fp-francotyp.com

ANNUAL REPORT 2016

KEY FIGURES

FIGURES IN ACCORDANCE WITH CONSOLIDATED FINANCIAL STATEMENTS (IN EUR MILLION)

	2016	2015	Changes in %
Revenue	203.0	191.1	6.2
Recurring revenue	161.9	154.3	4.9
EBITDA	27.2	26.8	1.6
as percentage of revenue	13.4	14.0	
EBIT	9.7	9.0	8.1
as percentage of revenue	4.8	4.7	
Consolidated net income	6.2	3.7	66.5
as percentage of revenue	3.1	1.9	
Free cash flow	4.6	-1.4	n/a
Equity capital	16.2	16.2	
Shareholders equity	35.9	35.2	1.9
as percentage of balance sheet total	21.5	22.6	
Return on equity (%)	17.3	10.6	
Debt capital	131.4	120.9	8.7
Net debt	19.8	20.4	-3.0
Net debt-equity ratio	55.0	57.9	
Balance sheet total	167.3	156.2	7.1
Share price end of year (EUR)	5.49	4.34	26.5
Earnings per share (EUR)	0.36	0.22	64.5
Employees (end of period)	1,052	1,048	-1.0

REVENUES
+6.2%

EBITDA
+1.6%

CONSOLIDATED NET INCOME
+66.5%

FP FIT

FP STRATEGY

GROWTH COMPANY AND DIVIDEND STOCK

ACT

MULTI-YEAR OVERVIEW

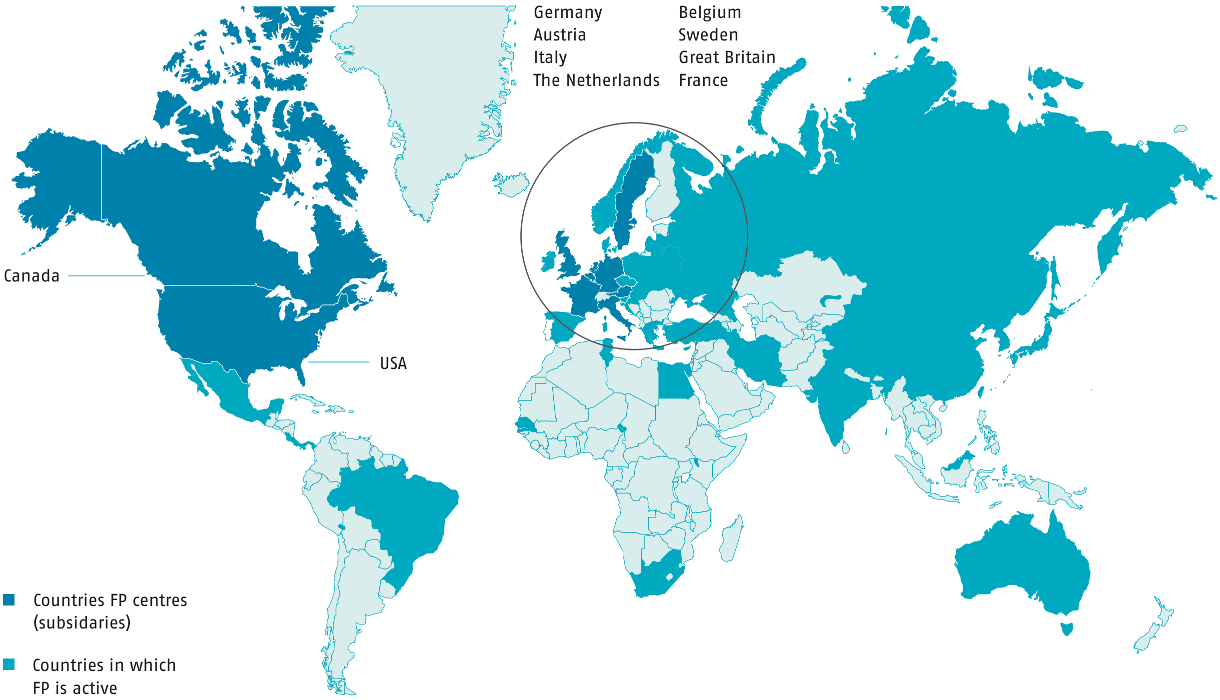
FIGURES IN ACCORDANCE WITH CONSOLIDATED FINANCIAL STATEMENTS (IN EUR MILLION)

	2016	2015	2014	2013	2012
Revenue	203.0	191.1	170.3	168.9	165.6
Increase in revenues (%)	6.2	12.2	0.8	2.0	3.9
Recurring revenue	161.9	154.3	139.4	136.9	132.1
EBITDA	27.2	26.8	23.1	22.2	19.0
as percentage of revenue	13.4	14.0	13.6	13.1	11.5
EBIT	9.7	9.0	9.8	10.4	9.1
as percentage of revenue	4.8	4.7	5.8	6.1	5.5
Consolidated net income	6.2	3.7	5.2	4.9	4.0
as percentage of revenue	3.1	1.9	3.1	2.9	2.4
Free cash flow	4.6	−1.4	−5.6	5.9	−6.5
Equity capital	16.2	16.2	16.2	16.2	16.2
Shareholders equity	35.9	35.2	30.1	25.9	21.6
as percentage of balance sheet total	21.5	22.6	21.1	18.8	15.8
Return on equity (%)	17.3	10.6	17.4	18.8	18.4
Debt capital	131.4	120.9	112.1	111.5	114.9
Net debt [1)]	19.8	20.4	17.0	11.5	35.1
Net debt-equity ratio	55.0	57.9	56.6	44.4	162.8
Balance sheet total	167.3	156.2	142.1	137.4	136.5
Share price end of year (EUR)	5.49	4.34	3.98	4.17	2.48
Earnings per share (EUR)	0.36	0.22	0.32	0.31	0.27
Employees (end of period)	1,052	1,048	1,054	1,047	1,093

1) Adjusted figures for 2012–2015, see page 76.

FP—AT A GLANCE

THE FP GROUP IS AN EXPERT IN SECURE AND EFFICIENT COMMUNICATION.
The long-established company is based in Berlin and operates in over 40 countries, employing approximately 1,100 people across the world. In addition to systems for franking and inserting mail, the company's range comprises services, software solutions and digital mail processing. FP's activities are divided into three segments: Franking and Inserting, Mail Services, and Software.



PRODUCT AREAS

FRANKING AND INSERTING
EFFICIENT MAIL PROCESSING

The FP Group develops and manufactures franking systems. Moreover, it sells and rents out franking and inserting systems and also offers extensive services. Customers are able to use franking systems to frank their mail quickly and automatically and save postage costs. The main revenue generator is the after-sales business, which generates recurring revenues from the leasing of franking systems, the sale of consumables, services, software solutions for cost centre management and the Teleporto service.

MAIL SERVICES
CONSOLIDATION OF BUSINESS MAIL

The Mail Services segment comprises the franking service and the consolidation of business mail. This includes collecting letters from companies, sorting them by postcode and delivering them in batches to a sorting office of Deutsche Post or an alternative postal distributor. This business is operated by freesort GmbH, which is one of the leading independent consolidators of business mail on the German market with eight sorting centres throughout Germany.

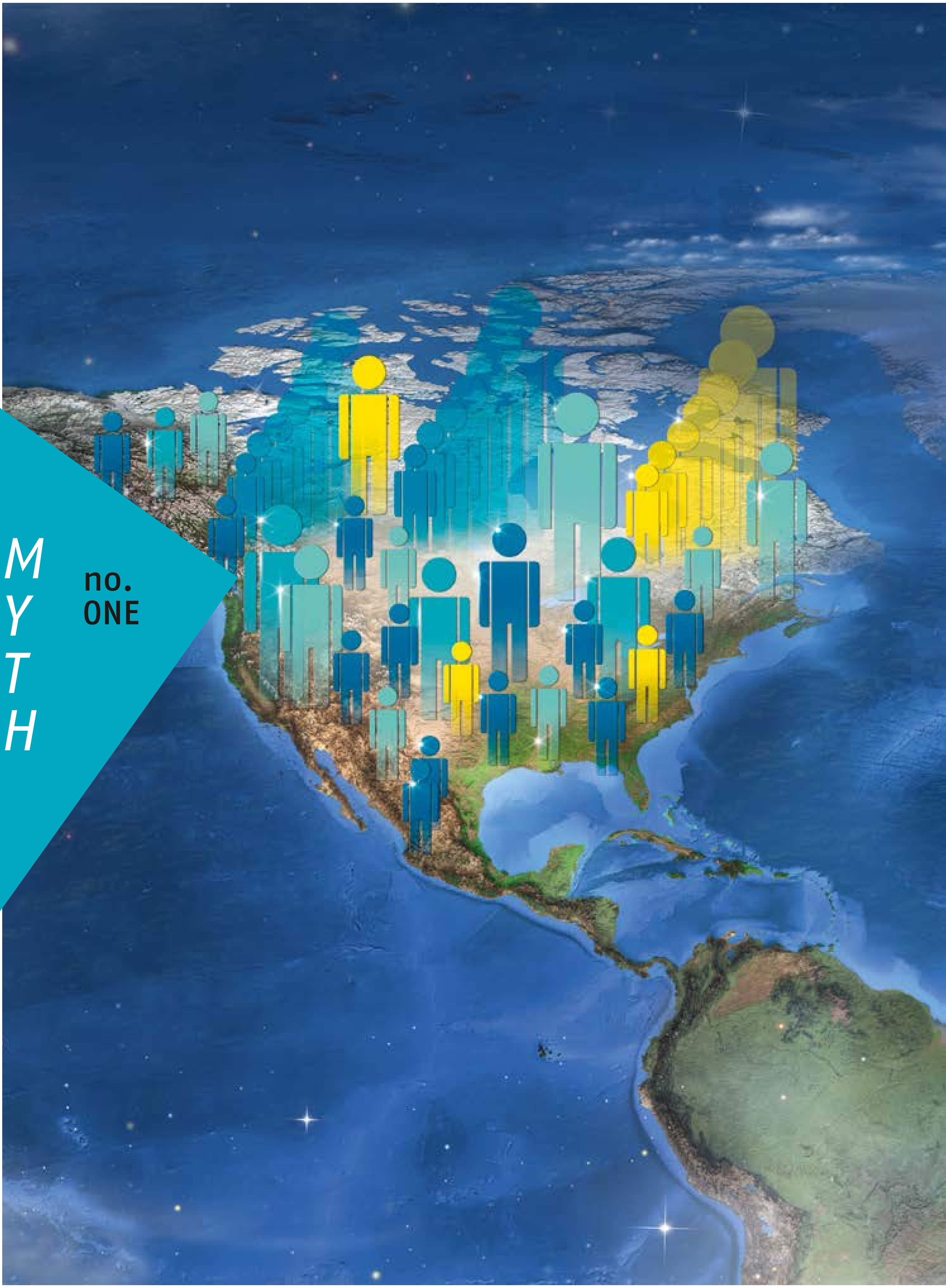
SOFTWARE
DIGITAL SOLUTIONS

In the Software Solutions segment, the FP Group consolidates its business with hybrid mail and digital solutions for fully digital communication. With the hybrid mail of FP subsidiary IAB GmbH, companies can outsource their inbound and outbound mail processing. The subsidiary Mentana-Claimsoft's fully digital communication services primarily comprise digital signature solutions (FP-Sign product family) and products for protection of electronic documents using encryption software.

TABLE OF CONTENTS

THREE MYTHS ABOUT FP

MYTH no. ONE




THE
POSTAGE
METER
MARKET
HAS
~~NO~~
FUTURE

MYTH no. TWO

FP WILL ~~NOT~~ GROW IN ITS CORE BUSINESS

MYTH

no. THREE

DIGITALISATION WILL COME ~~OVERNIGHT~~

LETTER FROM THE CEO

Rüdiger Andreas Günther
CEO & CFO

DEAR SHAREHOLDERS,

WHAT WAS OLD IS NOW NEW AGAIN! THIS PHRASE STANDS FOR FP'S NEW BEGINNING IN 2016. WHAT WAS "OLD" WAS THE BUSINESS WITH FRANKING MACHINES, FOR YEARS, IT SUFFERED FROM THREE MYTHS.

Firstly, that the letter market has no future. **Secondly,** that FP could not grow in its core business. **Thirdly,** and more dangerously, that digitalisation would come overnight.

We questioned these myths in 2016. The result is the "new" – our ACT growth strategy. ACT is disarming the myths and breaking cover. The presentation of the strategy on 17 November 2016 was the first-round bell for the new FP.

ACT stands for Attack, Customer and Transformation. With ACT, we are on the attack. With ACT, we are expanding the range of services for our customers along the document value chain. And with ACT, we are advancing the digital transformation, which, by the way, is definitely not happening overnight and endangering our business model. On the contrary! We will help our customers to digitalise their processes, and we will make use of the various opportunities for new business as they arise. We will all benefit from this.

