.2018 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

No.	Companies not included in consolidation	31.12.2018 Share in % [3]
22	FP Systems India Private Limited, Mumbai, India	99.998
23	FP Direct Ltd., Dartford, UK	100.00

1) Two equity investments (previous year: four 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 or other equity investments under other non-current assets.
2) For Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb und Service GmbH, FP Direkt Vertriebs GmbH, FP InovoLabs GmbH, Mentana-Claimsoft GmbH and Francotyp-Postalia Unterstützungseinrichtung GmbH, it was de-cided to make full use of the exemptions provided by section 264(3) HGB in conjunction with section 325. FP Pro-duktionsgesellschaft mbH & Co. KG likewise made use of the exemptions provided by section 264b HGB in con-junction with section 325. These companies are also exempt from the obligation to prepare a 2018 management report in accordance with section 264(3) HGB in conjunction with section 289 HGB or section 264b HGB. The cor-responding resolutions were submitted to the operator of the electronic Federal Gazette, the respective announce-ment was arranged.
3) Including directly and indirectly attributable shares.

Consolidation principles

Acquisition accounting is performed in accordance with the principles of IFRS 3 (2008). 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.

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	
1 euro =	**31.12.2018**	31.12.2017	**2018**	2017
US dollar (USD)	1.1451	1.1989	1.181	1.1297
Pound sterling (GBP)	0.8969	0.8873	0.8847	0.8768
Canadian dollar (CAD)	1.5596	1.5028	1.5293	1.4648
Swedish krona (SEK)	10.2513	9.8321	10.2584	9.6352

Accounting policies

In preparing the 2018 consolidated financial statements, the Management Board applied the going concern principle to all companies included in the consolidated financial statements. The accounting was therefore prepared under the going concern assumption.

Revenues and other operating income

In accordance with IFRS 15, revenue is recognised when (or as) a performance obligation is satisfied by transferring a promised good or service (i.e. an asset) to a customer.

Revenue is reported net of trade discounts and rebates.

Revenue from operating leases is recognised over the term of performance; for agreements with flat-rate payment, such as service contracts, revenue is recognised on a straight-line basis over the term of the agreement.

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 profit or loss in the periods in which the expenses are recognised.

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 licenses, software, internally generated intangible assets, customer lists)	1 to 10 years
Internally generated intangible assets	2 to 6 years
Goodwill	10 to 15 years

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.

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

Property, plant and equipment	Useful life
Buildings	3 to 25 years
Technical equipment and machinery	2 to 19 years
Operating and office equipment	2 to 23 years
Leased products	3 to 8 years
Finance lease assets	9 years

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
As at 1 January 2018, the 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 are recognised in financial income using the effective interest method. Gain and losses from derecognition are recognised directly in the income statement and - together with the foreign currency gains and losses - posted under gains (losses).
- 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 losses or charges, 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 gains (losses). Interest income from these financial assets are recognised in financial income using the effective interest method. Gains and losses in foreign currency are recognised in other gains (losses) 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 gains (losses) 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.

Dividends from those instruments continue to be recognised in profit and loss under other income if the Group's right to receive payments is justified.

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
As at 1 January 2018, on a forward-looking basis, the Group will assess the expected credit losses associated with its debt instruments measured at amortised cost or at fair value through other comprehensive income. 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 – no impairment in rating

If a financial asset is subject to a significant increase in its credit risk after initial recognition, but not impaired in its rating, 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 – impaired rating

If a financial asset is negatively impacted in terms of its rating or has defaulted, it is assigned to Level 3. The lifetime credit losses of the financial asset are recognised as impairment. Objective evidence that the rating of a financial asset is impaired includes it being past due from 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.

v. Approach until 31 December 2017
The Group applied IFRS 9 retrospectively, but decided not to restate the comparative figures. As a result the comparative figures are recognised in line with the Group's previously applied accounting policy.

Until 31 December 2017, the Group classified its financial assets into the following categories:

– Financial assets at fair value through profit or loss
– Loans and receivables and
– Available-for-sale financial assets

Classification depended on the purpose for which the financial asset was acquired. The management determined the classification of financial assets on first-time recognition and reviewed their classification as at the end of each reporting period.

On first-time recognition, financial instruments were measured at fair value plus transaction costs, if appropriate. Amortised cost using the effective interest method was used for the subsequent measurement of loans and receivables.

Available-for-sale financial assets are non-derivative financial assets that are categorised as available for sale. In the Group these included the other equity investments.

After first-time measurement, financial assets held for sale were measured at fair value. The fair value was generally the market value or listed price. If there was no active market, the fair value was calculated using actuarial methods such as discounting the estimated future cash flows using the market interest rate or using recognised option pricing models, and then verified by confirmation from the banks that handle the transactions.

Unrealised gains or losses were recognised in other comprehensive income. If such a financial asset was derecognised or impaired, the amounts previously recognised in other comprehensive income were reclassified to profit or loss. Objective indications were taken into account to determine whether an impairment loss must be recognised. Such indications include, for instance, the economic environment, the legal situation, the durability and extent of losses in value, etc. If the fair value of an equity instrument could not be reliably determined, as in the above cases, they were measured at cost.

Because of the wide range of possible outcomes, measurement of the fair value did not result in increased benefit when making decisions. The Company was not planning to sell the investments.

Spot transactions with financial assets were recognised at the settlement date for the first time. Derivatives were accounted for at the trade date (date of purchase or sale).

The assets at fair value through profit and loss category included units held for trading in a capital appreciation fund that predominantly invests in interest-bearing securities, money market instruments and demand deposits.

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/expenses.

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 hedging transactions 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 at the present value of 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 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.

At Italiana Audion s.r.l., Milan, Italy, Francotyp-Postalia GmbH, Vienna, Austria, and Francotyp-Postalia France SAS, Nanterre, France, provisions are recognised for pension obligations that become due when employees leave the company, in line with the legal situation in the respective countries. The FP Group recognises these expenses in a similar way as those for defined benefit plans.

Contributions under defined contribution plans are expenses in the period in which the payments in question are rendered. Multi-employer plans that classify as defined benefit plans and for which, at the same time, there is not sufficient information on how to allocate the benefit obligations and plan assets to the FP Group, are treated as defined contribution plans.

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 partial early 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

Leases in which beneficial ownership is retained are operating leases. The leased assets are reported under non-current assets in property, plant and equipment, while the lease instalments are reported as revenue.

The leases for franking and inserting machines in which the German FP companies in particular and, to some extent, FP companies in the UK, Italy and the US are the lessor qualify as finance leases. Property, plant and equipment that is leased under finance leases is not recognised in the line item "Property, plant and equipment". It is reported under "Receivables from finance leases". The relevant requirements are met if the risks and rewards substantially lie with the lessee. Under a finance lease, a receivable is capitalised in the amount of the present value of the minimum lease payments at the inception of the lease. The lease instalments 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. For finance leases, the market interest rate is calculated by reference to similar leases.

Leases for franking and inserting machines at the other FP companies are predominantly classified as operating leases because economic ownership is retained.

Both new and used machinery is leased under finance leases.

Accounting for leases in which Francotyp-Postalia is the lessee

Economic ownership of the printers, photocopiers, franking, sorting and inserting machines used by the FP Group is partially assigned to the legal entities. They satisfy the conditions for a lessee under finance leases. The leased assets are reported under non-current assets as "Finance lease assets".

Some properties, motor vehicles and office equipment are used under operating leases.

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:

Leases

Leases are classified based on certain criteria that usually – individually or in combination – indicate a finance lease. However, these criteria are not conclusive and are more of an indicative nature.

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.

Key assumptions in the context of estimates and sources for estimation uncertainty include:

Impairment losses

The Group applies the simplified approach in accordance with IFRS 9 to measure expected credit losses; as a result of this, the credit losses expected over the term are used for all trade receivables and contract assets.

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 calculation of provisions for audit risks requires a great degree of management estimates due to the large number of legal provisions and tax audits, especially as a result of cross-border transactions.

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.

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 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.

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). 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. Detailed information on this can be found in "Reconciliation to segment information".

Information on products and services, and on geographical areas, can be found in the notes on revenue under Section III. 1. Francotyp-Postalia is not dependent on major customers as defined by IFRS 8.34.

SEGMENT INFORMATION 2018

	A	B	C	D		
in 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	0	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	–7,602	17,069
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	267	1,458
of which interest expense	1,907	492	330	1,014	–2,353	1,390
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	–19,820	1,253
Net tax income	–82	124	2,269	696	–3,363	–356
Profit transfer	–6,311	–37	0	0	6,348	0
Net income	7,010	1,362	13,179	–3,819	–16,835	896
Segment assets	133,762	65,066	119,653	119,281	–271,039	166,722
Investment	9,192	2,836	12,950	297	–4,299	20,976
Segment liabilities	122,595	38,478	65,205	60,552	–153,418	133,412

SEGMENT INFORMATION 2017

in EUR thousand	Production (A)	Sales Germany (B)	International Sales (C)	Central Functions (D)	Group reconciliation	**Total**
Revenue	88,089	117,962	88,810	2,462	–90,981	206,343
with third parties	4,908	113,254	88,663	0	–482	206,343
inter/intra-segment revenue	83,181	4,707	148	2,462	–90,499	0
EBITDA	11,024	4,500	20,549	–8,195	–1,563	26,316
Amortisation, depreciation and write-downs	1,637	2,235	15,787	276	–875	19,060
Net interest income	–1,496	–377	1,666	162	263	217
of which interest expense	1,791	403	304	1,562	–2,150	1,909
of which interest income	295	26	1,970	1,724	–1,887	2,126
Other financial result	3,772	2,198	4	8,592	–14,969	–403
Consolidated earnings before taxes and profit transfer	11,664	4,086	6,432	282	–15,394	7,071
Net tax income	–113	–903	–106	–2,576	–1,276	–2,422
Profit transfer	–8,296	–46	0	0	8,342	0
Net income	3,255	3,137	6,326	–2,294	–5,775	4,649
Segment assets	124,828	66,452	112,795	121,128	–255,428	169,776
Investment	5,270	2,421	11,142	335	–3,696	15,473
Segment liabilities	120,671	39,413	70,378	56,448	–150,092	136,818

in EUR thousand	Production	Sales Germany	International Sales	Central Functions	Group reconciliation	**Total**
2018	A	B	C	D		
Utilisation of the provision for restructuring	0	0	0	0	0	0
Income from the reversal of provisions	62	1,071	0	685	–1,818	0
2017	A	B	C	D		
Utilisation of the provision for restructuring	0	0	0	0	0	0
Income from the reversal of provisions	232	1,382	0	539	–2,154	0

in EUR thousand	**2018**	2017
Revenue from segments A-C	301,473	294,861
Revenues from Central Functions segment	2,817	2,462
Effects of finance lease adjustment	–311	–482
Effect from adjustment IFRS 15	–88	0
Effect from other revenue corrections	278	0
	304,169	296,842
Less inter-segment revenues	99,964	90,499
Revenues according to financial statements	204,206	**206,343**

ASSETS BY REGION 2018

in EUR thousand	**31.12. 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	30,237		
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	166,722		

ASSETS BY REGION 2017

in EUR thousand	**31.12. 2017**	Current	Non-current
Germany	197,953	81,917	116,036
USA and Canada	48,926	25,954	22,962
Europe (not including Germany)	178,325	60,355	117,970
Other regions	0	0	0
	425,204		
Effects of IFRS remeasurement	31,957		
Effects of write-downs on customer relationships	–240		
Effects of write-downs on internally generated software	0		
Effects at consolidation level (including elimination of intragroup balances)	–287,145		
Assets according to financial statements	169,776		

The FP Group generates revenue from transactions with a very broad customer base. The share of revenue generated with each third-party customer or group of companies that are considered to be a single third-party customer is less than 10% of the revenue of the FP Group.

III. Notes to the consolidated statement of comprehensive income

(1) Revenue

The effect of the first-time application of IFRS 15 on revenue from contracts with customers is described in Note I.5. Due to the transitional methods applied for IFRS 15, the comparative information was not restated.

	Production		Sales Germany		Sales International		Total	
in EUR thousand	01.01.–31.12.2018	01.01.–31.12.2017	01.01.–31.12.2018	01.01.–31.12.2017	01.01.–31.12.2018	01.01.–31.12.2017	01.01.–31.12.2018	01.01.–31.12.2017
Franking	1,389	2,657	9,761	7,883	16,072	18,133	27,222	28,673
Inserting	523	432	2,842	3,167	3,754	3,844	7,118	7,443
Other	609	488	244	323	426	442	1,279	1,253
Service/ customer service	48	218	8,400	8,515	14,728	13,802	23,177	22,535
Consumables	1,268	1,106	7,037	6,854	14,821	14,573	23,127	22,533
Teleporto	0	0	6,644	6,650	2,503	2,586	9,147	9,235
Mail Services	0	0	61,784	65,724	0	0	61,784	65,724
Software	384	7	14,619	13,232	4	0	15,007	13,239
Revenue acc, to IFRS 15	**4,221**	**4,908**	**111,331**	**112,347**	**52,308**	**53,380**	**167,860**	**170,636**
Revenue acc, to IAS 17	**0**	**0**	**336**	**162**	**36,009**	**35,545**	**36,346**	**35,707**
Revenue total	**4,221**	**4,908**	**111,667**	**112,509**	**88,317**	**88,926**	**204,206**	**206,343**

The revenues presented in the income statement include both revenues from contracts with customers and other revenues that are not within the scope of IFRS 15.

