

CORPORATE GOVERNANCE

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 company's declaration on corporate governance in accordance with section 289a(1) of the German Commercial Code (HGB – Handelsgesetzbuch). 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. 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 5 May 2015.

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

In accordance with section 161 of the German Stock Corporation Act (AktG – Aktiengesetz), 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 5 May 2015, as published by the Federal Ministry of Justice in the official section of the Federal Gazette, it has complied with and will comply with, and which recommendations have not been or are not applied.

- 2.3.1 The invitation to the Annual General Meeting and the reports and documents required by law, including the annual report, are published on the company's website together with the agenda, where they are easily accessible to shareholders. The Articles of Association of Francotyp-Postalia Holding AG do not allow postal votes. The company will also not offer postal votes at its next Annual General Meeting.
- 2.3.3 Given the high level of administration involved, the company will not be able to make it possible for shareholders to watch the Annual General Meeting using modern communication media, e.g. the Internet.
- 3.8 D&O insurance was concluded also 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.
- 4.1.5 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.

The FP Group does not have a second level of management below the Management Board. At a Management Board meeting on 7 September 2015, the Management Board stipulated that the share of women in the first level of management below the Management Board should be at least 9%. Since then, this target has been continuously met or exceeded.

- 5.1.2 In accordance with the new regulations in the German Stock Corporation Act and the German Corporate Governance Code, the Supervisory Board has resolved a target for the share of women in the Management Board by 30 June 2017. The target has been set at 0%. 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. The key factor remains the Group's interests, which means that the Supervisory Board will propose the most suitable candidates, male or female.
- 5.3.1 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.
- 5.3.2 As long as the Supervisory Board continues to consist of three persons, the Supervisory Board as a whole will perform the duties of an audit committee.
- 5.3.3 Regarding the formation of a nomination committee, the same conditions apply as to the other committees.
- 5.4.1 A time limit for membership of the Supervisory Board has not been set. In light of the knowledge, ability and expert experience required by article 5.4.1 sentence 1 of the Code, setting a time limit does not currently seem reasonable. The Rules of Procedure for the Supervisory Board provide an age limit for members of the Supervisory Board. A Supervisory Board mandate should end with the Annual General Meeting following the member's 70th birthday. Here, too, this recommendation shall not be followed for the time being in light of the requirements for the composition of the Supervisory Board according to article 5.4.1 sentence 1 of the Code and in the interests of continuity in the Supervisory Board
- 7.1.2 Given the extensive consolidation work involved, the consolidated financial statements are prepared within four months of the end of the fiscal year. Given the large amount of consolidation work involved, the quarterly and half-yearly reports are also published, at the latest, within two months of the end of the reporting period, in compliance with the Stock Exchange Rules and the German Transparency Guidelines Implementation Act.

Berlin, 30 March 2017

For the Supervisory Board



Klaus Röhrig
Chairman of the Supervisory Board

Management Board



Rüdiger Andreas Günther



Thomas Grethe



Sven Meise

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 normal business 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. 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

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 concluded a D&O insurance policy 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 concluded 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.

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. The basic features of the remuneration system and remuneration are presented in the remuneration report contained in the consolidated financial statements and the separate financial statements.

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 either personal interests or confer advantages on other persons or make personal use of business opportunities of the company itself. 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 2016.

DIVERSITY

With regard to its future composition, the Supervisory Board must take into account the composition of the Supervisory Board recommended by the Corporate Governance Code with male and female members. At present, there are still no women on the company's Supervisory Board. The German Stock Corporation Act and the Code have newly stipulated that the supervisory boards of listed companies must define targets for the share of women. Given that the Supervisory Board has three members, a target of 0% has been set for the share of women. The Supervisory Board takes diversity into account in its nominations to the Annual General Meeting. The key factor for nomination remains the company's interests, which means that the Supervisory Board will propose the most suitable candidates, male or female. 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 accordance with the new regulations in the German Stock Corporation Act and the German Corporate Governance Code, the Supervisory Board has resolved a target for the share of women in the Management Board by 30 June 2017. The target has been set at 0%. 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. The key factor remains the Group's interests, which means that the Supervisory Board will propose the most suitable candidates, male or female.

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. The FP Group does not have a second level of management below the Management Board. At a Management Board meeting on 7 September 2015, the Management Board stipulated that the share of women in the first level of management below the Management Board should be at least 9%. Since then, this target has been continuously met or exceeded.

A time limit for membership of the Supervisory Board has not been set. In light of the knowledge, ability and expert experience required by article 5.4.1 sentence 1 of the Code, setting a time limit does not currently seem reasonable. The Rules of Procedure for the Supervisory Board provide an age limit for members of the Supervisory Board. A Supervisory Board mandate should end with the Annual General Meeting following the member's 70th birthday. Here, too, this recommendation shall not be followed in light of the requirements for the composition of the Supervisory Board according to article 5.4.1 sentence 1 of the Code and in the interests of continuity.

EFFICIENCY REVIEW

The Supervisory Board examines the efficiency of its activities in a regular cycle. The next efficiency review with the aid of an external consultant is scheduled for 2017.

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. Owing to the high degree of organisational effort involved, an Internet broadcast of the entire Annual General Meeting is still not planned.

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. 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.

Beyond 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 shall 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 (DIRECT)

	Number of shares	in %
Rüdiger Andreas Günther	9,886	0.1
Botho Oppermann (Supervisory Board member)	300,000	1.9
Hans Szymanski (Management Board member until 11 January 2016)	120,000	0.7

SHAREHOLDER (INDIRECT)

	Number of shares	in %
Klaus Röhrig (Chairman of the Super- visory Board) via 3R Investments Ltd	1,660,000	10.2

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. Deviating from the recommendations of the Code and owing to the extensive consolidation work involved, the consolidated financial statements of Francotyp-Postalia Holding AG are prepared within four months of the end of the fiscal year. Given the large amount of consolidation work involved, the quarterly and half-yearly reports are also published, at the latest, within two months of the end of the reporting period, in compliance with the Stock Exchange Rules and the German Transparency Guidelines Implementation 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 financial position and financial performance and the cash flows of all Group companies. The Management Board also ensures appropriate risk management and monitoring within the company.

It 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 German Accounting Law Modernisation Act (BilMoG – Bilanzrechtsmodernisierungsgesetz). 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

In accordance with the resolution by the 2016 Annual General Meeting, the Supervisory Board engaged KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, to conduct the audit of the 2016 annual financial statements and consolidated financial statements. In compliance with the recommendations of the Code, it was agreed with the auditor that he 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 regular issues in the discussions 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. The company does its utmost to minimise this risk as far as possible by uncovering misconduct and dealing 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.