ACT is unleashing the growth forces that have long lain dormant in our tradition-steeped company. The talented FP will become a champion – a dynamic and profitable growth company. Our targets are ambitious. By FP's 100th anniversary in 2023, we want to double our revenues to EUR 400 million, achieve an EBITDA margin of approximately 20% and generate earnings per share of more than EUR 1.

To achieve such targets, you have to train, and train hard! For this purpose we have initiated FP FIT with its five priorities: finance, sales, HR, IT and research and development. In just two years, we want to make the company agile and powerful. Among other things, we are establishing modern customer management, harmonising the IT landscape and digitalising our processes.

In 2016 we started with our finance division and, as promised, quickly cut the tax rate. Having started at 51%, we are now down to 36%. As a result, consolidated net income improved considerably, and earnings per share climbed from 22 cents to 36 cents.

Financing is now on a very solid footing at a volume of EUR 120 million with an option for a further EUR 30 million, thus giving us the scope to grow dynamically.

> "ACT stands for Attack, Customer and Transformation. With ACT, we are on the attack."
>
> **Rüdiger Andreas Günther**
> **CEO & CFO**

No stone is being left unturned in the organisation right now. FP is undergoing transformation. Agility and excellence are our clear targets for all processes and products. Agility means greater scope for action, faster decisions and fewer hierarchies. This is the only way to convince our customers and ultimately grow profitably through excellent work. Excellence is the high standard we expect from every one of us, our products and our processes.

With FP FIT, we are preparing the ground for excellence. Nonetheless, we also want to increase revenues and EBITDA slightly this year. Our sights are already set firmly on the targets for 2020: by then, revenues shall rise to around

EUR 250 million and the EBITDA margin to 17%. The new FP is attacking. And it is doing so successfully, as these annual financial statements show. Revenues grew by 6.2% to EUR 203.0 million in 2016; for the first time in the company's history, we generated revenues of over EUR 200 million in a single year. All other important key figures are rising too – from EBITDA to free cash flow.

Our company has found its fighting spirit. And this is important, because it is not the biggest who wins, but the cleverest. And we can win! In 2016, we progressed better than the competition. We have the most up-to-date portfolio of franking systems and are in the promising market segment. A market segment, which, contrary to the long-standing myth, is growing in the US and the major European countries – namely by a substantial 3% per year. Our market segment comprises thousands of companies that still see small and medium mail volumes every day despite the ever-growing number of e-mails. Around 300 billion letters sent worldwide each year speak for themselves. These facts do not look like a knock-out. On the contrary: the letter is here to stay. And we will continue to grow in the supposedly lifeless franking business.

However, FP can do much more than franking. We are accompanying our customers into the digital age with innovative solutions. In 2016, we already generated higher revenue growth with Mail Service and Software than with franking systems. We are still concentrating on the German market in these business areas, and Mail Services and Software are only partly integrated so far. So far!

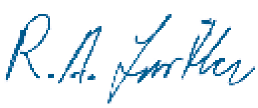
With ACT, we are kick-starting a new growth dynamic here too, and bringing innovations to market that give our customers tangible added value. FP-Sign offers a foretaste; we presented this signature solution at CeBIT in March 2017. It can be used to sign and securely exchange documents with a few clicks. This allows contracts to be concluded any time, any place – a substantial time saving and a significant simplification of the process. Our customers' high level of interest and the Best of 2017 prize at the IT Innovation Awards show that we have struck a chord with FP-Sign. And FP-Sign was just the beginning; as part of ACT, agile teams are currently advancing numerous initiatives for innovations – for the Internet of Things as well as with machine learning. They all use FP's existing know-how and they all address growth markets.

FP is therefore choosing to attack – with clear targets and a clear strategy. You, dear shareholders, will also profit from this of course. This is true firstly for the price of our share. It has already risen by 26% in 2016. This is true secondly for the dividend. After a net dividend of 12 cents in the previous year, we will propose a distribution of 16 cents per share at the Annual General Meeting in June 2017. This proposal demonstrates FP's strength in a time of investment in FP FIT and ACT. This makes the FP share both an attractive dividend payer and – much more - an exciting growth stock – a rarity on the German stock markets.

But what use are the best company and the most innovative products when the employees are not with us in the ring? So our personal thanks go to the FP team and its willingness to join us to attack and to win. Together with our employees, we have already won over more than 200,000 customers for FP. But we want to win over even more customers. Customers' trust and satisfaction are the basis of our success and the maxim for our activity. We want every existing and every new customer to feel certain that they are in good hands with FP.

A new day is dawning for FP – and therefore for you too, dear shareholders. Our company is becoming an agile champion. As the greatest boxer of all time, Muhammad Ali, once said: "Float like a butterfly, sting like a bee!" With this tactic, we will attack in the years to come in our core markets and beyond. Exactly where it will pay off. Within just two years, we will get our company into top shape. And within seven years we will double revenues. What was old will become new again. In a few years, the new FP will no longer be recognisable.Accompany us through this exciting change and watch round by round, year by year, as our company transforms. Clear the ring for the next round!

Kind regards,



Rüdiger Andreas Günther
CEO & CFO

f. l. t. r.
Sven Meise
CDO
Rüdiger Andreas Günther
CEO & CFO
Thomas Grethe
CSO

What was old is now new again!

START TO ACT NOW

IN 2016, WE DEMONSTRATED OUR ABILITY TO DELIVER. THIS IS JUST THE BEGINNING. IN THE YEARS TO COME, WE WILL RELEASE THE FORCES THAT DRIVE GROWTH WITHIN THE FP GROUP WITH ACT.

WE SEE THE DAWN OF A NEW ERA. With the ACT strategy, we are taking the opportunities arising in the analogue and digital world step by step. In a few years, our long-standing company will no longer be recognisable. By FP's 100th anniversary in 2023, we want to double our revenues to EUR 400 million and generate an EBITDA margin of approximately 20%.

THESE ARE AMBITIOUS BUT ACHIEVABLE GOALS. The beginnings of which are already visible in the business performance of last year. FP showed strength in all divisions and achieved and, in some cases, even exceeded all the targets set at the beginning of the year. With the good figures, we have dispelled several long-standing myths.

NAMELY, THREE ASSUMPTIONS HAVE BEEN SLOWING DOWN OUR COMPANY FOR YEARS: the letter market has no future, FP will not grow in its core business and digitalisation will come overnight. All of these assumptions are nothing more than a myth.

FP IS READY TO ACT. The ACT strategy makes the FP Group a dynamically growing company and dividend stock.

TRANSFORM FP INTO AN ENLARGED BUSINESS

*Develop **new digital business segments based on our DNA***

MORE ON PAGE 26

T

ACCOMPANY THE CUSTOMER

*Develop **new solutions** and services for **existing and new customers***

MORE ON PAGE 20

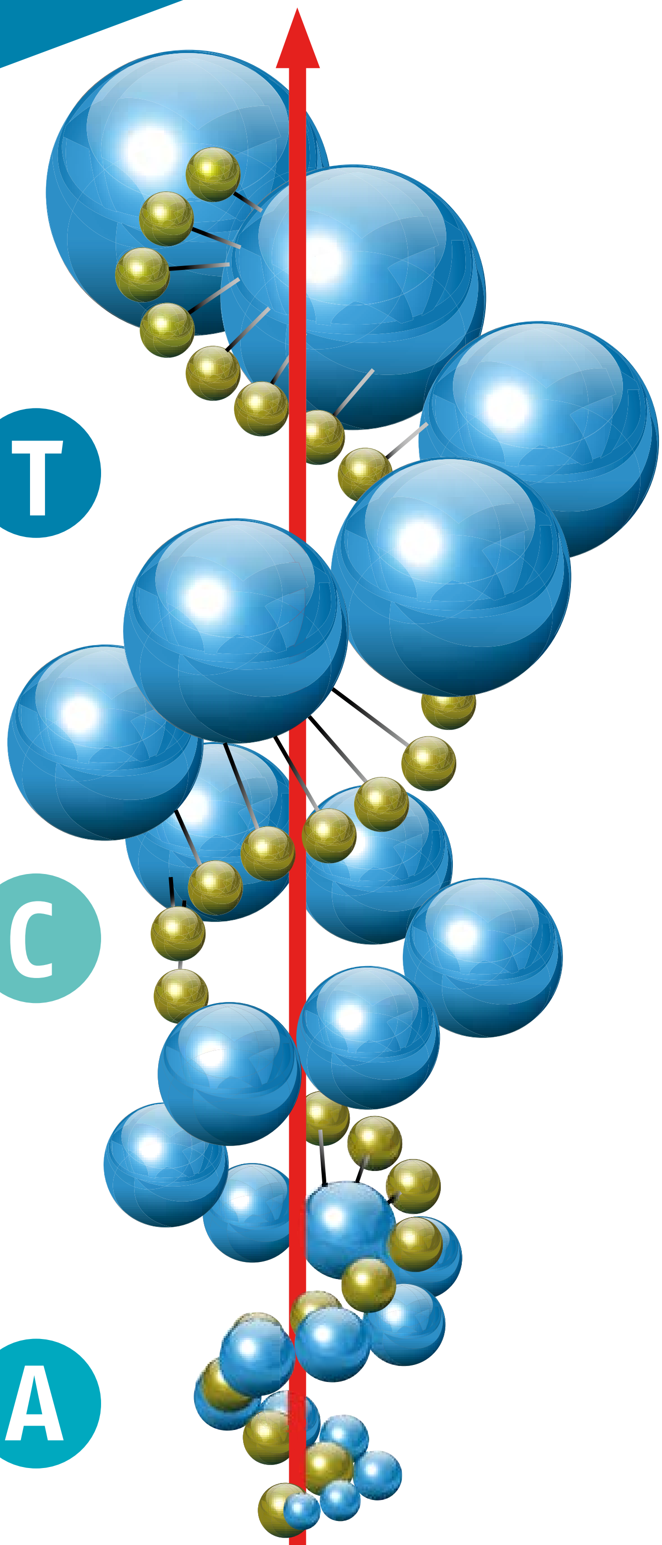
C

ATTACK IN CORE BUSINESS

***Expand customer base** and **increase market share** in core business*

MORE ON PAGE 16

A



ACT

FP FIT

START TO ACT

ATTACK IN THE CORE BUSINESS

Growth in the franking machine business

A

WE WILL GROW IN THE FRANKING BUSINESS BECAUSE WE OFFER THE MOST INNOVATIVE PORTFOLIO OF FRANKING SYSTEM PRODUCTS IN THE WORLD AND OUR MARKET SEGMENT IS DEVELOPING IN THE RIGHT DIRECTION.

EXPANDING THE CUSTO-MER BASE AND INCREA-SING MARKET SHARE

We believe our core business still has a lot of potential. This is why we are breaking cover now.

The ACT strategy's approach is clear. The A stands for attack and shows FP's ambitious target to grow in the core business. We want to expand the customer base and increase our market share in the franking and inserting business. We are the number one on the franking machine market in Germany; we currently have a market share of around 10% worldwide. This means we still have 90% to get.

"With 10% market share, we are the world number three. This means that 90% of the market is still up for grabs. This is our potential."

Thomas Grethe
CSO

Thomas Grethe (*1959)

CSO OF FRANCOTYP-POSTALIA HOLDING AG
Banking and economics graduate (WAH)
Responsible for sales Germany, International and Asia, product management, strategic marketing / brand management and internal audit

Conditions are good, because the market for franking systems is developing in our favour. Segment shifts towards small franking systems mean big opportunities. A detailed market analysis of the four most important countries, the US, France, the UK and Germany, shows that the A segment grew by 3.4% a year from 2010 to 2015. And this is precisely our focus. We concentrate on the A segment for small and medium volumes of corres-pondence. We convince our customers with innovative franking systems and offer products at the cutting edge. And with over 90 years of experience, we represent the highest quality "made in Germany".

ENHANCING ACTIVITIES WORLDWIDE

Focus on US and France

OUR CLEAR OBJECTIVE: EXPAND INTO ATTRACTIVE MARKETS

A

THE FP GROUP'S PRODUCTS ARE USED ALL OVER THE WORLD. WE SEE GREAT POTENTIAL IN THE FOREIGN MARKETS OF THE US AND FRANCE. WE WILL ATTACK HERE IN ORDER TO GAIN ADDITIONAL MARKET SHARE.

The growth strategy in the core business is clearly defined. We will considerably enhance our activities in the world's most attractive markets, the US and France. At the same time, we also want to further extend our lead in our home market of Germany. The FP Group has innovative products that are of equal interest to businesses and authorities. Our product portfolio meets customer requirements in an optimum manner.