There are deviations from the segment reporting in Section II. Revenues from IFRS adjustments shown in the reconciliation column are allocated to the corresponding product group and segment in the above breakdown.

The following table provides information on receivables and contractual liabilities from contracts with customers.

in EUR thousand	Notes	31. December 2018	1. January 2018
Receivables included in trade accounts receivable	15	19,921	20,483
Contract liabilities		–4.691	–5.141

The contractual liabilities mainly relate to service contracts, which are realized pro rata temporis over a period of 12 months. The amount of the contractual liability reported at the beginning of January 1, 2018 was released to income in the amount of EUR 5,141 thousand in fiscal year 2018.

Revenue is measured on the basis of the consideration (transaction price) specified in a contract with a customer. The FP Group recognizes revenue when it transfers control of the product or service to a customer. The latter is mainly the case when the product leaves the respective FP premises and is delivered to the customer. At this point, the invoices are issued. Invoices are generally payable within 30 days. No discounts are granted for FP standard products.

A warranty provision is formed for the obligation to replace defective products within the framework of the warranty conditions.

In accordance with the table above, the FP Group not only recognises revenue in accordance with IFRS 15 but also in accordance with IAS 17 from the leasing of FP products. The corresponding rental agreements partly contain several other service components in addition to the rental, such as the sale of consumables, teleporto, etc. to the customer. In these cases, the transaction price is allocated to the performance obligations on the basis of the relative individual sale prices or these are estimated on the basis of the expected costs plus margin.

The FP Group does not assume the existence of customer contracts, which are shown in accordance with IFRS 15, where the period between the transfer of control to the customer and payment by the customer exceeds one year. Accordingly, there is no adjustment for the fair value of the money.

(2) Own work capitalised

in EUR thousand	2018	2017
Capitalised development costs	7,493	5,139
Rental machinery	6,206	5,474
Other	375	226
Total	**14,074**	**10,839**

Of the capitalized development EUR 2,475 thousand related to PostBase 3.0, EUR 1,152 thousand to Discover FP and EUR 844 thousand to Next Generation PSD.

In the previous year, EUR 934 thousand related to the FP Portal, EUR 552 thousand to next generation meter PostBase Phase I, EUR 466 thousand to SBI-Stabile operation of postal infrastructure and EUR 1,342 thousand to the development of additional national variants (including PostBase Mini and PostBase ONE).

Work performed by the enterprise and capitalised for rental machinery and finance lease assets relates to internally generated leased products. The finance lease assets are refinanced.

The “Other” item contains software development in connection with the licenses acquired for Navision and in connection with mapping tools for IFRS 15 and IFRS 16.

In the previous year, the item essentially included franking machines sold to and used by VS GmbH and freesort GmbH (EUR 104 thousand) and software developments of EUR 122 thousand.

(3) Other income

in EUR thousand	2018	2017
Derecognition of liabilities	688	2,784
Prior-period income	639	170
Income from extending finance leases	n.a.	249
Usage fees	220	394
Book gains from the sale of non-current assets	41	43
Impairment losses on receivables	n.a.	17
Damages	60	11
Commission income	45	33
Bonus credit	28	0
Cost subsidies and grants	7	882
Other income	159	191
Total	**1,887**	**4,774**

The derecognition of liabilities of EUR 688 thousand (previous year: EUR 2,784 thousand) essentially relates to expired liabilities, EUR 680 thousand (previous year: EUR 2,756 thousand) of which are teleporto obligations. In the previous year, cost subsidies and grants included state subsidies of EUR 857 thousand (joint scheme for improving regional economic structures) for investments in connection with the establishment of FP Holding’s head office in Berlin. This income was recognised on the basis of the award dated 23 June 2014. It is linked to the creation of 193 permanent jobs and eligible investments in non-current assets. This item also includes subsidies for the employment of disabled persons of EUR 7 thousand (previous year: EUR 4 thousand).

Income relating to other periods of EUR 626 thousand (previous year: EUR 170 thousand) result primarily from part-performance discounts and credit notes.

As a result of the introduction of IFRS 15, income from the extension of finance lease contracts is recognised in other income.

As a result of the introduction of IFRS 15, income in respect to allowances for receivables is recognised in its own position of the statement of comprehensive income in the 2018 financial year.

(4) Cost of materials

in EUR thousand	2018	2017
Expenses for raw materials, consumables and supplies	34,929	35,218
Cost of purchased services	56,116	67,662
of which postage fees	56,116	57,758
Total	**101,641**	**102,880**

(5) Staff costs

in EUR thousand	2018	2017
Wages and salaries	55,593	50,406
Social security contributions	7,922	7,795
of which defined contribution plans (Germany)	2,432	2,318
of which defined contribution plans (non-Germany)	702	499
Expenses for pensions and other benefits	1,216	1,024
of which defined benefit plans	279	309
Total	**64,731**	**59,225**

Expenses for pensions and other benefits include defined contribution plans involving several employers. As the pension funds in question cannot provide sufficient information on the pension obligations and plan assets for the Group's subsidiary, these plans are treated as defined contribution plans. All employers in the industry are required to participate in this type of pension for their employees. The pension commitment to employees is fully funded by plan assets of the joint plan. To ensure financing, the contributions payable are determined by the pension institution. The contributions are based on employees' pay. Contributions of a similar amount are expected in 2019. According to the insurance provider, as in the previous year, the pension plans have surplus assets at the end of 2018.

Staff costs also includes EUR 4,351 thousand for restructuring measures.

(6) Other expenses

in EUR thousand	2018	2017
Professional fees, consulting	5,302	4,331
Rents / leases	5,380	5,282
Sales commission	3,706	3,657
Marketing	3,577	3,209
Packaging and freight	2,679	2,524
Repairs and maintenance	2,520	2,372
Staff-related costs	2,467	2,548
Travel expenses	1,749	1,811
Messaging and postage	1,615	1,473
Purchased IT services	1,263	1,446
Motor vehicle costs	639	535
Prior-period expenses	582	306
Additions to other provisions	0	185
Other	4,921	4,379
Total	**36,400**	**34,058**

Major changes in the fiscal year 2018 impacted professional fees and consulting. The increase results from higher consulting costs in connection with the ACT project JUMP.

As a result of the introduction of IFRS 9, expenses on allowance for receivables are recognised in its own position of the statement of comprehensive income in the 2018 financial year.

(7) Cost subsidies and grants

In fiscal year 2018, cost subsidies from state subsidies were received in connection with the "StudIES+" project as reduction of the subsidised expenses (net reporting). There are no unfulfilled conditions or other contingencies. The grant was previously recognised on the basis of the existing agreement with the "Innovation and Networks Executive Agency (INEA)" and the project progress.

(8) Financial result

in EUR thousand	2018	2017
Other interest receivable and similar income	2,848	2,126
of which from finance leases	1,958	1,565
of which from bank balances	47	33
of which from third parties	844	528
Interest and similar expenses	1,390	1,909
of which from bank liabilities	926	911
of which interest on the net liability for pension obligations	241	243
of which from finance leases	25	43
Other	198	713
Net interest income	1,458	217
Other financial income	1,106	855
Other finance costs	1,045	1,258
Total	**1,519**	**–186**

As in the previous year, other financial income and other finance costs essentially result from foreign currency translation. It also includes expenses and income from the development of foreign exchange hedges (realised income of EUR 115 thousand and EUR 210 thousand expenses from the fair value measurement of foreign exchange swaps) of EUR 95 thousand (previous year: expenses of EUR 294 thousand). This development is due primarily to exchange rate effects affecting the measurement of statement of financial position items at the reporting date.

It also includes the effect of EUR 67 thousand relating to the disposals of the subsidiaries FP Data Center Inc., Osaka, Japan, and Nippon Postalia-Francotyp Co. Ltd, Tokyo, Japan.

(9) Taxes

in EUR thousand	2018	2017
Current tax expense	**2,013**	**1,870**
of which prior-period	–403	–394
Deferred tax expenses	**–1,597**	**551**
of which occurrence and reversal of temporary differences	1,597	50
of which utilisation of loss and interest carryforwards and capitalisation of new loss carryforwards	–3,283	612
of which due to change in tax rates	29	–112
Income taxes	**356**	**2,421**

The German Group tax audit for the years 2009 to 2012 was concluded in November 2017. In 2018, the changed assessment notices were received. An appeal has been lodged 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.

Despite the appeal proceedings, the resulting back payments, for which provisions had been established as of 31 December 2017, were made in 2018.

There have not yet been any audit findings from the German Group tax audit for the years 2013-2015 which started in 2018.

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 30.56% (previous year: 28.43% to 30.18%).

Country-specific tax rates of 19% to 29.58% (previous year: 20.00% to 38.35%) were calculated for the foreign companies. The tax rate adjustments result in a difference of deferred taxes of EUR -765 thousand.

in EUR thousand	2018	2017
Consolidated net income before taxes	**1,254**	**7,071**
Forecast tax expense (30.18%)	378	2.134
Tax rate differences	–793	–561
Tax effect of non-deductible expenses and tax-free income	330	553
Current and deferred income tax for previous years	158	106
Change in recognition/non-recognition of deferred taxes assets on loss carry-forwards and deductible temporary differences	263	39
Other deviations	20	151
Income taxes	**356**	**2,421**
Tax expense in %	**28.4**	**34.2**

(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, the share capital was increased by EUR 86,100 and Contingent Capital 2010/I utilised (see Note 16. 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. 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. In total, up to 475,000 shares were to be acquired for a maximum total price of EUR 3 million.

47,325 shares were acquired in the reporting year. As at 31 December 2018, Francotyp-Postalia Holding AG held 397,393 shares.

	2018	2017
Ordinary shares outstanding as at 1 January	15,950,288	16,215,356
Effect of treasury shares	-46,225	-351,168
Shares issued current year	0	86,100
Weighted average ordinary shares (basic) as at 31 December	**15,904,295**	**16,249,218**
Effect of issued stock options	90,472	217,210
Weighted average ordinary shares (diluted) as at 31 December	15,994,767	16,466,428
Consolidated net income (shareholders of FP Holding)	896	4,649
Basic result (in EUR/share)	**0.06**	**0.29**
Diluted result (in EUR/share)	**0.06**	**0.28**

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 in 2018 fiscal year contain the following matters:

As a result of acquiring the PostageInk.com LLC business, there was an addition of EUR 15 thousand in other intangible assets.

Business combinations in fiscal year 2018

TIXI.Com GmbH & Co. KG

On 1 June 2018, FP InovoLabs GmbH acquired the operations of TIXI.Com GmbH & Co. KG. The operations acquired have a strong market position in the area of IoT gateways focussing on smart metering/energy management. The acquisition opens up new market opportunities for the FP Group. Cost savings are also possible through economies of scale and synergy effects.

The acquisition-date fair values of each major class of consideration are shown below:

in EUR thousand	
Cash	1,283
Contingent consideration	100
Total consideration transferred	**1,383**

The FP Group is required to pay the sellers an additional purchase prices of EUR 100 thousand if a specific employment contract is achieved for at least one year and if the revenue of the sold business is at least EUR 2 million for the 2018 fiscal year (with revenue under 80% of the target, no payment is made; with revenue between 80% and 100%, pro rata). The purchase price component is to be calculated on 30 June 2019, and any payment made by 15 July 2019.

The amounts of the acquired assets and the acquired liabilities at the acquisition date are summarised below.

in EUR thousand	
Property, plant and equipment	76
Customer lists	230
Intangible assets (expertise)	135
Inventories	282
Personnel liabilities	–18
Warranty provisions	–5
Total identifiable acquired net assets	**700**

Property, plant and equipment are measured at replacement costs. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and commercial obsolescence.

The customer lists and other intangible assets are measured using the residual value method. The residual value method takes into account the cash value of the anticipated net cash flow generated by the customer relations, with the exception of all cash flows that are linked to supporting assets. Until a complete independent measurement, fair values are measured on a provisional basis.

Inventories are measured using the market comparison method. The fair value is calculated on the basis of the estimated sales price in the ordinary course of business less estimated completion and sales costs plus an appropriate profit margin relating to the efforts necessary to compete and sell the inventories.

If new information is obtained within a year of the acquisition date about facts and circumstances that existed as of the acquisition date and would have resulted in a correction of the above amounts or additional provisions, the recognition of those assets and liabilities as of that date, accounting for the company acquisition is restated.

Goodwill resulting from the acquisition are summarised as follows:

in EUR thousand	
Consideration transferred	1,383
Fair value of acquired net assets	700
Goodwill	**683**

Goodwill results from the strong market position of TIXI.Com GmbH & Co.KG and its high profitability in the area of offering IoT gateways with a focus on smart metering/energy management and synergies expected as a result of acquiring the business. It is assigned to the InnovoLabs cash-generating unit in the Production segment.

No material costs were incurred in the context of the business combination, as it was only ongoing business operations which were acquired.

Between 1 July and 31 December 2018, the business acquired contributed revenue of EUR 377 thousand and a loss of EUR 826 thousand to Group earnings. If the acquisition had taken place on 1 January 2018, according to estimates of the Management Board, Group revenue would have increased by EUR 679 thousand and Group profits lowered by EUR 173 thousand. In calculating these amounts, the Management Board made the assumption that the provisionally calculated adjustments of the fair values made at the acquisition date would also have applied in the case of an acquisition on 1 January 2018.

PostageInk.com

On 1 August 2018, Francotyp-Postalia Inc. acquired the operations of PostageInk.com LLC. As part of its ACT growth strategy, with this acquisition of the online dealer for franking machines, FP strengthened its sales activities in the US, expanding its customer base and accelerating growth in market share.

The acquisition-date fair values of each major class of consideration are shown below:

in USD thousand	
Cash	1,900
Retained cash	100
Payment of adjustment amount - acquired inventories	284
Earnout payment	150
Total consideration transferred	**2,434**

The FP Group is entitled to retain USD 100 thousand until all receivables and obligations of the business have been settled. The amount thus becomes due for payment twelve months after the acquisition date.

The earnout payment is composed as follows:

– USD 10 thousand if specific supplier agreements are concluded within one year after acquisition. The Management Board considers the probability of this occurring as 100%.
– USD 50 thousand if revenue targets for a period of twelve months after acquisition are met. On the basis of a probability assessment, the conditional payment amount is estimated at USD 50 thousand.
– USD 90 thousand if profit margin targets for a period of twelve months after acquisition are met. On the basis of a probability assessment, the conditional payment amount is estimated at USD 90 thousand.

The amounts of the acquired assets and the acquired liabilities at the acquisition date are summarised below.

in USD thousand	
Property, plant and equipment	10
Customer lists	575
Intangible assets (domain)	15
Inventories	379
Total identifiable acquired net assets	**979**

Property, plant and equipment are measured at replacement costs. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and commercial obsolescence.

The customer lists and other intangible assets are measured using the residual value method. The residual value method takes into account the cash value of the anticipated net cash flow generated by the customer relations, with the exception of all cash flows that are linked to supporting assets. Until a complete independent measurement, fair values are measured on a provisional basis.

Inventories are measured using the market comparison method. The fair value is calculated on the basis of the estimated sales price in the ordinary course of business less estimated completion and sales costs plus an appropriate profit margin relating to the efforts necessary to compete and sell the inventories.

If new information is obtained within a year of the acquisition date about facts and circumstances that existed as of the acquisition date and would have resulted in a correction of the above amounts or additional provisions, the recognition of those assets and liabilities as of that date, accounting for the company acquisition is restated.

Goodwill resulting from the acquisition are summarised as follows:

in USD thousand	
Consideration transferred	2,434
Fair value of acquired net assets	979
Goodwill	**1,455**

Goodwill (EUR 1,271 thousand) is the result of the expanded customer basis and the market share gains in North America and the synergies expected in the sale of franking machines as a result of acquiring the business. It is assigned to the Francotyp-Postalia Inc. cash-generating unit in the International Sales segment.

No material costs were incurred in the context of the business combination, as it was only ongoing business operations which were acquired.

Between 1 August and 31 December 2018, the business acquired contributed revenue of EUR 491 thousand and EUR 64 thousand to Group earnings. If the acquisition had taken place on 1 January 2018, according to estimates of the Management Board, Group revenue would have increased by EUR 688 thousand and Group profits lowered by EUR 90 thousand. In calculating these amounts, the Management Board made the assumption that the provisionally calculated adjustments of the fair values made at the acquisition date would also have applied in the case of an acquisition on 1 January 2018.

Customer lists

As at 30 September 2018, the customer relationships in Sweden and Germany were reviewed using the residual value method in accordance with IAS 36 and no impairment was identified. For customer relationships in Sweden, using a WACC of 6.58% a recoverable amount of EUR 3,319 thousand was determined (previous year: EUR 3,820 thousand). No triggering event was identified before 31 December 2018, so there was no impairment as at 31 December 2018. For customer relationships in Germany, using a WACC of 6.36% a recoverable amount of EUR 17,548 thousand was determined as at 30 September 2018. No triggering event was identified before 31 December 2018, so there was no impairment as at 31 December 2018.

For the customer base in the United Kingdom acquired in the previous year, using a WACC of 7.27% a recoverable amount of EUR 8,824 thousand was identified as at 30 September 2018. The customer list in Canada also acquired in the previous year was measured at EUR 4,059 thousand as at 30 September 2018 using a WACC of 6.57%. As there was no triggering event in the period up to 31 December 2018, there was no impairment on the two customer lists as at 31 December 2018.

In respect to the customer lists acquired in the fiscal year, no impairment was evident at the time of the impairment test on 30 September 2018.

Goodwill

Goodwill of EUR 10,448 thousand (previous year: EUR 8,494 thousand) breaks down as EUR 5,851 thousand (previous year, EUR 5,851 thousand) to the freesort cash-generating unit and EUR 2,643 thousand (previous year: EUR 2,643 thousand) to the IAB cash-generating unit and is allocated to the Sales Germany segment. From the purchase price allocation, there were additions to goodwill of EUR 683 thousand for the operations of TIXI.Com GmbH & Co. KG (cash generating unit InovoLabs in the Production segment) and of USD 1,455 thousand for PostageInk.com (cash-generating unit Francotyp-Postalia Inc. in the International Sales segment).

The cumulative impairment losses for the reported goodwill amounts to EUR 12,500 thousand for freesort (previous year: EUR 12,500 thousand) and EUR 1,275 thousand for IAB (previous year: EUR 1,275 thousand).

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% [3]	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
3) The fluctuation of the planned EBIT was also assumed in the reporting year in the detailed planning phase.

2017

	freesort	IAB
Recoverable amount CGU	17,652	25,854
Carrying amount	15,477	6,093
Difference	2,175	19,761
Impairment	0	0
Threshold figure EBIT [1]	86.4%	2.2%
EBITDA margin trend	Slightly increasing	Increasing
Growth rate perpetual maturity	1.0%	2.0%
Basic assumptions		
Revenue growth range	2.5–2.9%	2.3–14.3%
Gross margins [2]	1.8–3.7%	6.9–10.7%
Discount rate (WACC)	7.03%	7.03%
Discount rate before taxes	9.55%	8.98%

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. For the major CGU freesort, these assumptions primarily include the expected letter mail volumes, the planned statutory increase in letter postage for Germany and the expected gross profit margins, which affect the EBIT of the CGU freesort.

The following picture (ceteris paribus) shows a sensitization of the key calculation parameters for both CGU´s:

30.09.2018

	freesort		IAB	
Discount rate	6.99 %	7.49 %	6.99 %	7.49 %
Impairment	–	–	–	–
Fluctuation in planned EBIT	100 %	90 %	100 %	90 %
Impairment	–	–1,328[1]	–	–
Growth rate	1.0 %	0.0 %	2.0 %	0.0 %
Impairment	–	–	–	–

1) Fluctuations in freesort's planned EBIT were also assumed during the detailed planning phase in the year under review.

In respect to the goodwill acquired in the fiscal year, no impairment was evident at the time of the impairment test on 30 September 2018.

Research and development costs

	2018	2017
Research and development costs	9,669	9,129
of which expenses	2,176	3,990
of which capitalised	7,493	5,139

In the reporting year, EUR 89 thousand (previous year: EUR 51 thousand) borrowing costs were capitalised. An average capitalisation rate of 1.65% (previous year: 1.74%) was applied.

On intangible assets in development, write-downs of EUR 36 thousand were recognised in the fiscal year.

Due to the planned introduction of a new CRM system in the 2019 fiscal year, the remaining useful life of the existing CRM system was reduced appropriately. For fiscal year 2018, this resulted in an additional write-down of EUR 58 thousand.

(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). The additions in 2018 fiscal year contain the following matters:

- As a result of acquiring the TIXI.Com GmbH & Co. KG business, there was an addition for property, plant and equipment of EUR 76 thousand.
- As a result of acquiring the PostageInk.com LLC business, there was an addition of EUR 10 thousand for property, plant and equipment.

The FP Group finances property, plant and equipment (sorting and franking machines, printers and leased assets) partially on the basis of finance leases.

Capitalised own work of EUR 14,074 thousand (previous year: EUR 10,840 thousand) was recognised in manufacturing costs under property, plant and equipment in the reporting period.

(13) Finance lease receivables

31.12.2018

in 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 SARL	1,502	428	1,074	0
of which FP Inc., Illinois, USA	156	63	93	0
of which FP Canada	254	0	254	0

31.12.2017

in EUR thousand	Total	Remaining term		
		Up to 1 year	1–5 years	More than 5 years
Future minimum lease payments	19,226	5,719	11,991	1,516
Finance charges	3,955	1,682	1,977	295
Receivables from finance leases (present value)	**15,271**	**4,037**	**10,014**	**1,221**
of which FP Vertrieb und Service GmbH	451	342	288	0
of which Francotyp-Postalia Ltd.	11,185	2,591	7,393	1,201
of which Italiana Audion s.r.l.	1,920	639	1,262	19
of which FP France SARL	1,078	282	796	0
of which FP Inc., Illinois, USA	156	57	149	0
of which FP Canada	252	126	126	0

There are no non-guaranteed residual values for the benefit of the lessor as at the end of the reporting period. In accordance with IAS 17.7, the value of gross investments is therefore equal to the stated future lease payments of EUR 22,127 thousand (previous year: EUR 19,226 thousand). After deducting finance charges of EUR 3,940 thousand (previous year: EUR 3,955 thousand), this results in net investments of EUR 18,187 thousand (previous year: EUR 15,271 thousand), which, as the difference between gross and net investment, is equal to the unearned finance income. There were no allowances for uncollectible minimum lease payments receivable or contingent rents recognised as income as at the end of the reporting period (nor in the previous year).

31.12.2018

in EUR thousand	Total	Remaining term		
		Up to 1 year	1–5 years	More than 5 years
Future minimum lease payments under non-cancellable operating leases	60,465	28,203	32,224	38

31.12.2017

in EUR thousand	Total	Remaining term		
		Up to 1 year	1–5 years	More than 5 years
Future minimum lease payments under non-cancellable operating leases	54,851	25,889	28,898	64

(14) Inventories

in EUR thousand	31.12. 2018	31.12.2017
Raw materials, consumables and supplies	4,560	3,892
Work in progress	769	747
Finished goods and goods for resale	5,864	5,994
Total	**11,194**	**10,633**

Impairment losses on inventories amount to EUR 2,014 thousand (previous year: EUR 2,029 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 34,929 thousand (previous year: EUR 35,218 thousand) in the consolidated statement of comprehensive income.

(15) Trade receivables

in EUR thousand- gross	31.12. 2018	31.12.2017
Trade receivables – Germany	7,442	8,121
Trade receivables – abroad	12,479	12,362
Total trade receivables	**19,921**	**20,483**

A net amount of EUR 18,951 thousand (previous year: EUR 18,684 thousand) was reported under trade receivables as at 31 December 2018.

IMPAIRMENT LOSSES

in EUR thousand	
As at 1 January 2017	**1,843**
Foreign currency effects	–104
Charge for the year (impairment loss)	2,081
Utilised	2,016
Unused amounts reversed	4
As at 31 December 2017	**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**

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. If there is a default on finance lease receivables, the FP Group is returned the leased machines. The market price 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 2018 / 1 January 2018 and represent the relevant historical default rates in this period. The historical default rates are adjusted to map current and forward-looking information on macroeconomic 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 of 31 December 2018 is calculated as follows:

in EUR thousand	Total	Due Immediately	Due < 30 days	Due 30–60 days	Due 30–60 days	Due > 90 days
31 December 2018						
Gross carrying amount–trade receivables	19,921	2,729	7,338	9,440	345	69
Impairment–rating not impaired	177	5	17	155	0	0
Impairment–rating impaired	793	108	292	376	14	3

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.

Approach until 31 December 2017

In the previous year, the impairment on trade receivables was estimated using the incurred loss model. Individual receivables which are uncollectible are written down on the basis of directly reducing the carrying amount. The other receivables were assessed on a portfolio basis as to whether there was objective evidence that impairment had been incurred but had not yet been identified. For these receivables the estimated impairment was recognised in a separate impairment account. The Group determined that there was objective evidence for impairment if one of the following indicators was present:

- significant financial difficulty of the debtor
- an enhanced probability that the debtor will enter bankruptcy or be subject to other financial reorganisation proceedings, and
- default or delinquency in payments (more than 30 days past due).

Receivables for which an impairment is recognised are written down against the impairment account if no further realisation of additional cash is anticipated.

Factoring

By way of factoring, one Group company transferred for consideration trade receivables to HypoVereinsbank AG allowing the Group to generate liquidity more quickly. In the factoring process, HypoVereinsbank AG bears the risk of default of the debtor for the receivables it buys (del credere risk). The FP Group undertakes to collect the payments of the debtor by way of cashless payments through accounts named by the bank. In addition to the receivables sold, the FP Group ceded all claims from the

(i) agreements underlying the receivables with the debtors, in particular the collection or return of goods supplied and
(ii) from possible insurance in respect to the ceded receivables and transferred goods

With the sale of the receivables no material rights and obligations remain at the FP Group. For this reason the relevant receivables are derecognised.

On the other hand, as at 31 December 2018, the Group received cash and cash equivalents at the level of the carrying amount of the derecognised receivables (EUR 2,071 thousand; previous year: EUR 1,000 thousand).

The bank receives forfeiting interest in return for buying the receivables and a forfeiting fee in return for assuming the del credere risk. In 2018, the two cost elements resulted in an expense of EUR 21 thousand (previous year: EUR 11 thousand). In addition, the FP Group undertook to reimburse to the bank all court, legal and own costs that the bank incurs should debtors justifiably dispute their payment obligation. No costs in this connection were incurred.