The customers' favourite is the PostBase family – the product line ranges from a small machine for newcomers to a professional franking system. The classic entry-level model is the PostBase Mini for small businesses with a small volume of mail. With the PostBase models and the PostBase One, the PostBase product family offers the ideal solution for medium and high mail volumes in everyday business. FP thus has the right solution for every need.

FP has big plans: the starting shot for the attack in the franking business has been fired!

A

PostBase 100
with dynamic scale

ACCOMPANY THE CUSTOMER

Solutions along the customer journey

NEW SOLUTIONS AND SERVICES FOR EXISTING AND NEW CUSTOMERS

Prepared for digitalisation: we support companies and authorities by accompanying them through the gradual digitalisation of processes.

C

DIGITALISATION IS NOT HAPPENING OVERNIGHT. NONETHELESS, WE ARE ALREADY WORKING ON NEW AND INNOVATIVE SOLUTIONS FOR TOMORROW. FOR BOTH EXISTING AND NEW CUSTOMERS.

Customers' requirements will change, and we are ready for this. We are evolving into a partner for the gradual digitalisation of processes relating to in- and outbound business communication in companies and authorities. Our subsidiaries FP IAB, FP freesort and FP Mentana-Claimsoft put us in an excellent position to actively contribute to the development of digitalisation in our industry. We are the experts for efficient and secure communication in the digital age!

"Our customers are the focal point of our activities. We are developing new solutions and services for the future along the customer journey."

Sven Meise
CDO

Sven Meise (*1971)
CDO OF FRANCOTYP-POSTALIA HOLDING AG
Degree in business administration (BA) Responsible for product segments Mail Services and Software, product portfolio management, IT and research and development

Customer first: Our work is always customer-focused. This is why we have already enjoyed 90 years of market success. But we will move even closer to the customer. Every day, we work to delight existing customers and convince new customers of our solutions.

Prepare for digitalisation

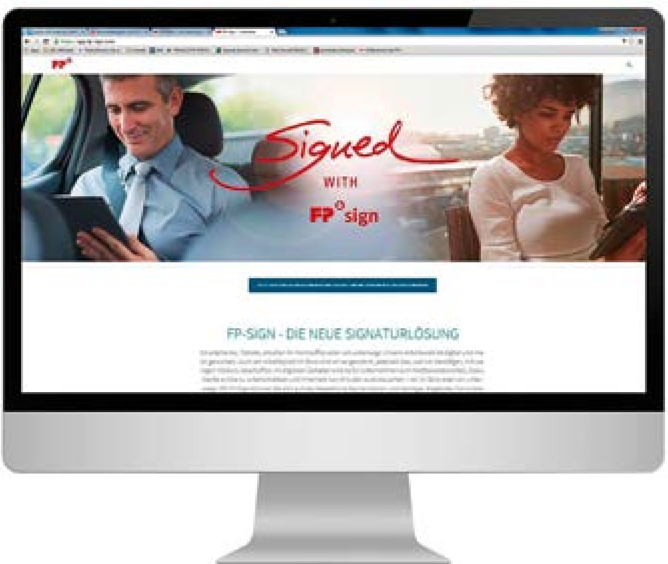
SECURE SOLUTIONS FOR THE DIGITAL WORLD

SECURE SOLUTIONS ARE SOUGHT-AFTER IN THE DIGITAL WORLD. WE HAVE GREAT KNOW-HOW AND DEVELOP PRODUCTS AND SERVICES FOR EFFICIENT AND SECURE COMMUNICATION.

The processes relating to in- and outbound business communication are often multifaceted and complicated. We already offer services that simplify work processes. These include the collection of business mail from the company. Outsourcing offers also save our customers lots of time and money. In these areas, we will use synergies and upgrade our sorting centres throughout Germany, turning them into digitalisation hubs for inbound mail.

At the same time, we will strengthen our market position with digital innovations. FP-Sign, for example, is a pioneering product. With this new solution for the digital signing of contracts and the legally binding exchange of documents, we are addressing a growing market that is expected to expand by 43% per year in the next five years.

We are equipped for the digital world and can offer ideal solutions for various requirements.



SIGN AND SECURELY EXCHANGE DOCUMENTS WITH A FEW CLICKS

With FP-Sign, a cloud-based signature solution, we are finally digitalising lots of previously paper-based work processes relating to sensitive documents and solving. We are thus proving once again that we can develop pioneering solutions for tangible customer needs.

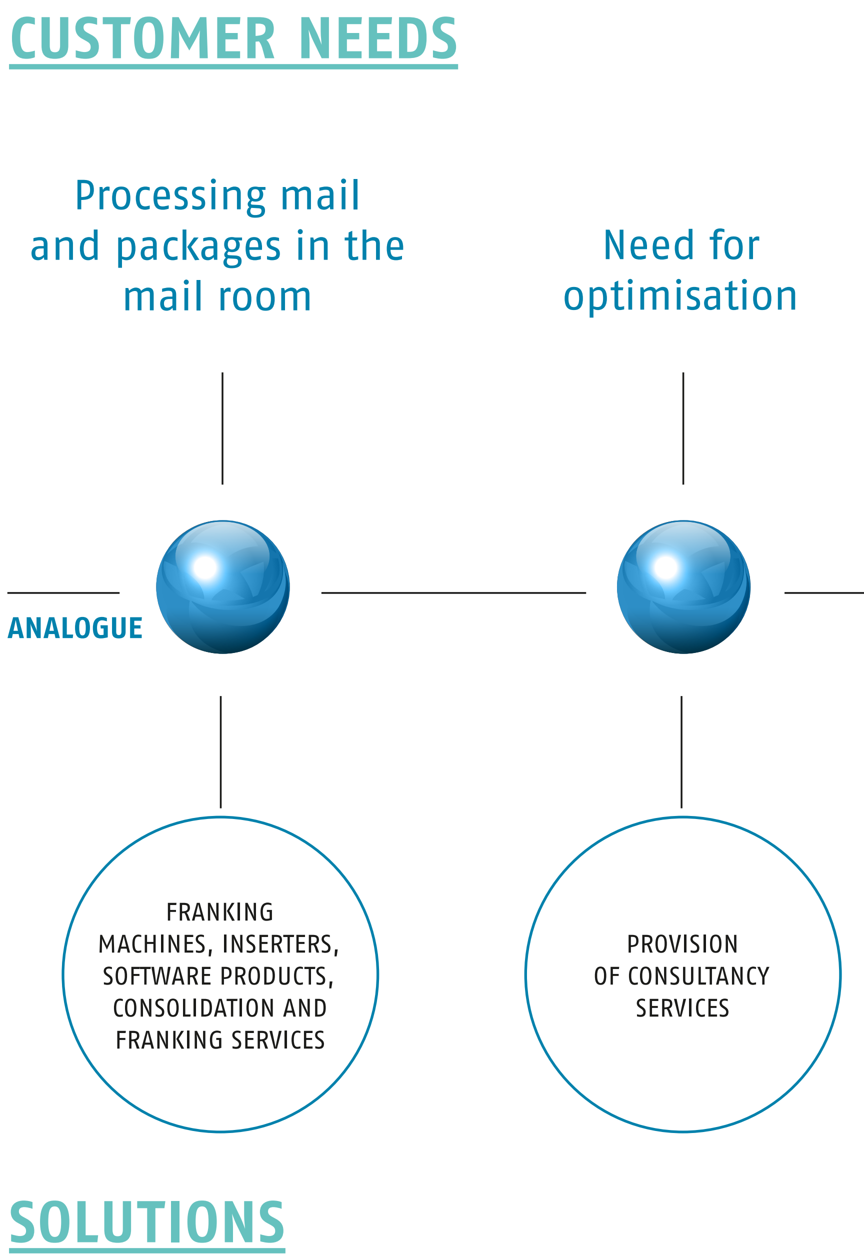
www.fp-sign.com/fpsign

PRODUCTS AND SERVICES

THE CUSTOMER JOURNEY

Customers are still using established methods such as letter and fax for confidential and important communication.[1] Nonetheless, there is growing demand for digital alternatives. Many companies are uncertain about the confidentiality, security and binding nature of digital solutions. We will take hold of this opportunity. We have the ability to develop solutions along the customer journey.

This is why our maxim is that we put our customers at the centre of our activity and accompany them in the analogue and digital world. With innovative solutions!



1) https://www.fp-francotyp.com/Effizienzreport

Incoming mail digitalisation and processing

INBOUND SERVICE

TO DIGITISE AND CLASSIFY DOCUMENTS

Outgoing mail production and processing

OUTBOUND SERVICE

FOR ANALOGUE AND DIGITAL COMMUNICATION

Digital document and transaction management

SIGNATURE AND WORKFLOW SERVICES

DIGITAL

TRANSFORM FP INTO AN ENLARGED BUSINESS

Think about tomorrow today

SHAPE THE FUTURE: ADVANCE THE TRANS-FORMATION OF FP

As a long-established company, we have changed continuously. And we will also change in the future in order to be successful in the digital world.

T

WE ARE PREPARING FOR THE FUTURE. WE WILL NOT ONLY DEVELOP INNOVATIVE PRODUCTS, BUT ALSO REVIEW NEW STRATEGIC OPTIONS FOR ADVANCING OUR TRANSFORMATION.

In 2023, we will celebrate our centenary. Only our adaptability has allowed us to be so successful. This applies today and for the future.

> "We will lead our company into a new era while advancing the transformation of FP."
>
> **Rüdiger Andreas Günther**
> **CEO und CFO**

We will promote the transformation of FP. This transformation has both an internal and an external dimension. Internally we will use agile innovation and working methods in order to adapt and further develop FP. Externally we will, based on our DNA (i.e. cryptography, sensors, actuators and connectivity), focus on the exploration of future markets, products and business models, always in line with with changing customer needs.

Rüdiger Andreas Günther (*1958)
CEO AND CFO OF FRANCOTYP-POSTALIA HOLDING AG
Banking and economics graduate, responsible for strategy, finance, controlling, tax, treasury, law, human ressources, compliance, corporate communications/ investor relations, merger & acquisitions, production, purchasing and quality

BASIS AND DRIVING FORCE FOR ACT

The name of the game is FP FIT

F

OUR EMPLOYEES ENSURE THE SUCCESS OF ACT

FP is a company with lots of potential. We have launched the FP FIT program in order to exploit this potential. Our motto: excellence in all areas.

WE ARE MAKING OUR ORGANISATION FIT FOR OUR FUTURE DYNAMIC GROWTH. FP FIT HAS FIVE PRIORITIES: HR, FINANCE, SALES, IT AND RESEARCH AND DEVELOPMENT.

With our ACT strategy, we will turn FP into a growing company. But we still have to work on our fitness. This is where FP FIT comes in, an extensive package of measures across all departments with five priorities: HR, finance, sales, IT and research and development.

"With FP FIT, we are increasing the efficiency of our company and the implementation expertise in all areas."