Vis-à-vis the bank, the seller of the receivables assumes liability for all damage and detriment that could occur if assigning the bought receivables should prove to be ineffective or if third parties should assert rights to the receivables bought.

(16) Other current assets

in EUR thousand	31.12.2018	31.12.2017
Deferred payments	5,008	4,870
Creditors with debit balances	2,812	4,303
Receivables from other taxes	2,302	1,742
Miscellaneous financial assets	2,377	2,356
Total	**12,500**	**13,271**

The deferred payments are essentially prepayments to dealers of Francotyp-Postalia Inc., Addison, Illinois, USA, for the conclusion of long-term customer agreements.

Receivables from other taxes relate primarily to VAT prepayments in Germany of EUR 2,239 thousand (previous year: EUR 1,671 thousand).

Miscellaneous financial assets relate primarily to prepayments of EUR 618 thousand (previous year: EUR 959 thousand), franchise fees EUR 450 thousand (previous year: EUR 610), deposits EUR 382 thousand (previous year: EUR 300 thousand) and receivables from trading partners of EUR 28 thousand (previous year: EUR 30 thousand).

Refer to Note I.5. for information on the effect of the change in accounting policy as a result of the adoption of IFRS 9 in respect to the classification of financial assets and Note I.9. for information on the other relevant parts of accounting policy.

As of 31 December 2018, receivables with a carrying amount of EUR 261 thousand were provided as collateral for liabilities (see also note IV.23).

(17) Cash and cash equivalents

in EUR thousand	31.12.2018	31.12.2017
Bank balances	29,941	33,436
Checks and cash on hand	294	798
Total	**30,235**	**34,234**

EUR 9,754 thousand (previous year: EUR 10,820 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. 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. In total, up to 475,000 shares were to be acquired for a maximum total price of EUR 3 million.

47,325 shares were acquired in the reporting year. As at 31 December 2018, Francotyp-Postalia Holding AG held 397,393 treasury shares.

The development in the number of shares outstanding can be seen in the following reconciliation:

	Number of shares outstanding
Number of shares (31.12.2015)	16,160,000
Capital increase (Contingent Capital 2010/I)	55,356
As at 31.12.2016	**16,215,356**
Number of shares (31.12.2016)	16,215,356
Buyback of treasury shares	-351,168
Capital increase (Contingent Capital 2010/I)	86,100
As at 31.12.2017	**15,950,288**
Number of shares (31.12.2017)	15,950,288
Buyback of treasury shares	-47,325
Settlement of stock options with treasury shares	1,100
As at 31.12.2018	**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 31.12.2018		**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.

31.12.2016

Date of grant	Number of instru-ments (EUR k)	Contractual term of the option after award date	Securitisa-tion	Premium at award
01.09.2010	900,000	10 years	No	None
27.04.2012	75,000	10 years	No	None
07.09.2012	20,000	10 years	No	None
06.12.2014	57,500	10 years	No	None
11.06.2014	30,000	10 years	No	None
31.08.2015	465,000	10 years	No	None
25.11.2015	40,000	10 years	No	None
31.08.2016	180,000	10 years	No	None

Of the stock options from the 2015 plan allocated in 2016,180,000 stock options are attributed to an active member 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. If EBITDA (IFRS) in one or both of the sets of 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	
		01.09.2010	27.04.2012	07.09.2012	06.12.2013	11.06.2014	31.08.2015	25.11.2015	31.08.2016
31.12.2018									
One option	EUR	1.37	1.31	1.17	1.85	1.82	1.07	1.07	1.07
All options	in EUR thousand	335	39	0	106	0	433	43	193
31.12.2017									
One option	EUR	1.37	1.31	1.17	1.85	1.82	1.07	1.07	1.07
All options	in EUR thousand	336	39	0	106	0	460	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 4.39	EUR 3.90
Expected exercise date		31.08.2015	26.04.2017	06.09.2017	05.12.2018	10.06.2019	30.08.2020	24.11.2020	30.08.2022
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		741,439	52,031	16,476	39,646	19,596	302,426	26,015	65,888
Estimated annual employee turnover		3.5%	3.5%	3.5%	7.7%	7.7%	7.8%	7.8%	7.5%
Probability of an EBITDA increase 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 Francotyp-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 accord-ance with item 4.2.3 of the German Corporate Governance Code. This will be agreed in a supplementary agreement to Management 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 hypothetical zero bonds were derived from the current yields of coupon bonds of the Federal Republic of Germany.

Options	SOP 2010 Number	SOP 2010 Average exercise price in EUR	SOP 2015 Number	SOP 2015 Average exercise price in EUR
As at 31.12.2016	**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 31.12.2017	**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 31.12.2017		42 Monate		96 Monate
Exercisable as at 31.12.2017	333,100	2.74	0	n/a
As at 31.12.2017	**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 31.12.2018	**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 31.12.2018		27 Monate		84 Monate
Exercisable as at 31.12.2018	302,000	2.63	0	n/a

As at 31 December 2018, EUR 110 thousand (previous year: EUR 139 thousand) resulting from the 2010 and 2015 stock option plans was recognised under staff costs with an offsetting entry in equity (stock option reserve).

Other comprehensive income
Translation differences from monetary items that are part of a net investment in a foreign operation relate to non-current loans to FP Sweden and FP Canada.

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 -66 thousand (previous year: EUR -37 thousand) is recognised in other comprehensive income in accordance with IAS 21.32 f.

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 -19 thousand is recognised in other comprehensive income in accordance with IAS 21.32 f.

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 recognized in other comprehensive income and amounts to EUR -70 thousand as of December 31, 2018 (previous year: EUR 77 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. 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 and amounts to EUR -126 thousand as of December 31, 2018.

Distribution of a dividend
In 2018, there was a dividend distribution of EUR 1,908,355.56. 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	31.12.2018
Issued capital	15,904,063.01
Net retained profits	37,801,996.46
Shareholders' equity	5,022,697.36
Equity	58,728,756.82
./. Issued capital	–15,904,063.01
./. Capital reserves	–37,801,996.46
./. Distribution restriction as per section 268(8) and section 253(6) HGB	–867,793.97
Distribution potential	**4,154,903.39**

(19) Provisions for pensions and similar obligations

There are defined benefit pension plans for employees' occupational pensions.

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. 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 of the Group's 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. A further defined benefit pension plan is based on individual agreements and provides for entitlements to pensions, disability and survivors' benefits.

A further defined benefit pension plan is based on individual agreements and provides for entitlements to pensions, disability and survivors' benefits. The defined pension amounts are paid, at the discretion of the FP Group, in a lump sum, in three or five annual instalments or as a life-time annuity with annual increases in benefits. A fixed monthly payment has also been agreed for disability and survivors' benefits. The pension plan is funded in part by insurance policies.

In particular, there are actuarial risks such as longevity risk or interest rate risks in connection 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:

in % per year	31.12.2018	31.12.2017
Interest rate	1.60	1.51
Salary trend	3.00	3.00
Pension trend	2.00	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.

in EUR thousand	Defined benefit obligation		Fair value of plan assets		Net pension liability	
	2018	2017	**2018**	2017	**2018**	2017
As at 1.1. of the reporting period	16,528	**17,053**	0	**1**	16,528	**17,054**
In profit or loss						
Current service cost	151	213	–	–	151	213
Interest expense (+) / income (–)	241	243	0	0	241	243
In other comprehensive income						
Remeasurement						
Actuarial gains and losses						
from changes in biometric assumptions	152	–	–	–	152	–
from changes in financial assumptions	–190	–208	–	–	–190	–208
due to experience adjustments	15	–105	–	–	15	105
Expenses on plan assets (not including above interest income)	–	–	–	0	–	0
Other						
Employer contributions to pension plan	–	–	–	–	–	–
Payments from pension plan	–672	–669	–	1	–672	–668
As at 31.12. of the reporting period	16,225	**16,528**	–	**0**	16,225	**16,528**

The plan assets which substantiate the benefit obligation was paid out to the beneficiary in a lump sum.

DEFINED BENEFIT OBLIGATION

in percent	**31.12. 2018**	31.12.2017
Active beneficiaries	19.1	20.0
Beneficiaries who have left the company	24.7	24.6
Retired employees	56.2	55.4

All pension commitments are vested.

The weighted average term of pension commitments is 14.3 years as at 31 December 2018 (previous year: 14.7 years).

MATURITY OF THE UNDISCOUNTED PENSION OBLIGATIONS

in EUR thousand	**31.12. 2018**	31.12.2017
Up to 1 year	647	634
1 – 5 years	3,009	2,791
6 – 10 years	3,649	3,845
More than 10 years	13,729	14,166
Total	21,034	**21,437**

EFFECT ON DEFINED BENEFIT OBLIGATIONS AS AT 31.12.2018

in EUR thousand	Anstieg	Rückgang
Interest rate (change of 1.00%)	–2,004	2,511
Salary trend (change of 0.50%)	80	–75
Pension trend (change of 0.25%)	504	–482
Life expectancies (change of 1 year)	645	–552

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 2018 separately.

(20) Tax receivables and liabilities

TAX RECEIVABLES

in EUR thousand	**31.12. 2018**	31.12.2017
Deferred tax assets	1,382	1,386
Current tax liabilities	2,446	2,446
Tax assets (non-current)	3,828	**3,832**
Receivables (current; other intangible assets)	157	**5,813**
Tax assets (total)	3,985	**9,645**

TAX LIABILITIES

in EUR thousand	**31.12. 2018**	31.12.2017
Deferred tax liabilities (non-current)	223	1,576
Tax liabilities (current)	3,261	5,091
Tax liabilities	3,484	**6,667**

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:

in EUR thousand	Net as at 31.12. 2017	Recognised in the income statement	Recognised in other comprehensive income	Recognized directly in equity	Other	**Net as at 31.12. 2018**	Deferred tax assets	Deferred tax liabilities
Intangible assets	–5,823	–2,430				–8,253	2,564	–10,817
Property, plant and equipment	890	–424				466	1,533	–1,067
Receivables and other assets	–980	1,016		–220	–179	–364	393	–757
Other items	67	–842				–776	0	–776
Provisions	3,009	–445	124			2,688	112	2,578
Liabilities	–152	1,499		–31		1,315	3,282	–1,966
Tax loss carryforwards	2,799	3,383				6,082	6,082	0
Total	**–191**	**1,657**	**124**	**–251**	**–179**	**1,159**	**13,966**	**–12,807**
Tax offset			0	0			–12,583	12,583
Group carrying amount						**0**	**1,382**	**–233**

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 1,822 thousand (previous year: EUR 1,745 thousand) and deductible temporary differences of EUR 444 thousand (previous year: EUR 326 thousand). The deferred taxes not capitalised are based on loss carryforwards of EUR 6,861 thousand (previous year: EUR 5,690 thousand). These tax loss carryforwards relate particularly to subsidiaries in France and Italy.

As at the reporting date there were deferred tax liabilities from outside basis differences of EUR 129 thousand (previous year: EUR 23 thousand) which were not recognised as the conditions in accordance with IAS 12.39 exist.

In 2018, the remaining agreements from the mutual tax agreement procedures in accordance with the Double Taxation Agreement and the EU Arbitration Convention to avoid double taxation due to transfer price adjustments from the German tax audit for the years 2005 to 2008 were successfully implemented. The current tax receivable of EUR 4,952 thousand recognised for this as of 31 December 2017 was realised with a slight surplus. To avoid the double taxation due to the transfer pricing adjustment in Germany in the German Group tax audit for the years 2009-2012, Francotyp-Postalia is aiming to achieve corresponding mutual agreement procedures in the countries impacted if the pending unilateral appeals against the transfer pricing correction are unsuccessful.

The claim to reimbursement results from the remedy of the unilateral appeal (and thus a withdrawal of the correction by Germany) or a subsequent international mutual agreement was recognised with a non-current tax receivable of EUR 2,446 thousand.

(21) Other provisions (current) and provisions (non-current)

in TEUR	**As at 01.01. 2018**	Currency differences	Reclassification	Charge for the year	Utilisation	Unused amounts reversed	**As at 31.12. 2018**	of which non-current	of which current
Staff provisions	5,502	54	78	5,352	–3,663	–532	6,791	1,335	5,456
Restructuring	250	0	0	4,351	–15	–235	4,351	0	4,351
Warranties	293	0	0	174	–223	–4	240	0	240
Invention royalties	229	0	0	225	–202	–18	234	0	234
Litigation costs	372	11	0	175	–79	–249	230	0	230
License costs	135	0	0	0	0	0	135	0	135
Discounts and rebates	0	0	0	125	0	0	125	0	125
Anticipated losses	372	0	0	6	–14	–358	6	0	6
Miscellaneous provisions	1,951	1	–78	614	–1,150	–144	1,194	34	1,660
(Other) provisions	**9,104**	**66**	**0**	**11,022**	**–5,346**	**–1,540**	**13,306**	**1,369**	**11,937**

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.

During 2018, the FP Group resolved on a restructuring plan in connection with the ACT project JUMP. The employees impacted and the employee representatives in Germany, Austria and the Netherlands were informed of the plan. After the plan was announced, the FP Group recognised a provision of EUR 4,351 thousand for anticipated restructuring costs, include 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. Estimated costs are based on the terms 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. Restructuring measures were initiated in the first quarter of 2019. Provided that there are no unforeseen delays, full utilisation is expected by 31 December 2019.

In the previous year, provisions for onerous contracts related primarily to contracts of Mentana-Claimsoft GmbH De-Mail customers. Due to the renegotiated contracts, the reversal was reversed in fiscal year 2018.

Miscellaneous provisions include risks for audits of EUR 1,147 thousand, EUR 113 thousand for the remuneration of supervisory bodies, EUR 226 thousand for outstanding invoices.

The obligations under semi-retirement plans (EUR 357 thousand; previous year: EUR 359 thousand) are based on the following key actuarial assumptions:

in % per year	**31.12. 2018**	31.12.2017
Interest rate	–0.23	–0.34
Salary trend	3.00	3.00

The anniversary provisions (EUR 212 thousand; previous year: EUR 225 thousand) are based on the following key actuarial assumptions:

in % per year	**31.12. 2018**	31.12.2017
Interest rate	1.6	1.42/1.51
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. Please also see section IV, Note 27.

Provisions for warranties were recognised for products sold on the basis of past experience.

The income from the reversal of provisions of EUR 1,540 thousand (previous year: EUR 2,155 thousand) essentially relates to provisions for bonuses and severance payments of EUR 767 thousand, provisions for onerous contracts of EUR 358 thousand and provisions for litigation costs of EUR 249 thousand.

	31.12.2018			31.12.2017		
in EUR thousand	Total	Remaining term < 1 year	Remaining term > 1 Jahr ≤ 5 years	Gesamt	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years
Staff provisions	6,791	5,456	1,335	5,502	4,475	1,027
Restructuring	4,351	4,351	0	250	250	0
Warranties	240	240	0	293	293	0
Invention royalties	233	233	0	229	229	0
License costs	135	135	0	135	135	0
Discounts and rebates	125	125	0	0	0	0
Litigation costs	230	230	0	372	372	0
Anticipated losses	6	6	0	372	372	0
Miscellaneous provisions	1,194	1,160	34	1,921	1,839	112
(Other) provisions	**13,306**	**11,937**	**1,369**	**9,104**	**7,965**	**1,139**

(22) Liabilities

	31.12.2018			31.12.2017		
in EUR thousand	Total	Remaining term < 1 year	Remaining term > 1 Jahr ≤ 5 years	Gesamt	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years
Liabilities to banks	38,805	9	38,796	42,847	180	42,667
Finance lease liabilities	471	179	292	704	232	471
Liabilities to non-consolidated associates	6	6	0	0	0	0
Financial liabilities	**39,282**	**193**	**39,089**	**43,551**	**412**	**43,138**
Trade payables	**13,969**	**13,969**	**0**	**11,210**	**11,210**	**0**
Other liabilities						
from taxes	1,287	1,287	0	1,361	1,361	0
for social security contributions	344	344	0	286	286	0
from teleporto	24,081	24,081	0	27,281	27,281	0
to employees	1,762	1,762	0	1,698	1,698	0
from derivatives	2,606	2,606	0	2,215	2,215	0
from deferral accounts	11,978	11,978	0	12,157	12,157	0
Miscellaneous liabilities	5,089	5,060	28	4,759	4,689	70
Other liabilities	**47,146**	**47,118**	**28**	**49,757**	**49,688**	**70**
Total	**100,397**	**61,280**	**39,117**	**104,518**	**61,312**	**43,207**

Liabilities to banks relate to a syndicate of banks and primarily comprise loans to finance the purchase price paid for the FP Group in 2005. In fiscal year 2018, the loan was modified. As at 31 December 2018, the loans amounted to EUR 38,796 thousand (previous year: EUR 42,667 thousand; please see the comments on the syndicated loan agreement in the notes under IV.23.4. Liquidity risks.

In accordance with the syndicated loan agreement in place on 31 December 2018, 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 2016 do not result in any contractual payment obligations in 2018. Accordingly, the liabilities are reported with a remaining term of more than one year.

As in the previous year, no deposits were paid in connection with leases. Interest expenses of EUR 25 thousand (previous year: EUR 43 thousand) related to leases.

Teleporto liabilities relate to customer funds held in trust.

The liabilities from deferred accounts of EUR 11,978 thousand (previous year: EUR 12,157 thousand) include contractual liabilities of EUR 4,691 thousand in accordance with IFRS 15. The remaining amount is mainly attributable to revenue from finance leases deferred from incoming payments.

The contractual liabilities mainly relate to service contracts, which are realized over a period of 12 months. The amount of the contractual liability reported at the beginning of January 1, 2018 was released in the amount of EUR 5,141 thousand in fiscal year 2018.

(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.

The effect of the first-time application of IFRS 9 on the consolidated financial statements is described in Note I.5. Due to the selected transitional method, the comparative amounts have not been restated.

Classes of financial instruments

FINANCIAL ASSETS AND LIABILITIES

in EUR thousand	31.12. 2018	31.12.2017
Financial liabilities at amortised cost		
Trade receivables	18,951	18,684
Other financial assets	5,189	6,812
Cash and cash equivalents	30,235	34,234
Financial assets at fair value through profit or loss		
Securities	671	676
Not assigned to a measurement category		
Asset derivatives with a hedging relationship	19	110
Finance lease receivables	18,187	15,692
Financial liabilities at amortised cost		
Liabilities to banks	39,805	42,847
Trade payables	13,969	11,210
Other financial liabilities	29,170	31,970
Not assigned to a measurement category		
Liabilities derivatives with a hedging relationship	181	0
Finance lease liabilities	471	703
Financial liabilities at fair value through profit or loss		
Liability derivatives with negative time values without a hedging relationship	2,425	2,215

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 receivables and other receivables as well as trade payable 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 31.12.2018	Fair value 31.12.2017	Measurement method	Significant unobservable inputs	Hierarchy
Financial assets at fair value through profit or loss					
Securities	671	676	Quoted market price	Not applicable	Level 1
Asset derivatives	19	110	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					
Liability derivatives	2,606	2,215	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 reported securities with a fair value of EUR 671 thousand (previous year: EUR 676 thousand) are units held for trading in a capital appreciation fund that predominantly invests in interest-bearing securities, money market instruments and demand deposits. The reported securities have no fixed maturity and no fixed interest rate.

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.

Translation risks:

Income from translation differences and hedges of EUR 1,106 thousand (previous year: EUR 885 thousand) and expenses of EUR 1,045 thousand (previous year: EUR 1,258 thousand) were recognised in net finance costs in the reporting year.

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. Intragroup 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

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2018			
GBP	+5%	654	–138
	–5%	–635	125
2017			
GBP	+5%	695	–175
	–5%	–629	159

DERIVATIVE FINANCIAL INSTRUMENTS

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2018			
USD	+5%	0	–642
	–5%	0	580
2017			
USD	+5%	0	–397
	–5%	0	360

NET RISK POSITION

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2018			
GBP	+5%	0	0
	–5%	0	0
2017			
GBP	+5%	158	0
	–5%	–143	0

NET RISK POSITION

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2018			
USD	+5%	441	0
	–5%	–399	0
2017			
USD	+5%	271	0
	–5%	–245	0

NET RISK POSITION

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2018			
CAD	+5%	135	0
	–5%	–122	0
2017			
CAD	+5%	140	0
	–5%	–127	0

NET RISK POSITION

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2018			
SEK	+5%	77	0
	–5%	–70	0
2017			
SEK	+5%	75	0
	–5%	–68	0

NET INVESTMENTS

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2018			
SEK	+5%	0	104
	–5%	0	–94
2017			
SEK	+5%	0	108
	–5%	0	–98

NET INVESTMENTS

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2018			
CAD	+5%	0	37
	–5%	0	–33
2017			
CAD	+5%	0	0
	–5%	0	0

The Group used foreign exchange forward transactions 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.

Since adopting IFRS 9, the FP Group has recognised all changes (including the forward element as hedging costs) of the fair value of foreign exchange future contracts in equity. The adoption of IFRS 9 did not result in a retroactive reclassification of foreign exchange future contracts.

In accordance with IAS 39, the FP Group designated the total change of fair value for foreign exchange future contracts as part of the cash flow hedge. The ineffective part of changes of fair value of derivatives was recognised in the income statement before 1 January 2018.

Since applying IFRS, 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 2018, taking account of the provisions of IFRS 9.

Overview of Relationships Hedge Accounting IFRS as of 31.12.2018:

Currency	Total expected cash flow in foreign currency	Hedged volume in foreign currency (31.12.2018)	Average hedged price	Type of hedge	Carrying amount as at 31 Dec. 2018	Effectiveness test/effective part (OCI) spot element	Effectiveness test/ ineffective part (OCI)	Undesignated part of the hedge, forward element
					Other current assets/ liabilities	OCI – Hedge Accounting Reserve	Income statement	OCI – hedging costs
USD	24,000,000	14,400,000	1.18 EUR/USD	DTG/Cash flow hedge	–181,104.24	–6,587	–	–174,517
GBP	2,400,000	2,400,000	0.897 EUR/GBP	DTG/Cash flow hedge	18,935.21	26,136	–	–7,201

Overview of Relationships Hedge Accounting IFRS as of 31.12.2017:

Currency	Total expected cash flow in foreign currency	Hedged volume in foreign currency (31.12.2018)	Average hedged price	Type of hedge	Carrying amount as at 31 Dec. 2018	Effectiveness test/effective part (OCI) spot element	Effectiveness test/ ineffective part (OCI)	Undesignated part of the hedge, forward element
					Other current assets/ liabilities	OCI – Hedge Accounting Reserve	Income statement	OCI – hedging costs
USD	15,443,000	9,267,000	1.1984 EUR/USD	DTG/Cash flow hedge	93,224.80	93,210	15	–
GBP	5,650,000	2,985,000	0.88739 EUR/GBP	DTG/Cash flow hedge	16,830.52	16,831	–	–

in EUR thousand	Reserve from cash flow hedges	Reserve from hedging transactions
As at 31.12.2016	**–**	**–249,000**
Change in the time value of the hedging transactions	–	110,055
OCI recycling	–	356,631
Deferred tax	–	–140,845
As at 31.12.2017	**–**	**76,841**
Change in the time value of the hedging transactions	–181,718	–151,663
OCI recycling	–	–57.731
Deferred tax	54,843	63,195
As at 31.12.2018	**–126,875**	**– 69,358**

The FP Group is anticipating cash flows in US dollars of USD 24,000 thousand in 2019 from the operating activities of its US subsidiary. As at 10 August 2018, twelve foreign exchange forwards with a fixed maturity in the amount of USD 14,400 thousand were concluded.

The FP Group is anticipating cash flows in GBP of GBP 2,400 thousand in 2019 from the operating activities of its subsidiary in the United Kingdom. As at 20 September 2018, twelve foreign exchange forwards with a fixed maturity in the amount of GBP 2,400 thousand were concluded.

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	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

Taking into account the currency hedges concluded as at 31 December 2017, 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	5,650	2,985	2,665
USD thousand	15,443	9,267	6,176
CAD thousand	4,000	0	4,000
SEK thousand	14,000	0	14,000

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 31.12.2018**
GBP thousand	12,000	Currency swap	–2,425

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 2018.

The loan agreement concluded in 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 TEUR	Change in percentage points	Effect on consolidated net income before taxes in EUR thousand	Effect on equity before taxes in EUR thousand
2018	+1%	305	0
	–1%	0	0
2017	+1%	–289	0
	–1%	0	0

3. Risk of default

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.

Trade receivables and contract assets

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.

In the reporting year, the Group concluded a factoring transaction for short-term trade receivables of EUR 2,071 thousand with a commercial bank which is one of its key banks. Both the resulting counterparty risk and the debtor default were monitored on an ongoing basis.

For other financial assets (such as cash and cash equivalents, financial instruments measured at amortised cost and derivative financial instruments), the maximum risk of default is the respective reported carrying amount.

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.

These agreements do not fulfil the criteria for offsetting transactions in the financial statements. This is the case because Francotyp Postalia has no lawful means of offsetting these transactions in a normal situation. Offsetting is legally possible only in the case of a future event such as a default on liabilities or something similar:

The following table shows the carrying amounts of the recognised financial instruments subject to such an agreement as at 31 December 2018:

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 following table shows the carrying amounts of the recognised financial instruments subject to such an agreement as at 31 December 2017:

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	110	–78	32
Derivative financial instruments with negative fair values	2,215	–78	2,137

4. Liquidity risks

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 further 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).

In addition to the liquidity management instruments stated above, the FP Group is constantly monitoring financing opportunities as they arise on the financial markets. The central aim is to ensure the Group's financial flexibility and to limit financial risks.

To finance itself, the FP Group uses primarily cash flow from operating activities, along with existing or adjusted loan agreements with financial institutions and finance leases of less than one year.

In fiscal year 2018, with a strong, international syndicate of banks, the FP Group concluded a significantly extended syndicated loan agreement at improved terms and conditions for an amount of EUR 150,000 thousand, with an option to increase the volume by a further EUR 50,000 thousand. As at 31 December 2018, the FP Group had unutilised credit facilities of EUR 109,045 thousand. The agreement has a duration of five years to 27 September 2023, plus two one-year extension options.