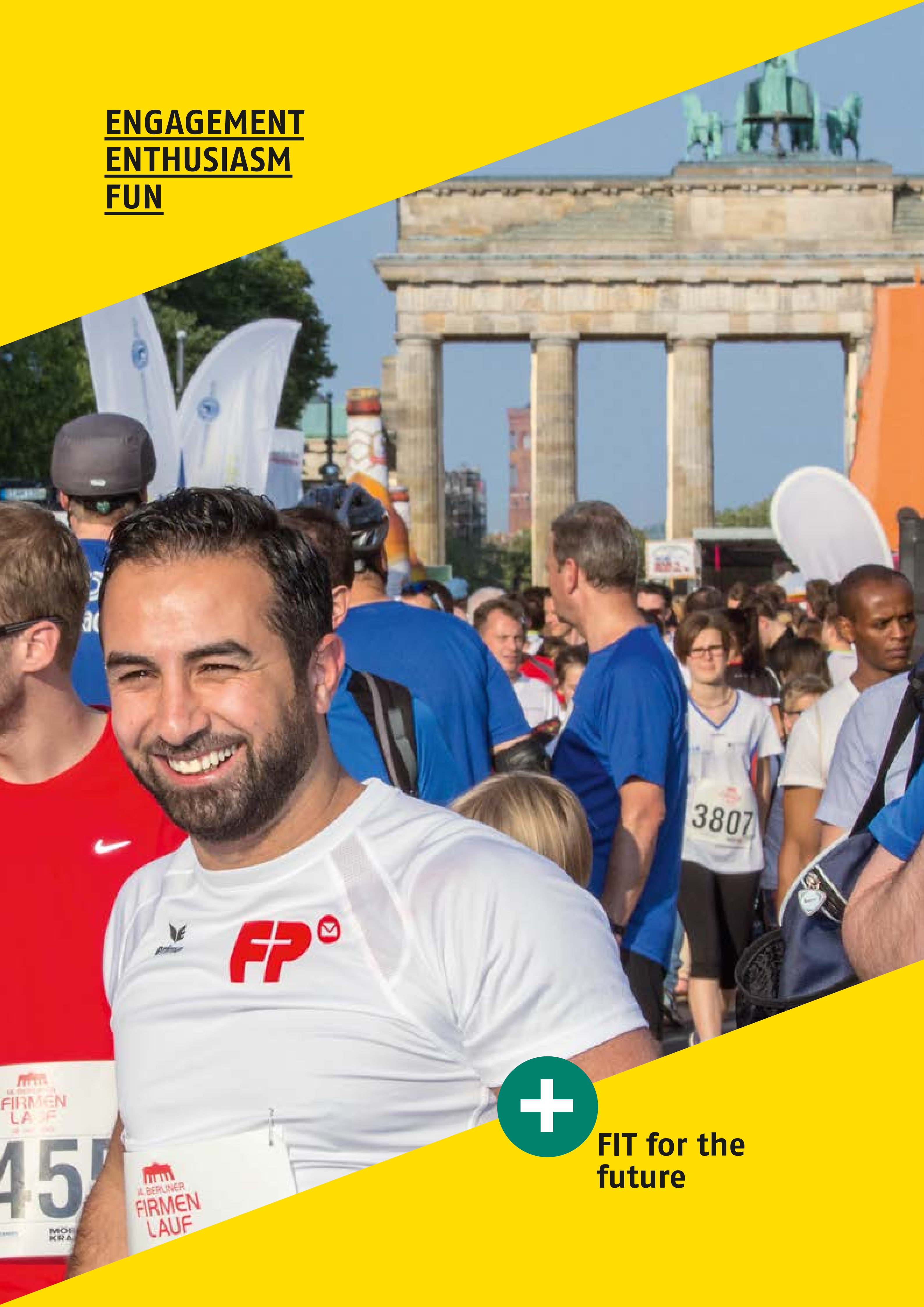
All three Management Board members

MANAGEMENT BOARD OF FRANCOTYP-POSTALIA HOLDING AG
f. l. t. r.:
Thomas Grethe,
Rüdiger Andreas Günther,
Sven Meise

Among other things, we are establishing modern customer management, harmonising the IT landscape and digitalising processes. Some FP FIT projects already saw their first results in 2016. We put financing on a long-term, sound footing and sustainably improved the tax rate, which had been unsatisfactory for many years. The Finance department was reorganised, and Sales is benefiting from greater knowledge of customer requirements. No stone is left unturned in the entire organisation.

Through clear customer focus, excellent processes, innovations and empowerment, we will grow profitably in a sustainable manner and lead FP into a new era.

ENGAGEMENT
ENTHUSIASM
FUN



FIT for the future

F

THE BASIS FOR OUR SUCCESS LIES WITHIN OURSELVES

We are investing in our employees in order to set out for the future. Personnel development programmes and training will be a particularly important issue in the future. We want to find, inspire and develop talented individuals. In this way, we will create a culture of innovation within the company and shape the transformation. We are also making a new departure in terms of sales. Through intelligent marketing, we will generate new leads, use new channels and systematically manage our pricing. We still have lots of sales potential, which we will make use of. We have already achieved a lot in the Finance department. The reorganisation of this important department is taking effect, and we have professionalised our processes there. Similarly, we will also invest in our IT, harmonise our IT systems and make them more efficient. We will continuously enhance our digital know-how and make our processes efficient. If you want to give your customers the best advice in the digital age, you must be a trailblazer yourself with your finger on the pulse.

EMPOWER, MAKE, ARRIVE.

IT IS HAPPENING:
The FP Group is getting itself fit for the future. These investments are necessary and will pay off in the next few years.

REPORT OF THE SUPERVISORY BOARD

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 German Stock Corporation Act (Aktiengesetz – AktG). In the fiscal year 2016, 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 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. A total of seven in situ meetings took place in the past year. Of these, four were ordinary meetings and three were extraordinary meetings. The Management Board participated in six Supervisory Board meetings.

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 segments, the following issues were prioritised:

- Conclusion of new Group financing
- Reorganisation of Finance department
- ACT strategy in combination with FP FIT measures

The 2016 joint meetings of the Supervisory Board and the Management Board were held on 11 January, 29 February, 7 April, 6 June, 28 September, 21 November and 16 December (budget meeting).

TOPICS HANDLED BY THE SUPERVISORY BOARD IN 2016

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. At the meeting on 29 February, the Management Board told the Supervisory Board about the current Group financing situation and explained why the financing had to be restructured. The Management Board kept the Supervisory Board regularly informed about the progress of the negotiations, but especially at the Supervisory Board meetings on 7 April and 6 June. With effect from 24 June 2016, the new syndicated loan agreement with a volume of EUR 120 million and an option for an additional EUR 30 million was signed, considerably improving the Group's flexibility. At the meeting on 28 September, the Management Board gave the Supervisory Board an overview of the since completed reorganisation of the Finance department, which included the appointment of a Tax Director, a Controlling Director and a Treasurer. The first successful results of the reorganisation were presented in detail at the meetings on 7 April, 28 September, 21 November and 16 December and are already visible in the considerably improved tax rate.

The budget for the following year that is prepared annually by the Management Board was also discussed in detail by the Supervisory and Management Boards at the meetings held on 21 November and 16 December. The Supervisory Board approved the budget on 16 December.

ACT STRATEGY IN COMBINATION WITH FP FIT MEASURES

After the appointment of Rüdiger Andreas Günther as CEO, the FP 2020 strategy introduced for the Group in 2015 was subjected to a thorough review. The Supervisory Board was involved in the processes. It was informed of the results continuously and in detail at the meetings on 7 April, 6 June and 28 September. The Supervisory Board not only consented to the newly developed strategy, but also voiced its explicit approval.

The ACT strategy and the associated FP FIT measures comprise of promising initiatives and they clearly bring out the potential of FP. The Supervisory Board is supporting the strategy process and the now necessary implementation of ACT with the associated investments with full confidence.

FRANKING, INSERTING, MAIL SERVICES AND SOFTWARE PRODUCT SEGMENTS

The ACT strategy shifts the focus back onto the Franking and Inserting segment as the FP Group's key product segment. The development of the traditional franking and inserting machine business was addressed and discussed in detail at every meeting of the Supervisory Board.

The Supervisory Board and Management Board agree that the FP Group can continue to grow in the traditional business. In parallel, digitalisation will continue to influence and change documentation and communication processes. Here, ACT is a convincing strategy for the FP Group. Therefore, the development of the Mail Services and Software segment is still an important focus point. In the past year, the Management Board and the Supervisory Board regularly presented and discussed the development of the Mail Services and Software business areas in detail at the Supervisory Board meetings and outside these meetings. Two significant events are notable here. On 10 October 2016, the FP Group acquired the remaining 49% stake in internet-access GmbH (IAB) by concluding a purchase and assignment agreement. Therefore, IAB is now a 100% subsidiary of the FP Group.

The status of Mentana-Claimsoft GmbH, and especially De-Mail, was discussed at the meetings on 29 February, 7 April, 6 June, 28 September and 21 November. The introduction of the De-Mail standard for secure, confidential and legally binding digital communication is still starting more slowly than originally hoped. The FP Group's main focus is therefore shifting to other software products and services that can be developed and marketed on the basis of Mentana-Claimsoft's high level of know-how and special expertise in encryption, archiving and signature software. These can be further enhanced and developed, especially in connection with the development of new digital products for customers of the FP Group in line with ACT. FP-Sign is one of these products.

MEMBERS OF THE MANAGEMENT BOARD

The Supervisory Board appointed Rüdiger Andreas Günther as a member of the Management Board and CEO with effect on 11 January 2016. Rüdiger Andreas Günther thus succeeded Hans Szymanski, whose appointment was terminated by amicable and mutual agreement. As CEO and CFO, Rüdiger Andreas Günther is responsible for Strategic Business Development, Finance / Accounting / Controlling / Tax / Treasury, Corporate Communications / Investor Relations, Public Relations, HR / Legal / Compliance, Mergers & Acquisitions and Production / Procurement / Quality.

The Management Board contract of Thomas Grethe as member of the Management Board of Francotyp-Postalia Holding AG responsible for the Franking and Inserting segment (Sales Germany, International, Asia, Product Management, Strategic Business Development), Internal Audit and Strategic Marketing / Brand Management was extended to 30 June 2018 with effect on 1 July 2016.

In connection with the German Corporate Governance Code's recommendation for the remuneration system of the Management Board, the Supervisory Board dealt intensively with the issue of the remuneration structure in 2016. The Supervisory Board is consulting with an external independent remuneration expert for the assessment and further discussion of remuneration.

WORK IN THE COMMITTEES

Due to 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 as well as the effectiveness of the internal monitoring system, risk management system and internal audit system. Examination and monitoring is based on the regular reports by the Management Board.

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 management and group management report by the Management Board. 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 of 31 December 2016 as well as the consolidated financial statements and combined Group management report as of 31 December 2016, and has issued an unqualified opinion thereof in each case.

In accordance with section 315a German Commercial Code (Handelsgesetzbuch – HGB), the Group management report and 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 30 March 2017, in the presence of the independent auditor, who reported on key audit findings, the 2016 annual financial statements, 2016 consolidated financial statements and combined Group management report and audit reports were discussed comprehensively. The Supervisory Board concurs with the Management Board's presentation of the company's and Group's situation in its reports and annual financial statements as well as with the results of the audit reports. Accordingly, the Supervisory Board raises no objections thereto. The Supervisory Board approved by resolution the financial statements prepared by the Management Board on 30 March 2017. The financial statements for 2016 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 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 Declaration on Corporate Governance in accordance with section 289a HGB, and will make this declaration permanently available to shareholders on the Francotyp-Postalia Holding AG website. The Management Board and the Supervisory Board broadly comply with the suggestions and recommendations of the Code. The Declaration on Corporate Governance, which also forms part of the 2016 Annual Report, and the Declaration of Compliance give detailed explanations of points where the Management Board and the Supervisory Board digress from the Code's suggestions and recommendations.

In accordance with the compliance guidelines introduced worldwide in 2011, the Supervisory Board receives regular reports on compliance in the FP Group.

EXPRESSION OF THANKS

The Supervisory Board would like to thank the members of the Management Board, the managing directors of the subsidiaries and all employees for their commitment and achievements in the fiscal year 2016. 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.

April 2017

The Supervisory Board
Francotyp-Postalia Holding AG

Klaus Röhrig

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 Supervisory 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 – Bilanzrechts-modernisierungsgesetz). 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.

ENVIRONMENT

ENVIRONMENT AND SOCIAL COMMITMENT

ENVIRONMENTAL, ENERGY, QUALITY, OCCUPATIONAL HEALTH SAFETY, AND INFORMATION SECURITY MANAGEMENT

The FP Group thinks and acts sustainably, taking responsibility for its employees, its customers, partners, neighbours and society. An integrated management system guarantees a continuous improvement of services for the benefit of customers and for the protection of employees and the environment. The important aspects include:

- Regular, recurring work processes
- Defined responsibilities
- Organised information flows and internal and external interfaces
- Constant controlling to assure the quality of work steps

For years, the FP Group has been steadily augmenting this system with new issues, including environmental, occupational health and safety, energy, and information security management systems. The significance of sustainability, including with respect to customers, is illustrated by the regular certification of the integrated management system according to the relevant standards.

With its focus on sustainability, Francotyp-Postalia is a frontrunner among the competition. In 2015, it was the first company in the industry to introduce a quality management system in accordance with ISO 9001:2015 and an environmental management system in accordance with ISO 14001:2015. In 2016, it also changed its occupational health and safety management system to comply with ISO 45001:2016. In addition, the system was successfully certified according to ISO 50001:2011 (energy management) and individual locations were already certified according to ISO / IEC 27001:2013 (information security) in the past fiscal year. The FP Group is therefore the world's only provider of franking systems and mail solutions that meets all basic standards and has been certified accordingly.

Environmental protection, occupational health and safety, the conservation of resources and information security are important management tasks for the FP Group. An integrated management system ensures their implementation in all operational roles and at all operational levels. This system is brought to life by committed and confident employees. The FP Group continuously raises their awareness of environmental and security issues through appropriate information and training.

The FP Group is mindful of environmental protection and the conservation of resources as early as the product development stage. For example, the PostBase franking system meets the latest requirements for environmentally-aware franking. The innovative system scores points with its significantly reduced weight, the option to re-use components, and the labelling of the plastics used. In the area of energy consumption, PostBase meets the strict requirements of Energy Star Version 1.2 and has been awarded the "Blue Angel" environmental label. In addition, customers can dispose of used ink cartridges in an environmentally friendly manner.

As a manufacturer, the FP Group makes sure to conduct sophisticated quality management. In 2015 and 2016, the locations of FP IAB Internet Access GmbH, FP freesort GmbH and FP Mentana-Claimsoft GmbH were integrated into the FP Group's integrated management system. In connection with consistent process documentation, the auditors highlighted the high level of quality, environmental, energy and occupational safety management and information security that was already in place.