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

$$\text{Leverage} = \frac{\text{Total net debt}}{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}} \leq 3{,}0\times$$

$$\text{Interest Cover} = \frac{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}}{\text{Net interest income (adjusted for IAS 23 Borrowing Costs)}} \geq 5{,}0\times$$

Additional key new elements of the financing documents on the basis of the British Loan Market Association (LMA) is the option of utilising part of the loan facility in foreign currency. Furthermore, the new loan agreement also creates financing security for acquisitions. In the future, the FP Group has entrepreneurial headroom to enter into additional financial obligations. Furthermore, the conditions were improved in comparison to the previous financing facility (margin plus reference interest rate and commitment fee). As a result of the new syndicated loan agreement, the FP Group overall has achieved a considerable improvement in financial stability and flexibility.

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

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.

Among other things the following table shows the cash flows resulting from the syndicated loan agreement, including estimated interest payments and payments from derivative financial instruments with negative fair value. In addition to the stated loans of EUR 38,796 thousand (previous year: EUR 42,667 thousand), there were other liabilities to banks of EUR 9 thousand (previous year: EUR 180 thousand) payments from associated derivatives.

CARRYING AMOUNT AS AT 31.12.2018

in TEUR		Expected 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	0	0	0	0
Finance lease liabilities	−471	−179	−186	−100	−6	0
Other financial liabilities	−29,170	−29,152	−28		0	0
Incoming payment from derivatives transactions		28,294	0	0	0	0
Outgoing payment from derivatives transactions		−30,842	0	0	0	0

CARRYING AMOUNT AS AT 31.12.2017

in TEUR		Cash flows				
		2018	2019	2020	2021	2022
Loans	−42,667	0	−1,546	−8,958	−32,185	0
Trade payables	−11,210	−11,210	0	0	0	0
Finance lease liabilities	−704	−233	−179	−186	−100	−6
Other financial liabilities	−31.970	−31.970	0		0	0
Incoming payment from derivatives transactions		13,525	0	0	0	0
Outgoing payment from derivatives transactions		−15,583	0	0	0	0

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

NET RESULT (in EUR thousand)

IAS 39	IFRS 9	2018	2017
Held-for-trading financial instruments	Financial assets at fair value through profit or loss [1]	−156	−65
Available-for-sale financial assets	Financial assets at fair value through other comprehensive income	0	0
Loans and receivables	Financial liabilities at amortised cost [2]	61	-761
Financial liabilities at amortised cost	Financial liabilities at amortised cost [3]	-351	2,546

1) Composed 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. In comparison to the previous year, treasury shares are no longer included in cash and cash equivalents.

NET DEBT

in EUR thousand	31.12. 2018	31.12.2017
Liabilities to banks	38,805	42,847
Finance lease liabilities	471	702
Other	6	0
Liabilities	**39,282**	**43,549**
Cash and cash equivalents	−30,236	−34,234
Securities	−671	−676
Postage Credit Balance	9,754	10,820
Shareholders' equity	**21,153**	**−24,089**
Net debt	**18,129**	**19,460**
Shareholders' equity	33,311	32,959
Net debt ratio	**54%**	**59%**

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.

In the 2018 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

in EUR thousand	31.12. 2018	31.12.2017
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 40,954 thousand as at 31 December 2018 (31 December 2017: EUR 44,668 thousand). This amount also includes sureties.

Collateral received has a fair value of EUR 1,156 thousand (previous year: EUR 1,108 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 31.12.2018

in 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 financial obligations	4,656	3,360	1,151	145

NOMINAL VALUES OF FINANCIAL OBLIGATIONS AS AT 31.12.2017

in EUR thousand	Total	< 1 year	1–5 years	> 5 years
Other contractual obligations	45,924	27,360	17,573	991
of which from operating leases	12,371	4,465	7,280	626
of which from purchase commitments	26,576	19,499	7,077	0
of which from miscellaneous other financial obligations	6,977	3,396	3,216	365

Owing to the impracticable separability of expenses of EUR 682 thousand (previous year: EUR 1,070 thousand), future minimum lease payments under operating leases also include leases that comprise a service component in addition to the lease expense. EUR 266 thousand (previous year: EUR 299 thousand) of this relates to short-term obligations and EUR 416 thousand (previous year: EUR 772 thousand) to medium-term obligations.

There are contractual obligations (purchase commitments) for the acquisition of property, plant and equipment of EUR 203 thousand (previous year: EUR 73 thousand), the acquisition of intangible assets of EUR 813 thousand (previous year: EUR 173 thousand) and other purchases of EUR 25,569 thousand (previous year: EUR 26,654 thousand).

Lease payments of EUR 5,641 thousand (previous year: EUR 5,640 thousand) are recognised in profit or loss in the year under review. Lease expenses for the current year include incidental rental costs.

(26) Other disclosures on finance leases

NOMINAL FIGURES

in EUR thousand	Future lease payments 2018	Future lease payments 2017	Interest payments 2018	Interest payments 2017	Present value of future minimum lease payments 2018	Present value of future minimum lease payments 2017
Less than one year	193	253	14	21	179	232
Between one and five years	302	495	10	24	292	471
Finance lease liabilities	**495**	**748**	**24**	**45**	**471**	**703**

Most of the terms of the leases run for up to 75% of the useful life. After the basic term, there is usually the option to renew the lease or to acquire the assets for a pre-determined amount.

in EUR thousand	31.12. 2018	31.12.2017
Carrying amount of assets leased to third parties	0	559
Carrying amount of the leased assets	450	1,208
Future minimum payments from subleases	0	842

(27) Contingent assets and contingent liabilities

Contingent assets

In fiscal year 2017, irregularities in the internal recording and billing of letter volumes. 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. The FP Group found that it had suffered financial damage in the time-critical consolidation business as a result of breaches of duty by individuals 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 2019 or its medium-term goals.

Contingent liabilities

In the fiscal year, the contingent liabilities described in connection with the putative class action before the U.S. District Court for Eastern District of Missouri was concluded on the basis of a settlement agreement which resulted in a payment of USD 50 thousand. The provision for legal fees from 2017 of EUR 267 thousand was utilised or reversed.

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. On the basis of current information, FP assumes that there is an obligation to return payments and that there will be a future outflow of resources for consulting costs. In this context, the FP Group recognised provisions of EUR 176 thousand on the reporting date. The ongoing clarification of the matter could result in further 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

in EUR thousand	31.12. 2018	31.12.2017
Cash and cash equivalents	30,235	34,234
plus securities	671	676
less restricted cash and cash equivalents ("postage credit held")	–9,754	–10,820
Cash and cash equivalents	**21,152**	**24,090**

Cash flow from financing activities developed as follows in fiscal year 2018:

in EUR thousand	31.12. 2017	Cash	Non-cash: Exchange rate changes	Non-cash: Change in fair value	31.12. 2018
Liabilities to banks	42,847	–4,042	0	0	38,805
Finance lease	704	–233	0	0	471
Cash flow from financing activities	**43,551**	**–4,275**	**0**	**0**	**39,276**

Employees

AVERAGE NUMBER OF EMPLOYEES BY COUNTRY

	2018	2017
Germany	643	642
United States	135	130
UK	92	100
The Netherlands	45	48
Canada	46	43
Italy	28	29
Sweden	24	25
Austria	19	17
France	21	20
Belgium	5	6
Total	**1,058**	**1,059**

AVERAGE NUMBER OF EMPLOYEES BY SEGMENT

	2018	2017
Sales Germany	402	428
International Sales	415	417
Production	201	171
Central Functions	40	43
Total	**1,058**	**1,059**

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)	11 January 2016	December 2019	– Strategic Business Development – HR / Legal / Compliance – Finance / Accounting / Controlling / Taxes – Corporate Communications / Investor Relations / Press – Corporate Governance / Risk & Compliance / QM / Internal Audit – Mergers & Acquisitions
Patricius de Gruyter Business graduate	June 2018	May 2021	– Sales Strategy /Sales Transformation – Business Development – Marketing Center of Excellence – Service Center of Excellence – Digital Solutions business area (freesort, IAB, Mentana-Claimsoft) – Hybrid Business business area
Sven Meise Business management graduate (BA)	February 2015	December 2021	– Information Technology – Research and Development – Production / Procurement / Quality – Facility Management – Shared Service Center North America / Europe
Thomas Grethe Bankkaufmann und Betriebswirt	June 2013	June 2018	– (Strategische Geschäftsentwicklung) – Interne Revision – Business Development/Product Portfolio Management – Strategisches Marketing/Brand Management – Geschäftsfeld Frankieren/Kuvertieren (Vertrieb Deutschland/International/Produktmanagement)

In the reporting year, 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. 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:

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 Capital S.à r.l., Grevenmacher, Luxembourg – Managing Partner of Mercury Capital Unternehmensberatungs-GmbH, Vienna, Austria – Managing Director, R3 Beteiligungen GmbH, Vienna, Austria – Managing Director, R3 Capital GmbH, Vienna, Austria – Director, White Elephant HoldCo S.à r.l., Grevenmacher, Luxembourg – Director, White Elephant S.à r.l., Grevenmacher, Luxembourg – Director, White Hills Management SCOSA, Grevenmacher, Luxembourg – Managing Partner, AOC Technology S.A.S., Grevenmacher, Luxembourg – Managing Partner, AOC Value S.A.S., Grevenmacher, Luxembourg	– Chairman of the Management Board, exceet Group SE, Luxembourg, Luxembourg – Member of the Management Board, Agfa-Gevaert NV, Mortsel, Belgium
Robert Feldmeier (member of the Supervisory Board since 28 July 2012; Deputy Chairman since 27 June 2013)	– 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)	– 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

Shareholder structure (Additional disclosures in accordance with German Commercial Code (HGB))

In fiscal year 2018, 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:

Reason of notification	10.04.2018	18.05.2018	22.05.2018	22.08.2018	23.08.2018
Reason of notification	Share sale	Share sale	Share purchase	Share sale	Share purchase
Shareholder/reporter	Rudolf W. Heil	Internationale Kapitalanlagegesellschaft mbH	Magallanes Value Investors S.A. SGIIC	Internationale Kapitalanlagegesellschaft mbH	Obotritia Capital KgaA
Date threshold reached	03.04.2018	15.05.2018	16.05.2018	20.08.2018	22.08.2018
Total share of voting rights					
Old	3.03%	10.16%	n/a	9.41%	n/a
New	2.50%	9.41%	3.26%	3.80%	3.926%
Voting rights (sections 33, 34 WpHG)	407,001	1,533,905	531,456	620,000	640,000

Publication date	29.08.2018	28.08.2018	19.12.2018	21.12.2018
Reason of notification	Share sale	Share purchase	Share sale	Share purchase
Shareholder/reporter	Internationale Kapitalanlagegesellschaft mbH	Obotritia Capital KgaA	Quaero Capital Funds (LUX) SICAV	Universal-Investment-Gesellschaft mbH
Date threshold reached	23.08.2018	27.08.2018	22.11.2018	19.12.2018
Total share of voting rights				
Old	3.80%	3.926%	5.91%	n/a
New	2.88%	6.6037%	4.92%	3.25%
Voting rights (sections 33, 34 WpHG)	468,619	1,076,500	801,708	530,176

There are also the following important voting rights.

Publication date	15.12.2017	15.12.2017	17.10.2017	17.10.2017	21.02.2017	18.01.2016	03.04.2014	03.04.2014
Reason of notification	Share purchase	Share purchase	Share purchase	Share purchase	Share sale	Share purchase	Share purchase	Share purchase
Shareholder/reporter	Baring Asset Management Limited	Baring Fund Managers Limited	Active Ownership Fund SICAV-FIS SCS/ Herr Klaus Röhrig	Active Ownership Fund SICAV-FIS SCS/ Herr Florian Schuhbauer	Alceda Fund Management S.A.	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf, Germany	Quaero Capital Funds (Lux), Luxembourg, Luxembourg	QUAERO CAPITAL SA, Geneva, Switzerland
Date threshold reached	11.12.2017	11.12.2017	12.10.2017	12.10.2017	17.02.2017	12.01.2016	01.04.2014	01.04.2014
Total share of voting rights	3.07%	3.07%	10.31 %*	9.51 %	2.98 %	10.16%	5.20%	5.20%
Voting rights (sections 33, 34 WpHG)	500,000	500,000	1,680,000	1,550,000	485,000	1,641,732	840,000	840,000

* thereof 9.51% Active Ownership Fund SICAV-FIS SCS

Publication date	29.05.2013	29.05.2013	21.08.2013	05.06.2013	03.09.2012
Reason of notification	Share purchase	Share purchase	Share purchase	Share purchase	Share purchase
Shareholder/reporter	Tom Hiss	Ludic GmbH Bad Oldesloe, Germany	Saltarax GmbH, Hamburg, Germany	Axel Sven Springer	Rudolf W. Heil
Date threshold reached	24.05.2013	24.05.2013	08.08.2013	03.06.2013	30.08.2012
Total share of voting rights	3.51%	3.51%	3.59%	3.13%	3.03%
Voting rights (sections 33, 34 WpHG)	566,882	566,882	580,706	505,988	490,000

In fiscal year 2018, 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		15.11.2018		28.11.2018		28.11.2018
Information on persons exercising management tasks		Sven Meise		Patricius de Gryter		Patricius de Gruyter
Reason for notification position		Member of the Management Board (CDO/COO)		Member of the Management Board (CSO)		Member of the Management Board (CSO)
Transaction type		Share purchase		Share purchase		Share purchase
Price/volume in EUR	Price in EUR	Volume	Price in EUR	Volume	Price in EUR	Volume
	3.96	7,440.84	3.94	3,940.00	3.89	3,890.00
	3.89	334.54				
	3.91	1,173.00				
	3.94	6,835.90				
Aggregate price/volume EUR	3.925	15,784.28	3.94	3,940.00	3.89	3,890.00
Date of transaction		15.11.2018		15.11.2018		16.11.2018
Place of transaction		XETRA		XBER		XBER

Publication date		19.11.2018		28.11.2018		28.11.2018		28.11.2018
Information on persons exercising management tasks		Sven Meise		Patricius de Gruyter		Patricius de Gruyter		Patricius de Gruyter
Reason for notification position		Member of the Management Board (CDO/COO)		Member of the Management Board (CSO)		Member of the Management Board (CSO)		Member of the Management Board (CSO)
Transaction type		Share purchase		Share purchase		Share purchase		Share purchase
Price/volume in EUR	Price in EUR	Volumen	Price in EUR	Volumen	Price in EUR	Volumen	Price in EUR	Volumen
	3.82	13,370.00	3.91	3,910.00	3.97	3,970.00	3.96	3,960.00
Aggregate price/volume EUR	3.82	13,370.00	3.91	3,910.00	3.97	3,970.00	3.96	3,960.00
Date of transaction		16.11.2018		19.11.2018		20.11.2018		27.11.2018
Place of transaction		XETRA		XBER		XETRA		XETRA

In fiscal year 2018, Francotyp-Postalia Holding AG did not publish any notifications on changes in voting rights in accordance with section 41 WpHG.