In 2016, Mentana-Claimsoft was the first company in Germany to be awarded the TR-RESISCAN certification. If a process is thus certified, users can scan archived documents and subsequently avoid using paper without sacrificing the evidential value of a document. These system certificates will be integrated into the FP Group's overall certification concept in the next two years.

In 2015, the English subsidiary Francotyp-Postalia Ltd. had its quality management certified according to BS EN ISO 9001:2008 and its environmental management system according to BS EN ISO 14001:2004. The compliance with and guarantee of environmental standards was additionally audited in 2017 via the certification according to the Transform WEEE Compliance Scheme

The FP Group is the world's only provider of franking systems that meets all basic standards.

SOCIAL RESPONSIBILITY

The FP Group is aware of its social responsibility and acts accordingly. For example, it supports people with disabilities. FP freesort has paid attention to accessibility and meeting the needs of disabled people since it was founded. The company has numerous deaf-mute and hard-of-hearing employees and has won several awards for this. FP Produktionsgesellschaft mbH, based in Wittenberge, Brandenburg, is also active in this area. The company supports the Lebenshilfe Prignitz e.V. association, which helps disabled people and their families in the Wittenberge area.

Foreign subsidiaries likewise get involved beyond their company walls. The English subsidiary donates to charity on a regular basis. Our sponsored projects or associations are chosen by FP employees and change every three months. In the US, the FP Group has been supporting the National Breast Cancer Foundation (NBCF) for several years. The NBCF focuses on providing information and medical check-ups in relation to breast cancer. The FP Group is committed to fighting cancer in Italy, too, and has signed up for a partnership with the "Lega Italiana Lotta ai Tumori" (LILT, Italian Association Against Cancer). For every LILT PostBase sold, FP makes a set donation to LILT.

In a similar way, the Swedish subsidiary supports "Médecins Sans Frontières". For example, customers are given the possibility to donate part of their rental costs for franking systems to "Médecins Sans Frontières". FP Netherlands donates money to the international children's charity "Plan". The Dutch FP subsidiary also supports a wind power project in India in partnership with The Netherlands' postal services, which compensates for CO_2 emissions that result from mail volumes.

The FP Group takes social responsibility and gets involved beyond its company walls.

THE SHARE

FP SHARE PERFORMS STRONGLY COMPARED TO THE MARKET AS A WHOLE

In November 2016 the Management Board presented the new ACT strategy and the FP business model to many investors and interested market participants. Since then, the share price has soared. This demonstrates the confidence of investors in the new management and the prospects of the FP Group.

The new strategy comprises the three components of Attack, Customer and Transformation. By 2023, its 100th year, FP wants to double its revenue to around EUR 400 million and achieve an EBITDA margin of approximately 20%. At the same time, an EPS of ≥ EUR 1 is targeted as from 2020 and the Management Board is adhering to its dividend policy. If free cash flow is positive, the dividend payout ratio should be between 35 and 50% of the adjusted net income for the year.

The change at the top of the company has not just brought change to the company – communication with all capital market participants has been and will continue to be intensified considerably. A continuous, open and transparent communication with all capital market participants is very important to the Management Board and the IR team.

PRICE GAIN OF 26.5% – STRONG PERFORMANCE COMPARED TO THE OVERALL MARKET

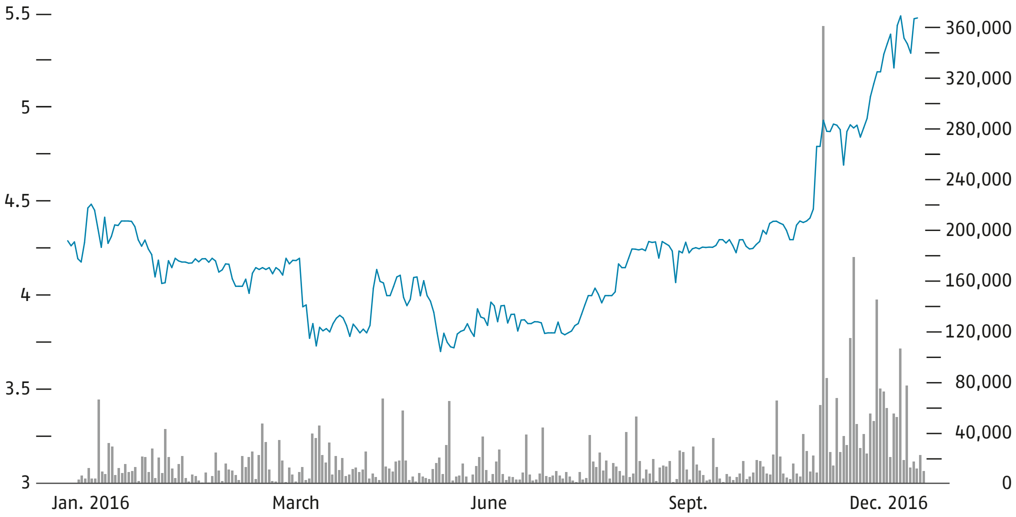
The FP share initially joined the rest of the market in its declining development in the first half of the year. At the start of 2016, sentiment was marred by worries about a slump in the global economy. In mid-February, the German DAX share index reached its annual low at 8,752 points. The market was subsequently very volatile, and the German leading index did not pick up momentum until the second half of the year. The stock market barometer reached its annual high of 11,481 points on the last trading day of the year. Over 2016 as a whole, the DAX increased by 6.9%. There was a similar development in the SDAX, whereby the index of 50 smaller companies, or small caps, was dominated by greater fluctuations and increased by only 4.6% over the year as a whole.

FP's share price rose significantly in the second half of the year and posted a much better performance than the SDAX. Investors were most impressed by the announcement of the ACT strategy and the FP FIT programme. At the start of December, the FP share exceeded the EUR 5 mark for the first time since 2008. The share reached its annual high of EUR 5.50 on 22 December. The FP share closed 2016 at EUR 5.49 and thus achieved a price gain of 26.5% for the year as a whole. A strong performance compared to the market as a whole.

An average of around 19,600 shares were traded on Xetra each day. The high was reached on the day the strategy was announced in November 2016, with over 368,000 shares traded in a single trading day. Overall, FP shares were traded with liquidity; the trading volume was higher than the previous year's figure.

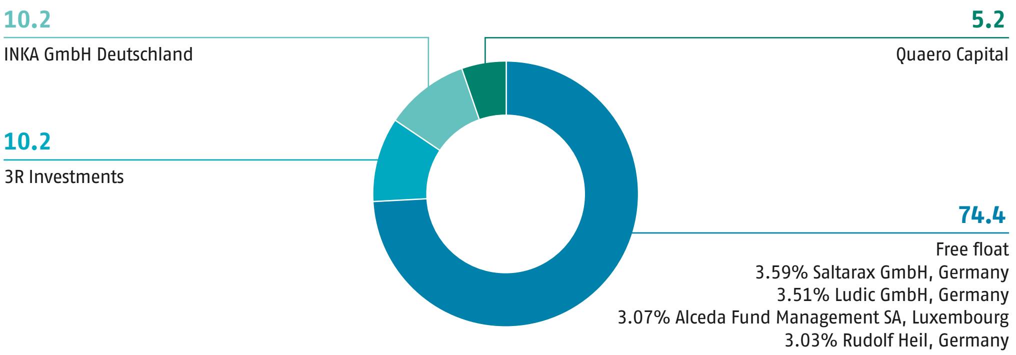
PERFORMANCE OF THE FRANCOTYP-POSTALIA SHARE (1.1.2016–30.12.2016)

Share price in EUR, volume in shares



STABLE INVESTOR BASE

SHAREHOLDER STRUCTURE AS AT 31 DECEMBER 2016 IN PERCENT



ANALYSTS RECOMMEND FP SHARE AS A BUY

Analyst ratings play a key role in an investor's decision whether or not to buy a share. Two institutions that also traditionally work closely with small caps, namely Hauck & Aufhäuser and Warburg Research, followed the FP share in 2016 as well. Both institutions recommend the FP share as a buy.

GREATER FOCUS ON INVESTOR DIALOGUE

The corporate strategy of the FP Group is geared towards a sustainable increase in value. Continuous, open and transparent communication with all capital market participants is very important 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. IR activities were stepped up significantly in 2016. In the past fiscal year, the Management Board presented the new ACT growth strategy to numerous investors at an investor conference it held in Frankfurt. In addition, the Management Board again attended the German Equity Forum in Frankfurt, Europe's most important platform for equity capital financing for medium-sized enterprises, in order to present FP to investors. It also took part in events and roadshows in London, Paris, Hamburg and Frankfurt, as well as in numerous one-to-one meetings either in person or over the telephone.

Investors' Day was held again in 2016 as a key event for dialogue with investors and analysts. The Management Board made use of this event, which was held in Berlin on 13 April 2016, to present the consolidated financial statements, explain the objectives and provide information on the focal points of the new strategy.

The FP Group also uses conference calls as a 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. The website, which was redesigned in 2016, and thus the new IR presence at www.fp-francotyp.com is generally the central point of contact, where all capital market participants can find relevant information about the FP Group. The Investor Relations team also uses social networks and online forums, such as ARIVA or Wallstreet Online, to engage in an open and transparent dialogue with shareholders.

In 2017, the company will further intensify its IR activities and continuously foster the dialogue with all interested capital market participants. The company's presence at roadshows and capital market conferences is set to increase 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 at +49 30 220 660-410.

ANNUAL GENERAL MEETING APPROVES DIVIDEND

Once a year, the Annual General Meeting offers all FP Group shareholders the opportunity to take part in a direct dialogue with those responsible. 43.03% of the share capital with voting rights was represented at the last Annual General Meeting, which was held in Berlin on 7 June 2016. All items on the agenda were approved by a large majority and a tax-free dividend of 12 cents per share to be paid out for the 2015 fiscal year was resolved, among other things. The Management Board and Supervisory Board propose a dividend of 16 cents per share for 2016. The proposed distribution ratio is 44% in relation to the 16 cent dividend. This means that the FP Group has met the dividend policy communicated in 2014, which targets a distribution ratio between 35% and 50% of adjusted consolidated net income.

KEY SHARE DATA

Number of shares (since 31 December 2016)	16.22 million shares
Type of shares	Bearer shares
Share capital (since 31 December 2016)[1)]	EUR 16.22 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 stock markets in Germany
Designated sponsor	ODDO SEYDLER BANK
Coverage	Warburg Research, Hauck & Aufhäuser
Announcements	Federal Gazette
Closing price (Xetra)	Euro 5.49 (30.12.2016)
Annual high (Xetra)	Euro 5.50 (22.12.2016)
Annual low (Xetra)	Euro 3.70 (13.06.2016)
Market capitalisation as at 30 December 2016	Euro 89.02 million
Earnings per share	Euro 0.36

1) The FP Group exercised the Contingent Capital in 2016 in order to issue shares for exercised stock options. Further information on the stock option plan can be found in the notes to the consolidated financial statements.

GROUP MANAGE-MENT REPORT

1. GROUP PRINCIPLES

1.1 OPERATING ACTIVITIES

Francotyp-Postalia Holding AG (FP Group, Francotyp-Postalia or the company), which has its headquarters in Berlin, provides businesses and authorities with innovative solutions for secure communications. In addition to systems for franking and inserting mail, the company's range currently comprises services such as the collection of business mail and software solutions. Thanks to its 90-year history, the FP Group boasts a unique combination of established mail processing expertise and digital know-how. The company has branches in many developed countries.

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 are able to frank their mail quickly and automatically and save postage costs using franking systems. The main revenues generator is the after-sales business, which generates recurring revenues 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.

Software Solutions segment

In the Software Solutions segment, the FP Group consolidates its business with hybrid mail services and digital solutions for fully digital communication. Using the FP subsidiary IAB's hybrid mail services, the sender dispatches a document over 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 Outbound). In addition, the FP Group offers its customers universal complete solutions for incoming mail processing (FP Inbound), whereby inbound post is digitised, analysed according to the customer's specific criteria, evaluated and then fed into the customer's data or document system in electronic form. The subsidiary Mentana-Claimsoft's 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.

Mail Services segment

The Mail Services segment comprises both the franking service – collecting unfranked outbound post and providing the franking – and the consolidation of business mail. This includes collecting letters from companies, sorting them by postcode and delivering them in batches to a sorting office of Deutsche Post or an alternative postal distributor. This business is operated by freesort, which is the leading independent consolidator of business mail on the German market with eight sorting centres throughout Germany.

1.1.2 Significant sales markets and competitive position

With its franking systems, the FP Group is represented on the most significant markets in the world, which includes Germany, the US, the United Kingdom and France. With a total of approximately 230,000 installed franking systems, the company's global market share stands at over 10%. As a result, the FP Group is the third largest provider worldwide. In Germany, the company is the market leader, with a market share of approximately 42%. Global sales are performed by subsidiaries in Germany, the US, the United Kingdom, the Netherlands, Belgium, France, Austria, Italy and Sweden as well as by a dense network of dealers in around 40 countries.

In 2016, the FP Group again benefited from the ongoing trend on a number of markets for smaller franking systems. 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 correspondence in the shape of the PostBase family.

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

In the Mail Services and Software Solutions segments, the FP Group is currently focusing 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 can guarantee the extensive collection of business mail and has thus established itself as the leading independent consolidator on the German market. The Group has its own printing centre in Berlin for hybrid mail. There is also a printing centre at the Austrian Group company in Vienna.

1.2 STRATEGIES AND OBJECTIVES

1.2.1 New era with ACT strategy

The FP Group compiled the new ACT strategy over the course of 2016 and presented it to the public in November. This strategy heralds a new era and makes the Group a dynamically growing company. It persuasively dispels the three long-standing myths about the FP business model:

More about ACT strategy on **page 14**.

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

Revenue growth in the franking machine business is viable

The performance of the FP Group in fiscal year 2016 already showed the potential still to be tapped in the core business with franking systems with revenue growth of 1.9% in the year under review as the important first indicator. This growth is based on the FP Group's good position on the changing market for franking systems. The company has an installed base of approximately 230,000 franking systems, is the market leader in Germany and is represented by its own subsidiaries and by dealers in a good 50 countries around the world. With a share in the franking machine market of over 10%, FP is the third-largest company worldwide in this industry.

The company has completed its franking system product portfolio in the past year and now has an innovative and simultaneously customer-oriented product range; the FP Group thus appeals to a broad spectrum of businesses from small customers to customers with medium and large volumes of correspondence. Over 80% of these companies continue to use letters even in the digital age, especially for confidential documents, as evidenced again in 2016 by a study by the German ICT industry association BITKOM together with FP.

Service

More about this topic in the FP efficiency report:

www.fp-francotyp.com/Effizienzreport

Parts of the franking machine market are growing

Within the franking machine market, the penetration of e-mail is bringing substantial change: companies are increasingly replacing large systems for high volumes of correspondence with smaller systems. The shift from the C segment with more than 2,000 letters a day to the A segment with fewer than 200 letters a day is convincingly demonstrated by the example of the largest franking machine market, the US. While the C and B segments (200–2,000 letters a day) are shrinking considerably, the

A segment is growing by around 3.4% per year. Businesses that previously processed large to very large volumes of correspondence themselves are now outsourcing this processing to third-party service providers. Small volumes of traditional correspondence 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 FP opportunities to acquire new customers, as the FP Group has state-of-the-art technological systems that have won several awards for their design and functionality, including in particular the PostBase franking systems in the A segment.

Digitalisation is happening gradually

Digitalisation is a rather drawn-out process, especially in the field of communication and documentation processes. A major reason for this is the high degree of uncertainty regarding the correct application of digital media and channels of communication. Companies are sticking to tried-and-trusted processes and media for confidential information in particular, while using e-mail primarily for sending simple correspondence.

More about digitalisation on **page 20.**

Digitalisation itself usually happens in three stages:

1. Digitalisation of inbound mail
2. Production and processing of outbound mail
3. Complete digital document and transaction management

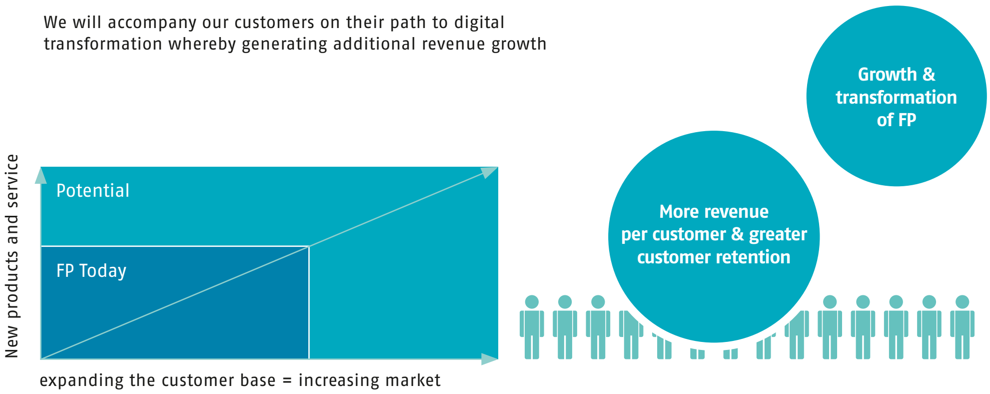
These areas are being digitalised successively, which in most cases does not mean that the previously entirely analogue, paper-based communication and documentation processes are evolving into exclusively digital ones. Instead, both communication channels exist side-by-side. Digitalisation is therefore not disrupting the market, but leading to protracted transformation processes among customers. The FP Group already has solutions such as FP-Sign for accompanying these processes and digitising both in- and outbound mail.

Detailed information about the software solution FP-Sign on **page 23.**

Paradigm shift in the FP Group

When the new strategy was drawn up, the facts relevant to the FP Group were thus reviewed and re-evaluated from a different perspective. It was found that FP can use the potential of the existing business to expand its existing customer base of around 200,000 companies. It shows at the same time an opportunity to accompany each existing and every new customer on the path to digital transformation and to offer these customers digital communication products beyond conventional mail processing. Overall, this results in greater customer retention and higher, sustainably profitable growth per customer.

The new ACT strategy takes these opportunities into account. It comprises the three components of Attack, Customer Journey and Transformation. It is supported by the ongoing FP FIT measures to increase efficiency and implementation expertise in all areas, with the four priorities of finance, HR, sales and digitalisation.



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

As demonstrated above, the FP Group's core business with franking systems has more growth potential than previously assumed. More and more business customers are choosing systems for smaller volumes of correspondence, an area that is covered globally by FP's innovative PostBase family. The company is therefore already increasing its revenues. 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 successively acquire market share in the core business and expand its customer base. In addition, the FP Group is planning to enhance its range of products and services by making additions relating to packets and parcel shipment, for example.

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

The FP Group is responding to changing customer requirements and evolving to become a partner for digitalising processes relating to in- and outbound business communication in companies and authorities. To this end, existing services from the subsidiary IAB are being expanded systematically with the help of the subsidiary freesort's sorting centres throughout Germany. This is creating digitalisation hubs for in- and outbound mail. The FP Group is strengthening its market position with additional innovations. For example, FP-Sign is a pioneering product presented at CeBIT 2017. With this new solution for the secure, confidential and legally binding digital signing and exchange of contracts and documents, the FP Group is addressing a growing market that is expected to expand by 43% per year in the next five years (Aragon Research).

Transformation: developing new, digital business areas

At the same time, FP'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 of the core business in line with changing customer needs.

This is followed by the exploration and testing of future markets, products and business models on the basis of FP's DNA (cryptography, sensor technology, actuator technology, connectivity) and the further consideration of strategic options for the transformation of FP.

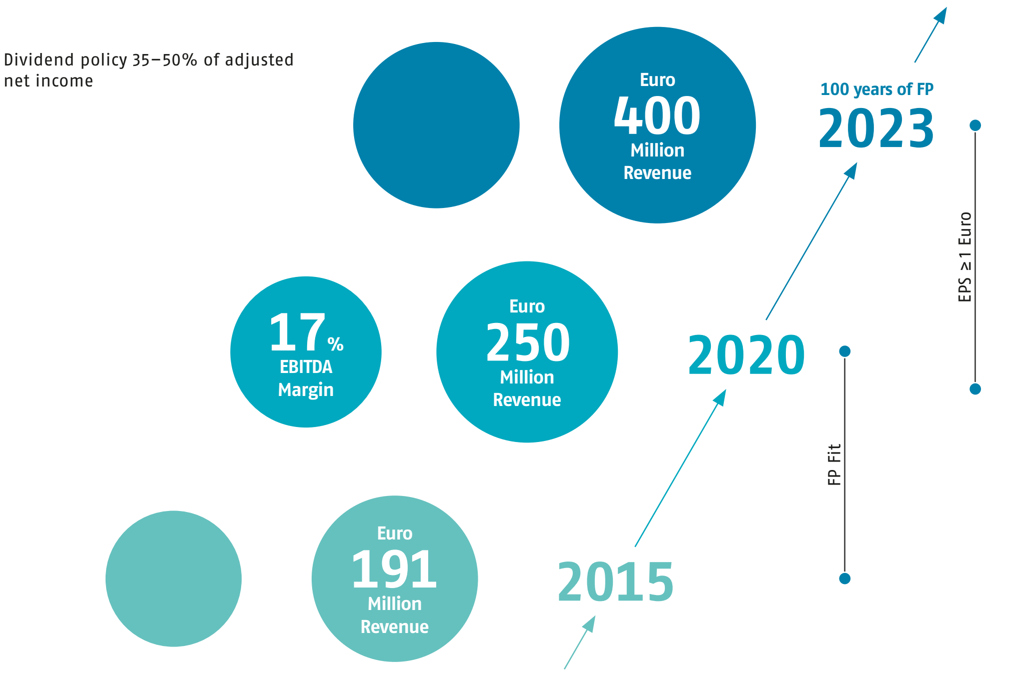
More about business areas of FP:

www.fp-francotyp.com/fpkonzern

1.2.2 Clear targets for organic growth

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

The company is creating the basis for ACT with FP FIT, which combines existing and newly defined measures. These measures serve to increase efficiency and implementation expertise in all areas of the company. The measures with the four priorities of finance, HR, sales and digitalisation will take full effect from 2019. In the period from 2020 to 2023, the company then aims to generate earnings per share (EPS) of at least EUR 1.00. The company remains constant in its dividend policy: subject to positive free cash flow, the company plans to distribute between 35% and 50% of the Group's adjusted net income.