In fiscal year 2017, there were the following changes:

Publication date	04.01.2017	04.01.2017 Notification of correction	30.01.2017	28.02.2017	31.03.2017	30.06.2017
Capital measure	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)
As at/effective date	31.12.2016	31.12.2016	27.01.2017	28.02.2017	31.03.2017	30.06.2017
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 FP Data Center Inc., Japan;
- the non-consolidated subsidiary FP Systems India Private Limited, India;
- the non-consolidated subsidiary FP Direct Ltd., UK;
- Active Ownership Capital S.à r.l., Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- Mercury Capital Unternehmensberatungs-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 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);
- White Hills Management SCOSA, 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)
- exceet Group SE., 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
- Internet Business Solutions Nord UG (haftungsbeschränkt), Wentorf bei 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 bei Hamburg (through a member of the Supervisory Board);
- Internet Business Solutions AG, Boppelsen, Switzerland (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);

Revenue of EUR 2 thousand (previous year: EUR 2 thousand) was generated in the 2018 reporting year from related parties with a significant influence on the financial and operating policies of the FP Group in connection with the performance of maintenance work with FP Data Center Inc., Japan. The outstanding balance is EUR 0 thousand (previous year: EUR 0 thousand). In addition, members of the Management Board and the Supervisory Board received remuneration which is described in detail in the following section Total remuneration of the Management Board and the Supervisory Board". In addition, in the first half of 2018, Patricius de Gruyter received EUR 88 thousand for freelance consulting services. With the consultancy company of the wife of a managing director of a

Group company, Francotyp-Postalia Holding AG concluded a consultancy agreement on implementing human resources measures and defining job descriptions. The consultancy services provided totalled EUR 14 thousand in fiscal year 2018. As of the reporting date, there were liabilities of EUR 4 thousand. 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 Andreas Günter of EUR 180 thousand (previous year: EUR 180 thousand), Thomas Grethe of EUR 21 thousand (previous year: EUR 42 thousand), Sven Meise of EUR 91 thousand (previous year: EUR 42 thousand) and Patricius de Gruyter of EUR 88 thousand (previous year: EUR 0 thousand) the variable short-term remuneration in the amount of the probable achievement of goals were recognised in profit or loss in the 2018 annual financial statements.

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:

PATRICIUS DE GRUYTER (MEMBER OF THE MANAGEMENT BOARD FROM 1 JUNE 2018)

in EUR thousand		2018
Non-performance-based component	Fixed remuneration	181
	Additional benefits	10
	Total	191
Performance-based component		
without long-term incentive effect	Short-term variable remuneration:	64
with long-term incentive effect	Long-term variable remuneration:	
	Long-term bonus[1]	88
	Total	152
Pension cost		2
Total remuneration		345

1) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met. For fiscal year 2018 achievement of targets was scheduled with there being no further conditions to be met.

ANDREAS GÜNTHER (MEMBER OF THE MANAGEMENT BOARD FROM 10 JANUARY 2016)

in EUR thousand		2016	2017	2018
Non-performance-based component	Fixed remuneration	400	400	400
	Additional benefits	45	19	20
	Total	445	419	420
Performance-based component				
without long-term incentive effect	Short-term variable remuneration:	220	348	332
with long-term incentive effect	Long-term variable remuneration:			
	2015 stock option plan	141	0	0
	Long-term bonus[1]	180	0	0
	Total	541	348	332
Pension cost		19	20	20
Total remuneration		1,005	787	772

1) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met. EUR 180 thousand (previous year: EUR 180 thousand) was recognised in profit or loss in the 2018 annual financial statements as an addition to the provision in line with the probable achievement of goals.

THOMAS GRETHE (MANAGEMENT BOARD MEMBER FROM 15 JUNE 2013 TO 30 JUNE 2018)

in EUR thousand		2013	2014	2015	2016	2017	2018
Non-performance-based component	Fixed remuneration	119	200	230	293	265	152
	Additional benefits	6	12	10	16	20	11
	Total	125	212	240	309	285	163
Performance-based component							
without long-term incentive effect	Short-term variable remuneration:	20	36	–11	10	113	27
with long-term incentive effect	Long-term variable remuneration:						
	2015 stock option plan	0	0	54	0	0	0
	Long-term bonus[1]	0	0	0	38	0	21
	Total	20	36	43	48	113	48
Pension cost		2	21	21	21	22	12
Total remuneration		147	269	304	378	420	224

1) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met. EUR 0 thousand (previous year: EUR 42 thousand) was recognised in profit or loss in the 2018 annual financial statements as an addition to the provision in line with the probable achievement of goals.

SVEN MEISE (MANAGEMENT BOARD MEMBER FROM 1 FEBRUARY 2015)

in TEUR		2015	2016	2017	2018
Non-performance-based component	Fixed remuneration	183	233	265	310
	Additional benefits	18	26	26	25
	Total	201	259	291	335
Performance-based component					
without long-term incentive effect	Short-term variable remuneration:	24	42	117	197
with long-term incentive effect	Long-term variable remuneration:				
	2015 stock option plan	48	0	0	0
	Long-term bonus[1]	0	0	0	0
	Total	72	42	117	197
Pension cost		19	21	22	22
Total remuneration		292	322	430	555

1) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met. EUR 147 thousand (previous year: EUR 41 thousand) was recognised in profit or loss in the 2018 annual financial statements as an addition to provisions in line with the probable achievement of goals.

Of the share-based payment granted in fiscal years 2015 and 2016 from the 2015 stock option plan, EUR 243 thousand or 312,500 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 (2018: EUR 3 thousand; 2017: EUR 4 thousand).

EUR 1,129 thousand was recognised for pension obligations to former Management Board members of Francotyp-Postalia FP Holding as at 31 December 2018 (previous year: EUR 1,121 thousand). EUR 17 thousand (previous year: EUR 17 thousand) was added to provisions in the 2018 reporting year, EUR 0 thousand of which for service cost and EUR 17 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 2018 amounted to EUR 113 thousand (previous year: EUR 113 thousand). The total amount is divided into EUR 45 thousand for Klaus Röhrig, EUR 37.5 thousand for Robert Feldmeier and EUR 30 thousand for Botho Oppermann.

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) is 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
		01.03.2018
31.12.2018		
One option	EUR	0.63
All options	in EUR thousand	19
31.12.2017		
One option	EUR	0
All options	in EUR thousand	0
Price per FP share		EUR 4.53
Exercise price		EUR 4.98
Expected exercise date		01.03.2022
Forecast average holding period in years		4
Expected volatility		26.53%
Annual dividend yield		3%
Matched-term, risk-free interest rate		–0.14%
Expected number of exercisable stock options at award date		30.000
Estimated annual employee turnover		0%

Virtual options	Number	Average exercise price in EUR
Stand 31.12.2017	**0**	**0.00**
Granted in fiscal year	30,000	4.98
Forfeited in fiscal year	0	n/a
Exercised in fiscal year	0	n/a
Expired in fiscal year	0	n/a
Stand 31.12.2018	**30,000**	**4.98**
Range of exercise price in EUR		4.98–4.98
Average remaining term in months as at 31.12.2018		38
Exercisable as at 31.12.2018	0	n/a

As at 31 December 2018, EUR 4 thousand was recognised in staff costs with an offsetting 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 2018. The total fee charged for services by the auditor in the fiscal year is as follows:

in EUR thousand	2018	2017
Audits of financial statements	300	394
Tax advisory services	394	555
Other certification services	8	13
Other services	163	225
Total	**865**	**1,187**

Of the provisions recognised for audits of financial statements in the previous year of EUR 394 thousand, EUR 349 thousand was utilised in the reporting year, and the remainder was reversed to profit or loss.

Other certification services mainly comprise confirmations of the use of funds and financial covenants.

Other services mainly relate to non-accounting processes of the FP Group, including general legal and organizational consulting.

The figures calculated comprise only the legally independent entity of the appointed auditor.

Report on post-balance sheet date events

The Management Board will propose to the Supervisory Board and the 2019 Annual General Meeting that the net retained profits of EUR 5,022,697.36 be utilised as follows:

EUR	
Distribution of a dividend of EUR 0.03 per entitled share	477,121.89
Profit carryforward	4,545,575.47
Net retained profits	**5,022,697.36**

In the context of share buybacks, no treasury shares have yet been acquired in fiscal year 2019.

By means of an entry in the commercial register on 17 January 2019, by way of a capital increase FP InovoLabs GmbH acquired a 15% stake in Juconn GmbH. The purchase price of the share in the ordinary capital was EUR 4,903 thousand. Furthermore, a premium of EUR 1,000 thousand was paid in January 2019. A further premium of EUR 1,000 thousand is linked to attaining specifically agreed targets. This was recognised for the first time in fiscal year 2019 in line with the equity method in accordance with IAS 28.

In February 2019, within the context of the ACT project JUMP, the decision was made to establish a shared service centre for Europe in the Berlin area. For this reason, the new company FP Shares Services Europe GmbH with registered office in Hennigsdorf was founded in March 2019. The share capital amounted to EUR 25,000 and is held entirely by Francotyp-Postalia GmbH, Berlin. The entry into the commercial register was made on 13 March 2019.

Obotritia Capital KGaA acquired further voting rights (new: 10.2975 %, old: 6.6037 %) with threshold contact on January 14, 2019. Obotritia Capital KGaA thus holds 1,678,636 voting rights (§§ 33, 34 WpHG).

Corporate governance

The Management Board and the Supervisory Board of Francotyp-Postalia FP Holding 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/10ddeb51266oaf81).

Berlin, 22 March 2019

The Management Board of Francotyp-Postalia FP Holding

Rüdiger Andreas Günther
CEO

Patricius de Gruyter

Sven Meise


FP France


FP Italy


FP Canada


FP Germany


FP United States


FP Canada

Appendix 1
Changes in Intangible Assets and Property, Plant and Equipment between 1 January and 31 December 2017

	Cost or cost of manufacture						Amortisation, depreciation and write-downs						Book values	
in EUR thousand	C/F 01.01.2017	Currency differences	Other additions	Disposals	Reclassifications	**Status 31.12. 2017**	C/F 01.01.2016	Currency differences	Other additions	Disposals	Reclassifications	**Status 31.12. 2017**	01.01.2017	**31.12. 2017**
Intangible assets														
Internally generated intangible assets	49,702	0	517	0	3,950	54,169	32,941	0	5,226	0	0	38,167	16,761	16,002
Other intangible assets	91,895	−996	1,621	247	0	92,272	86,539	−933	1,337	246	0	86,697	5,355	5,575
Intangible assets including customer lists	141,596	−996	2,138	247	3,950	146,441	119,480	−933	6,563	246	0	124,864	22,116	21,577
Goodwill	22,922	−16	0	0	0	22,906	14,428	−16	0	0	0	14,412	8,494	8,494
Development projects in progress and advance payments	4,266	−1	4,759	0	−3,950	5,074	0	−0	0	0	0	−0	4,266	5,074
Total	168,785	−1,013	6,897	247	0	174,421	133,908	−950	6,563	246	0	139,275	34,876	35,146
Property, plant and equipment														
Land, land rights and buildings	4,097	−17	19	9	0	4,090	1,053	−12	265	0	0	1,306	3,044	2,784
Technical equipment and machinery	10,463	−16	679	733	475	10,868	5,734	−16	983	672	180	6,209	4,729	4,659
Other plant and operating and office machinery	31,850	−463	1,399	1,119	289	31,956	27,502	−414	1,658	1,096	32	27,682	4,348	4,274
Leased products	67,019	−8,681	5,713	4,171	3,394	63,274	43,212	−6,027	8,922	3,832	2,615	44.890	23,807	18,384
Finance lease assets	7,568	−912	355	755	−3,876	2,380	4,465	−658	670	478	−2,827	1,172	3,103	1,208
Advance payments and assets under construction	315	0	413	0	−282	446	0	0	0	0	0	0	315	446
Total	121,312	−10,089	8,578	6,787	0	113,014	81,966	−7,127	12,498	6,078	0	81,259	39,346	31,755
Non-current assets total	**290,097**	**−11,102**	**15,475**	**7,034**	**0**	**287,435**	**215,874**	**−8,077**	**19,061**	**6,324**	**0**	**220,534**	**74,222**	**66,901**

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 01.01.2017	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**

Independent auditor's report

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 2018, 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 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined group management report of Francotyp-Postalia Holding AG for the fiscal year from 1 January to 31 December 2018.