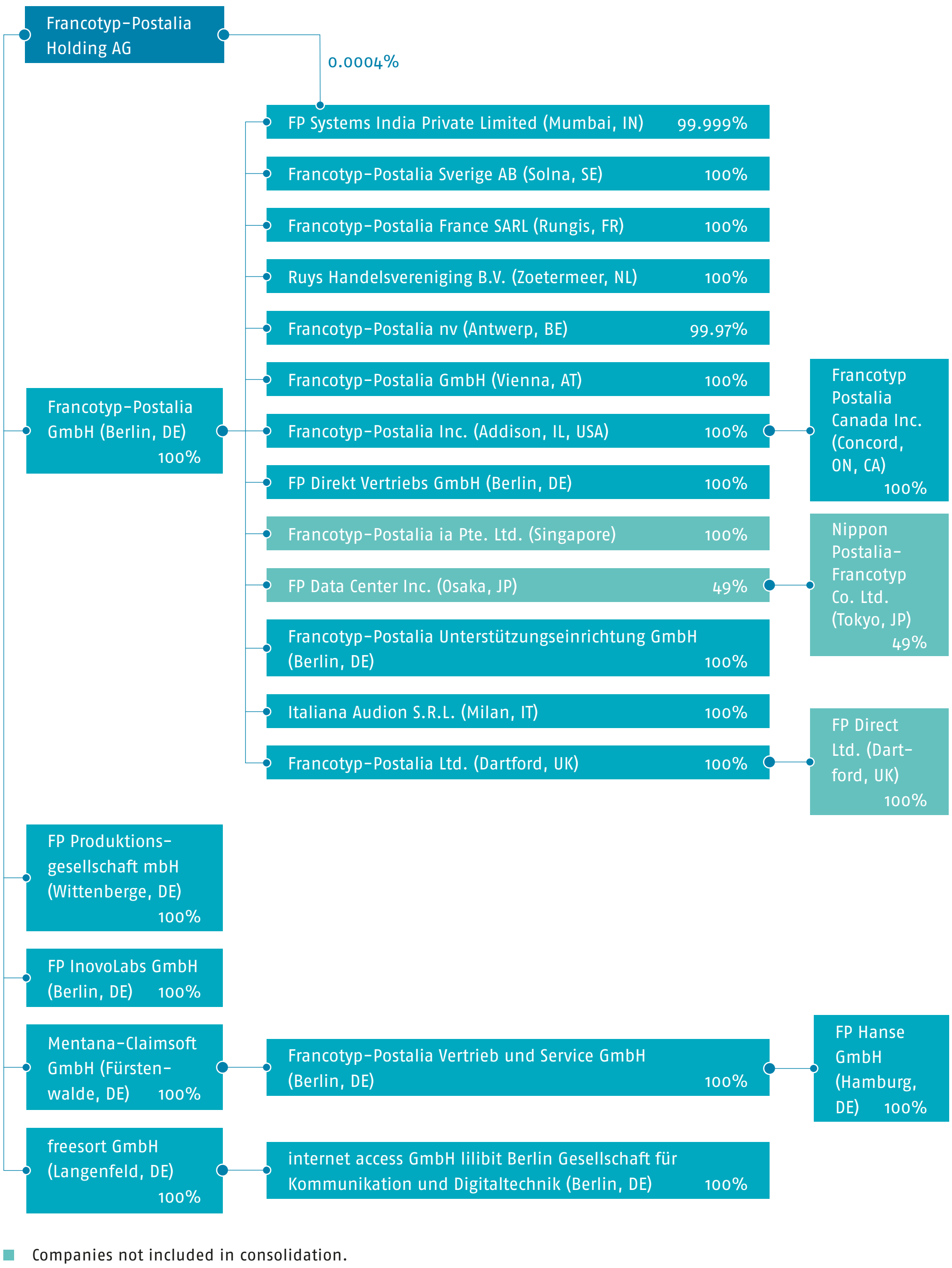


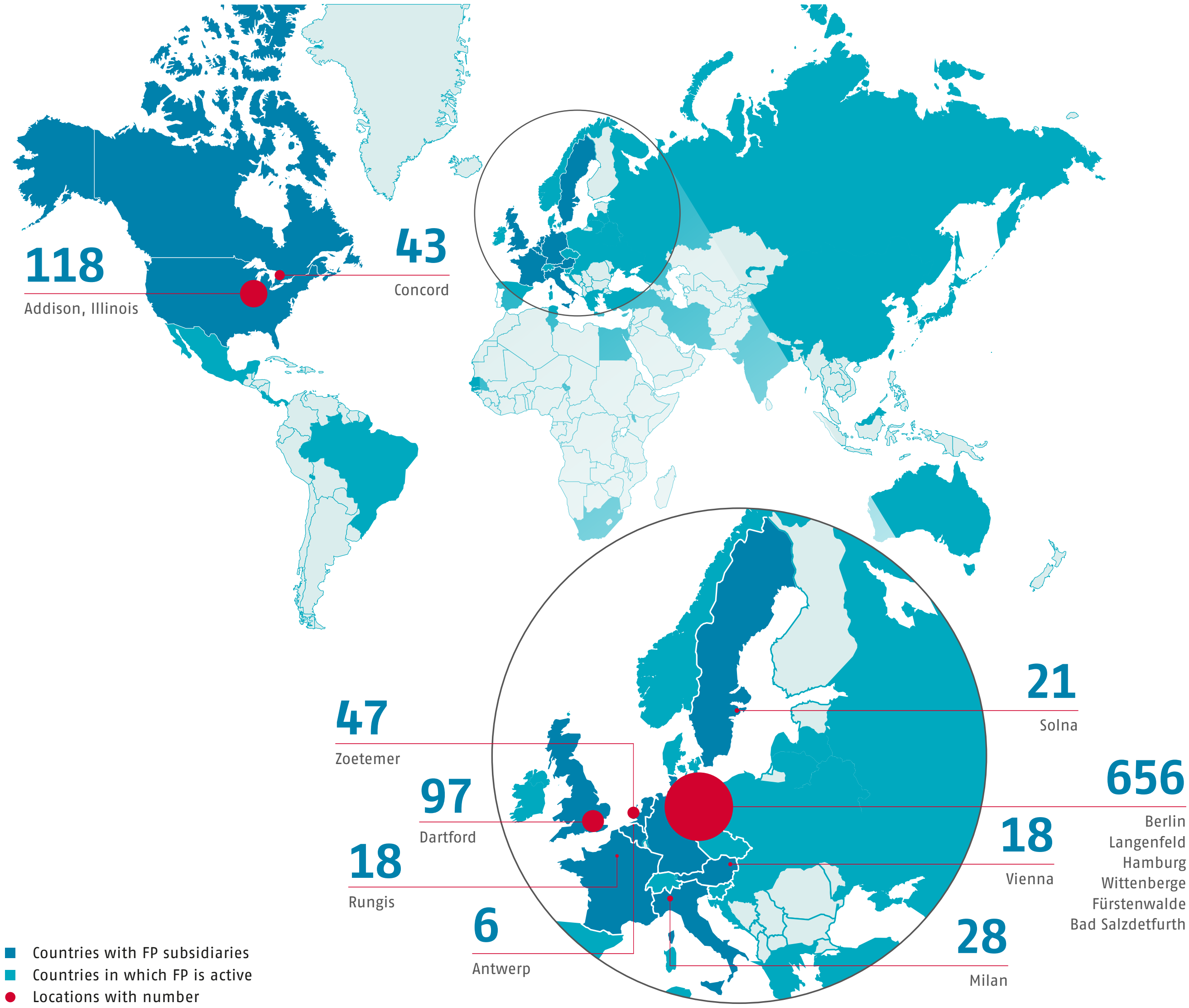
CONSOLIDATED FINANCIAL STATEMENTS

1.3 ORGANISATION

1.3.1 Group structure and locations

The chart below shows the Group structure as at 31 December 2016.





The headquarters and main office of the FP Group is located in Berlin. Key departments such as Accounting, Procurement, IT and Group Controlling are also based in Berlin, where the franking systems and numerous software solutions are also developed. Franking and inserting systems are distributed worldwide by subsidiaries on the markets in Germany, the United Kingdom, 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.

Since 2012, the FP Group has been manufacturing its franking systems on a modern and flexible production line in Wittenberge, Brandenburg.

1.3.2 Management and controlling

Please see section V. Management Board and Supervisory Board (additional disclosures in accordance with German Commercial Code) in the notes for information on the Management Board members' responsibilities according to the schedule of responsibilities.

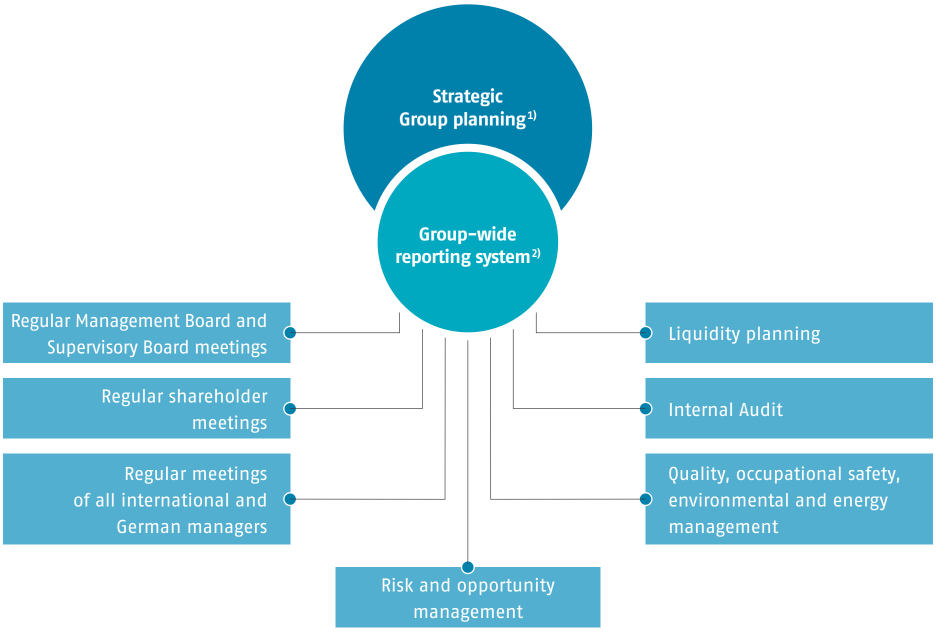
The Management Board works closely with a team of managers.

A Supervisory Board with three members monitors and advises the Management Board. There were no changes of personnel within the Supervisory Board in the past fiscal year. As at 31 December 2016, the Supervisory Board comprised the following members: Klaus Röhrig (Chairman), Robert Feldmeier (Deputy Chairman) and Botho Oppermann.

1.4 MANAGEMENT

1.4.1 Management system

MANAGEMENT SYSTEM



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

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

The Management Board uses both the Group-wide reporting system and strategic Group planning as management tools. Strategic planning covers a period of three years and is updated on an annual basis during the budget process. It is also adjusted during the year.

All segments and subsidiaries report monthly as part of the Group-wide reporting on their net assets, financial position and results of operations. This data is consolidated in the Group's quarterly and financial reports.

Beyond this, the following components essentially guarantee compliance with the Group's internal management system:

- regular Management Board and Supervisory Board meetings
- regular shareholder meetings
- regular meetings of all international and German managers

- risk and opportunity management
- liquidity planning
- Internal Audit
- quality, occupational safety, environmental and energy management

1.4.2 Financial performance indicators

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

- Revenues
- EBITDA
- Free cash flow

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

Revenues 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.

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.

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 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 revenues. 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.

1.5 RESEARCH AND DEVELOPMENT

1.5.1 Research and development / targets and new products

- Developing new products in line with our DNA
- Supporting the key strategic measures under the ACT strategy to develop new, innovative products and overhaul existing products throughout the Customer Journey
- Increasing efficiency and innovative capacity by implementing new, agile methods of innovation as part of FP FIT
- Revising the existing patent strategy
- Establishing an innovation network – close cooperation with universities and start-ups

New products, national variants and software programmes introduced in the FP Group

Franking and Inserting segment

- PostBase 100 with dynamic scale, new automatic feeding and stacking tray
- 100 postage tariff tables enabled worldwide
- PostBase ONE
- PostBase Mini
- SANDD
- 14 new national variants

Software Solutions segment

- FP-Sign
- MailOne Canada

1.5.2 The DNA of the FP Group

More about the DNA of FP on **page 15**.

Innovation is in FP's DNA

The creative energy of the FP Group's development engineers provides the platform for innovative products and services. Alongside the maintenance of existing products, priority is placed on developing new, innovative products and services. Agile development methods have been established practice here for years, as has cooperation with universities. Through the initiation and supervision of degree dissertations, the collaboration between experienced FP engineers and students gives rise to new ideas that are incorporated into the development of innovative products and services. In addition, FP specifically seeks partnerships with young companies. The digital transformation of companies brings challenges at many levels, and collaborations are needed in order to maintain the everaccelerating pace of innovation cycles. FP's DNA predestines the Group to advance into the fields of Industry 4.0 and the Internet of Things.

Cryptography (security and encryption software)

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 discipline. Cryptography was originally the science of the encryption of information. Today, cryptography also generally concerns the conception, definition and design of information systems that are resistant to manipulation and unauthorised reading, i.e. information security. 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 the franking machine, this mainly relates to high-security transmission of monetary value and sensor data.

Sensor/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 programmes. This ensures that transportation, printing and system protection is of high quality.

Software

Software is of critical importance to the success of FP products in use around the world. Software development within the FP Group ranges from machine control and the group of PC applications to the servers that implement our cryptography and web applications. These days, software spans a wide range of different technologies. FP is increasingly organising software development in competence centres. These ensure that we keep our finger on the pulse of the different areas of software technology. Developing mobile apps is a good example here. Working with external partners ensures we can promptly react to trends. The expansion of the competence centres will be continued in 2017.

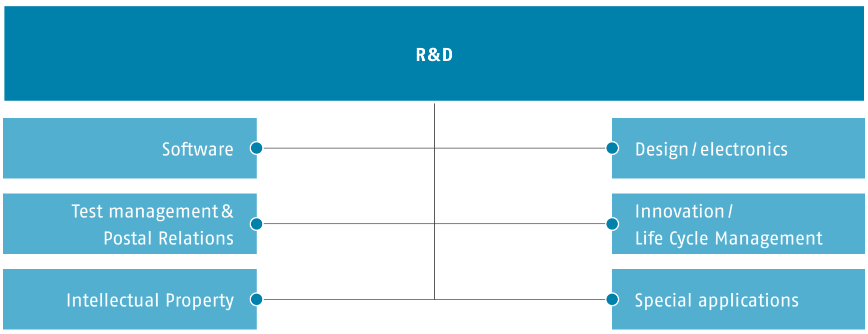
Connectivity

An FP product or service is no longer a single unit that works in isolation. For example, FP has more than 110,000 PostBase systems, which are all linked to the FP Repository. This system allows new templates to be uploaded to the respective systems, for example. Each product and service is a complex system that is connected to and communicates with various other computers and systems. The navigator for franking systems establishes a connection to hybrid (web-mail) or fully electronic mailing systems. Cloud systems can be used to access parcel services and to exchange 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. For example, the validity of an address can be checked as it is being entered.