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 2018, and of its results of operations for the fiscal year from 1 January to 31 December 2018, 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.

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 (1) 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 2018. 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.

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 (11).

Risk for the financial statements

Goodwill equalled EUR 10.4 million as at the reporting date of 31 December 2018.

Goodwill is tested annually for impairment at the level of the respective cash-generating unit (CGU), with the significant CGUs in the Group being the freesort CGU at EUR 5.9 million and the IAB CGU at EUR 2.6 million, both of which are assigned to the Sales Germany segment.

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. Goodwill was tested for impairment as at 30 September 2018.

Impairment testing of goodwill is complex and based on a range of assumptions that require judgement. For the freesort CGU, this includes the expected mail volume, planned statutory letter postage increases for Germany, anticipated gross profit margins, assumed sustainable growth rates and the discount rate used.

The freesort CGU's economic situation did not develop as planned in fiscal year 2018. The legal representatives assess the medium-term budget planning for the freesort CGU as very ambitious but achievable. Planning assumptions made for 2019 such as the timing and conditions of the expected letter postage increase by Deutsche Post AG were still unknown when the consolidated financial statements were prepared, but were estimated by the Company to be highly probable and included in the budget planning.

Nonetheless, as a result of the impairment test conducted by Francotyp-Postalia Holding AG, no need to recognise an impairment loss was identified. There is a risk for the consolidated financial statements that impairment existing as at the reporting date was not identified. 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. for tax purposes, as well as 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 2018 in order to satisfy ourselves that the Company's forecast quality is still adequate.

Since changes to the discount rate can have a significant impact on the results of impairment testing, 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 for impairment testing, 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). The risk-based core focus of our analyses was on the freesort CGU, as its future economic prospects deteriorated significantly in the fiscal year under review.

Finally, we assessed whether the disclosures in the notes regarding impairment of goodwill were appropriate. This included an assessment of the appropriateness of disclosures relating to sensitivity.

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.

Restructuring of the FP Group

Please refer to Section III (21) in the notes to the consolidated financial statements for information on the accounting policies applied. Information on the restructuring measures can be found in the "Business performance of the FP Group" section of the group management report.

RISK FOR THE FINANCIAL STATEMENTS

In 2018, Francotyp-Postalia Holding AG initiated a Group-wide reorganisation and restructuring programme as part of the ACT JUMP strategy. In fiscal year 2018, Francotyp-Postalia FP Holding AG initiated “FP Jump”, a Group-wide reorganisation and restructuring programme. Mainly in connection with this reorganisation programme, Francotyp-Postalia Holding AG’s consolidated financial statements as at 31 December 2018 recognise restructuring provisions of EUR 4.3 million (previous year: EUR 0.0 million) under other provisions. If the general and specific recognition criteria of the relevant provisions pursuant to IAS 37 are met, appropriate provisions must be recognised for restructuring measures. In our view, this is a key audit matter because the recognition and measurement of the restructuring provisions, the amounts of which are significant, and the fulfilment of the recognition criteria are highly dependent on the estimates and assumptions of the Management Board with regard to the design of the restructuring plans and the severance amounts. There is a risk for the consolidated financial statements of Francotyp-Postalia Holding AG that the criteria for the recognition of restructuring provisions are not met or that the latter are not measured appropriately.

OUR AUDIT APPROACH

We have recognized the relevant approach criteria for initiated restructuring measures at risk-oriented selected Group companies. In this regard, we assessed in particular whether there was a detailed, formal restructuring plan, whether the essential elements of the restructuring measures had been communicated to the affected employees or whether the implementation of the restructuring measures had begun.

With regard to measurement, we had the most significant assumptions for the valuation (especially staff expenses and acceptance rates) explained to us. We assessed the consistency of the assumptions with the detailed restructuring plans. In addition, we critically assessed the contracts and agreements that had already been concluded with individual employees (management staff) as at the reporting date.

OUR CONCLUSIONS

The recognition criteria for restructuring provisions were met as at 31 December 2018. The estimates and assumptions made by the Management Board with regard to measurement are appropriate.

Other information

The legal representatives are responsible for the other information. The other information includes:

– the other parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor’s report.

Our audit opinions regarding the consolidated 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 and to evaluate whether it

– exhibits material discrepancies with the consolidated financial statements, 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 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.

- 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.

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 29 May 2018. We were engaged by the Supervisory Board on 27 November 2018. 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, 28 March 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Waubke	Unger
German Public Auditor	German Public Auditor

FP: WE'RE JUST LIKE SOME 1.055

FP United States


FP Italy


FP Italy


FP United States


FP Germany


FP Canada


FP Germany


FP Netherlands


FP Germany

We are the experts for secure and efficient communication.
We are the experts for secure and efficient communication.
Based in Berlin, but working around the globe with approx. 1,000 employees.


FP Uk


FP United States

FP Germany


FP France


FP United States

FP: Dynamics in figures 2018

1,055 employees
111 managers

42 employees worldwide are involved with works council activities.

160 employees are involved in Germany with labour, environmental, energy and health management.

At our nationwide sorting and printing centres run by FP's subsidiaries freesort and IAB, we employ many severely disabled people, including many who have hearing impairment.

Parental leave

16 employees

11 women

5 men

Average age worldwide*

45 %* of our employees are between 30–50 years old

41 %* are over 50 years old

14 %* are under 30 years old

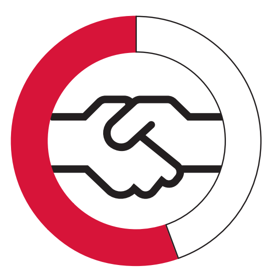
*Employees included: 920

We provide training – our five training professions in Germany at a glance:

- Office Manager
- IT Specialist in Application Development
- Electronics Engineer for Appliances and Systems – Berlin
- IT Systems Salesperson
- IT Specialist in Systems Integration

New appointments worldwide

144 men 13.6 %*

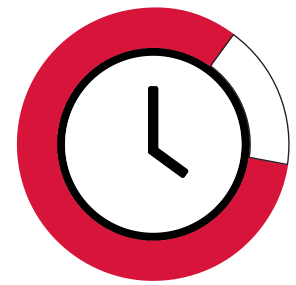


116 women 11.0 %*

*Percentage share worldwide, 1,055 employees

Type of Employment

Full-time (79 %):
838 employees
556 men (53 %)
282 women (27 %)



Part-time (17 %):
177 employees
59 men (6 %)
118 women (11 %)

Students, trainees:
40 employees

During our Health-Weeks, we were able to recruit a total of 70 donors (11 %) for the DKMS registration campaign, with many colleagues already being proud holders of DKMS donor cards.

At our German offices, 60 % of our employees are able to enjoy flexible working hours, and in the Netherlands this figure is 100 %.

Fixed-term*:
72 employees
40 men (4.3 %)
32 women (3.5 %)

92 % of our employees have permanent* contracts:

848 employees
521 men (56.7 %)
327 women (35.5 %)

*Employees included: 920

Duration of employment worldwide

23 % of our employees have worked at FP for more than 15 years

13 % have worked at FP for more than 10 years

19 % have worked at FP for more than 5 years

Less than one year: 88 men and 72 women
Less than five years: 184 men and 138 women
Less than ten years: 138 men and 64 women
Less than fifteen years: 78 men and 54 women
Over fifteen years: 155 men and 84 women

2,000 kilometres travelled as part of the "FP Mailing 3 Peak Challenge", organised in support of the "Coppafeel" project in the UK, which was our charity of the year. Coppafeel is an initiative dedicated to the early detection of breast cancer. This fantastic commitment raised more than £ 10,000 in donations.

Average age in Germany*

47* years

*Employees included: 537

For the sake of simplicity, we use the terms "employees", "investors", "customers", "suppliers", etc. throughout. In the context of a gender-neutral and non-discriminatory approach, these groups naturally include all genders, including LGBTQIA+ (lesbian, gay, bisexual, trans-sexual, transgender, queer, intersex 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.

Inserter 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 2018	28.03.2019
Results for the First Quarter 2019	16.05.2019
Annual General Shareholder Meeting, Berlin	28.05.2019
Results for the Half Year 2019	22.08.2019
Results for the Third Quarter 2019	14.11.2019

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

Realisation

Conzept, text und layout of image section:
Groothuis. Gesellschaft der Ideen und Passionen mbH für Kommunikation und Medien, Marketing und Gestaltung
www.groothuis.de

Photo Credits

P. 3: © mantaphoto / istockphoto; p. 5: © Arthur Chang / stocksy; p. 9: © Martin Barraud / plainpicture; p. 11: © Anna-Marie Panlilio / stocksy; p. 13: © Peter Wey / stocksy; p. 17: © Brat Co. / stocksy; p. 19: © Alexander Grabchilev / stocksy; p. 23: © Pansfun Images / stocksy; p. 25: © sebastian-julian / istockphoto

Photos Management Board © Manuel Kalman

Print

Gutenberg Beuys Feindruckerei, Langenhagen / Hannover
www.feindruckerei.de

This report was printed on certified paper from sustainably managed forests.

FSC www.fsc.org MIX Paper from responsible sources FSC® C009051

Sustainability Report

ACT SUSTAINABLY: 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.

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.

Multi-Year Overview

FIGURES IN ACCORDANCE WITH CONSOLIDATED FINANCIAL STATEMENTS (in EUR million)

	2018	2017	2016	2015	2014
Revenue	204.2	206.3	203.0	191.1	170.3
Recurring revenue	161.2	162.6	161.9	154.3	139.4
EBITDA	17.1	26.3	27.2	26.8	23.1
as percentage of revenue	8.4	12.8	13.4	14.0	13.6
EBIT	–0.3	7.3	9.7	9.0	9.8
as percentage of revenue	–	3.5	4.8	4.7	5.8
Consolidated net income	0.9	4.6	6.2	3.7	5.2
as percentage of revenue	0.4	2.3	3.1	1.9	3.1
Free cash flow	3.0	5.8	4.6	–1.4	–5.6
Adjusted free cash flow	10.9	9.9	9.5		
Equity capital	16.3	16.3	16.2	16.2	16.2
Shareholders' equity	33.3	33.0	35.9	35.2	30.1
as percentage of balance sheet total	20.0	19.4	21.5	22.6	21.1
Return on equity (%)	2.7	14.1	17.2	10.6	17.4
Debt capital	133.4	136.8	131.4	120.9	112.1
Net debt	18.1	19.5	19.8	20.4	17.0
Net debt-equity ratio (%)[2]	54	59.0	55.0	57.9	56.6
Balance sheet total	**166.7**	**169.8**	**167.3**	**156.2**	**142.1**
Share price end of year (EUR)	**3.00**	**4.66**	**5.49**	**4,34**	**3.98**
Earnings per share (basic in EUR)	**0.06**	**0.29**	**0.36**	**0.22**	**0.32**
Earnings per share (diluted in EUR)	**0.06**	**0.28**	**0.36**	**0.22**	**0.32**
Employees (end of period)	**1.054**	**1.067**	**1.052**	**1.048**	**1.054**

1) Adjusted free cash flow – Definition and introduction in 2016
2) Figures 2014-2015 adjusted in 2016

Key Figures

FIGURES IN ACCORDANCE WITH CONSOLIDATED FINANCIAL STATEMENTS (in EUR million)

	2018	2017	Changes in %
Revenue	204.2	206.3	–1.0
Recurring revenue	161.2	162.6	–0.9
EBITDA	17.1	26.3	–35.0
as percentage of revenue	8.4	12.8	
EBIT	–0.3	7.3	–104.1
as percentage of revenue	–	3.5	
Consolidated net income	0.9	4.6	–80.6
as percentage of revenue	0.4	2.3	
Free Cashflow	3.0	5.8	–48.1
Adjusted free cash flow	10.9	9.9	11.5
Equity capital	16.3	16.3	0.0
Shareholders' equity	33.3	33.0	1.0
as percentage of balance sheet total	20.0	19.4	
Return on equity (%)	2.7	14.1	
Debt capital	133.4	136.8	–2.5
Net debt	18.1	19.5	–7.0
Net debt-equity ratio (%)[2]	54	59	
Balance sheet total	**166.7**	**169.8**	**–1.8**
Share price end of year (EUR)	**3.00**	**4.66**	**–35.6**
Earnings per share (basic in EUR)	**0.06**	**0.29**	**–79.0**
Earnings per share (diluted in EUR)	**0.06**	**0.28**	**–78.7**
Employees (end of period)	**1.054**	**1.067**	**–1.2**

Our actions are dynamic, our future is digital.

FP: We act to win your trust – nice to meet you.

FRANCOTYP-POSTALIA HOLDING AG
Prenzlauer Promenade 28 13089 Berlin Germany
Phone: +49 (0)30 220 660 410 Mail: ir@francotyp.com
www.fp-francotyp.com

**"Coming together is a beginning,
staying together is progress,
working together is a success."
Henry Ford**