1.5.3 Innovative product development

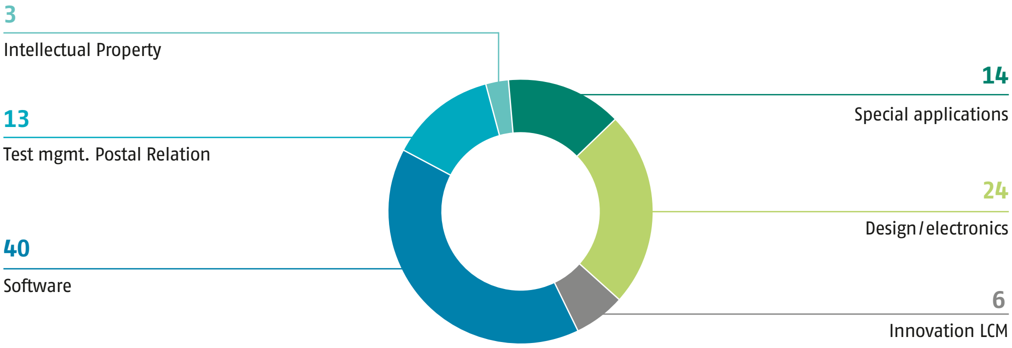
Research and development structure and employees

Research and development divisions



Allocation of employees to the research and development divisions

IN PERCENT



Research and development employees

At the end of 2016, 75 employees were permanent staff in the research and development divisions of the Group (including subsidiaries), which represents 7.1% of the Group's total workforce (previous year: 7.4%). Additional external employees are temporarily recruited for certain projects, as required. At the end of 2016, external staff accounted for 10.7% of the permanent R&D workforce.

Selected research and development topics

FP-Sign

FP-Sign is a platform-based solution for digital handling of documentbased transactions and processes via BSI-certified cloud applications. Using, FP-Sign, customers can easily add digital signatures and countersignatures to documents in compliance with the law. The specially developed solution allows all contract parties easy access regardless of time and place. Users can be authenticated for the portal by, for example, video identification or mobile TAN procedure. FP-Sign can be used in various ways. As an enterprise solution, the application can be integrated into existing CRM and ERP systems via open interfaces. This is particularly advantageous for large businesses, as each department from HR and Purchasing through to Sales has its own applications into which FP-Sign is seamlessly integrated. In addition, the software-as-a-service solution can also be operated via a portal. This option is particularly attractive to small and medium-sized enterprises, because there is no cost or effort required to implement it, and FP-Sign can be used immediately as required.

The advantage for customers is that contracts and other legally relevant documents can be legally and digitally signed by all parties in a minimum of time without unnecessary format changes.

More about the product FP-Sign on **page 23.**

PostBase One

In spring 2016, PostBase One was launched as scheduled. The new system, which tops off the PostBase product family, can process between 120 and 150 letters per minute. The key factor for PostBase One's success is its vertical letter feed feature with mixed mail capability, i.e. processing letters that have not been pre-sorted by format and thickness (up to 20mm), which is unrivalled in this performance class.

In addition, PostBase One was designed as a convertible modular system. Depending on customer requirements, the core system can be supplemented by

- an automatic feeder,
- an expander for higher letter volumes,
- an automatic letter sealer (Power Sealer),
- a dynamic scale,
- various letter trays,
- an external static scale that can be placed anywhere and a connection to the inserting machine

and the software products NavigatorBasic (PC control software), NavigatorPlus (cost management) and MailReport. Like all other PostBase systems, PostBase One is operated intuitively by the colour touchscreen. All FP franking systems now follow the same operating philosophy, which substantially reduces the expense and training required for testing, service and the hotline. A high proportion of recycled components, e.g. the security module and the scale components, and the simple handling of cartridges round off the product experience.

Service

For further information about the PostBase product family:

https://francotyp.de/frankiersysteme/frankiermaschinen/frankiermaschine-postbase/

PostBase 100 with dynamic scale

The benchmarks for the development of the PostBase 100 with dynamic scale were efficiency and high productivity. On the way to medium mail volumes, the new franking system PostBase 100 provides an innovative system that links complete convenience with speed. PostBase 100 can process up to 100 letters per minute. The new PostBase's special feature is its dynamic scale, which allows customers to conveniently process stacks of uniform mixed mail. The automatic feeder separates the letters and feeds them onto the dynamic scale. The scale determines the weight and significant dimensions of each letter and calculates the postage required. This value is transmitted to the franking system, so that accounting and franking are performed automatically.

Mail One Canada

MailOne offers customers a cloud-based solution for sending parcels via Canada Mail. Customers that already use a franking system from Francotyp-Postalia can combine it with MailOne at no extra effort.

New customers can easily register and use the offered services. Thanks to the applied cloud technology, MailOne can also be used on mobile devices.

Development processes

The use of agile development methods, e.g. SCRUM, enables FP to adapt products dynamically to market requirements. This means that, while there is an idea at the start of a project, this idea is not slavishly carried out as per a conventional waterfall model, but continuously improved upon by 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 (also known as Google sprints) already result in quick market feedback during the inception phase of the product idea. The aim of this method is to receive qualified feedback on a product idea after just five days.

Design, electronics and development labs

Innovative techniques are also used in design engineering. Customers expect products and services developed by FP to be highly reliable in daily operations. In addition, the system is also expected to meet the sophisticated design standards of a modern office. FP solutions for the small and medium performance segment in particular are moving from the traditional mailroom directly to the customers' offices. Besides ease of use, there are two factors that meet with high levels of approval among customers:

1. Very low operating noise
2. Award-winning design

Successful design is mainly thanks to early and intensive phases of testing operating principles in the FP laboratories with corresponding feedback from the designers. Feed-back can immediately be introduced into the CAD (computer-aided design) systems. The new design data acquired there go directly to one of the 3D printers in order to present, apply and retest the new component in a minimum amount of time. This process saves time and accelerates the development process.

Cooperation with universities

Cooperation with universities and other educational providers is essential for any company that wishes to be ready for the future. The FP Group is no exception. FP offers students working on their bachelor's and master's dissertations opportunities to work 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.

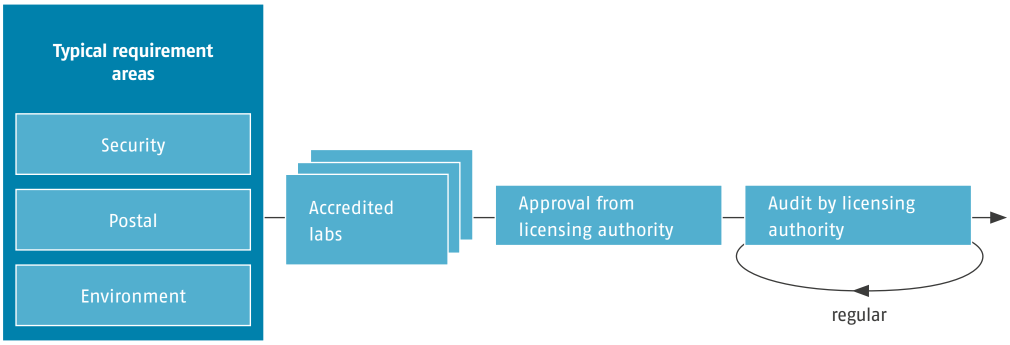
1.5.4 Certification conditions and processes for products and services of the FP Group

Most FP products and services require an certification from a regulatory authority. For franking systems this is often the postal authorities, for software products usually the BSI (German Federal Office for Information Security), to name just the most important.

The postal authorities demand evidence that a franking system is secure 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. This is money that a customer has to pay for the post office's carrying service and must load onto its franking system. This money must be settled and transferred exactly. It is obvious that the postal companies are interested in a high security level and expect manufacturers to validate every new model according to a test specification. 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 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 synergies to modern products such as FP-Sign. Confidentiality, security and legal obligation are essential requirements for the success of products and services in this context.

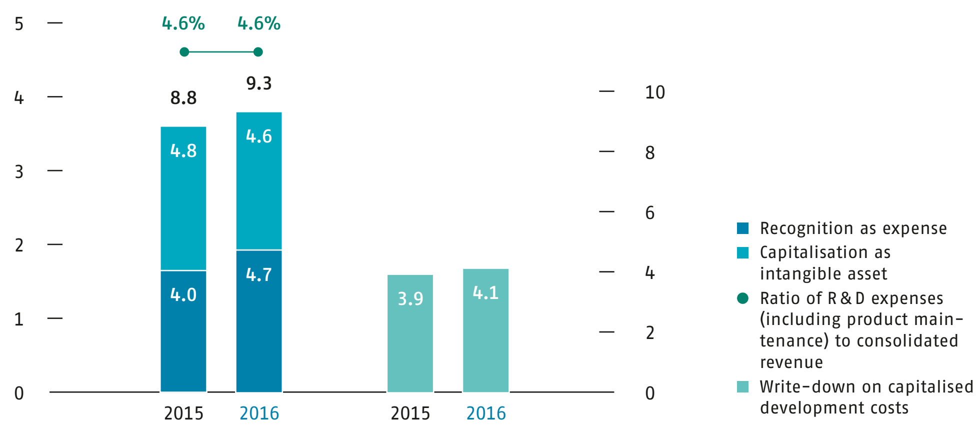
TYPICAL APPROVAL PROCESS



1.5.5 Research and development costs

In fiscal year 2016, research and development costs increased 5.4% year on year. The share of capitalised development costs in the period's total research and development costs (capitalisation rate) fell from 54.6% in the reporting period to 49.3% in the previous year.

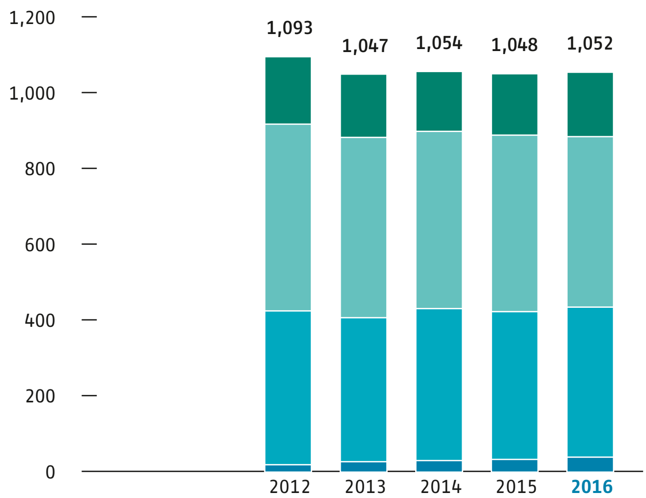
RESEARCH AND DEVELOPMENT COSTS IN EUR MILLION



1.6 EMPLOYEES

The following provides a segment breakdown of employees as at 31 December 2016 (with comparative figures):

EMPLOYEE DEVELOPMENT



	2012	2013	2014	2015	2016
Production	178	167	158	162	170
Sales Germany	493	476	468	466	450
International Sales	406	380	401	390	396
Central Functions	16	24	27	30	36

In May 2016, Francotyp-Postalia agreed collective wage agreements until 2020 for a total of 190 employees in Germany. The agreements include an employment guarantee to 31 December 2020 for three-quarters of these employees.

The number of employees in the Sales Germany segment declined primarily as a result of the planned realignment of customer service in the Franking and Inserting segment.

2. ECONOMIC CONDITIONS

2.1 MACROECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

According to calculations by the International Monetary Fund (IMF), the global gross domestic product (GDP) increased by over 3% in 2016. Higher growth in developing countries was offset by lower growth rates in the developed countries, which are particularly relevant to the FP Group. The pace of growth slowed in the US, FP's largest foreign market, in particular in 2016. However, the economy in the eurozone and Germany was slightly better, as shown in the figure below:

TABLE OF GDP GROWTH IN 2016

World	United States	Eurozone	Germany
+3.1%	+1.6%	+1.7%	+1.9%

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

The euro / US dollar exchange rate was volatile. While the euro was able to maintain its relatively strong position against the dollar in the first half of 2016, it consistently lost ground in the second half of the year. At the end of 2016, EUR 1 was worth USD 1.05, which is 4 cents lower than at the end of the previous year (USD 1.09).

The FP Group processes post in foreign and domestic markets. Various post office statistics report that around 320 billion letters continue to be sent worldwide every year – mostly in Europe and North America. However, global mail volumes fell by 3.3% in 2015 according to the Universal Postal Union; figures for 2016 have not been published yet. This decline is changing the market for franking systems and leading to slight decreases overall. The A segment, the FP Group's domain, is an exception to this rule, where the four largest markets, the US, the UK, France and Germany, have seen significant growth since 2010, as the figure below shows.

AVERAGE ANNUAL GROWTH RATE 2010–2015

A segment	B segment	C segment
+3.4%	–0.7%	–11.2%

Source: post office statistics and own assumptions

2.2 LEGAL CONDITIONS

The EU regulation on electronic identification and trust services for electronic transactions in the internal market (eIDAS Regulation) entered into force on 1 July 2016. The regulation contains binding, pan-European provisions relating to "electronic identification" and "electronic trust services". As well as a new regulation on electronic signatures, it also involves services relating to electronic seals and time stamps, electronic registered delivery and delivery service and website certificates. There were no other significant changes to legal conditions for the FP Group's business in 2016.

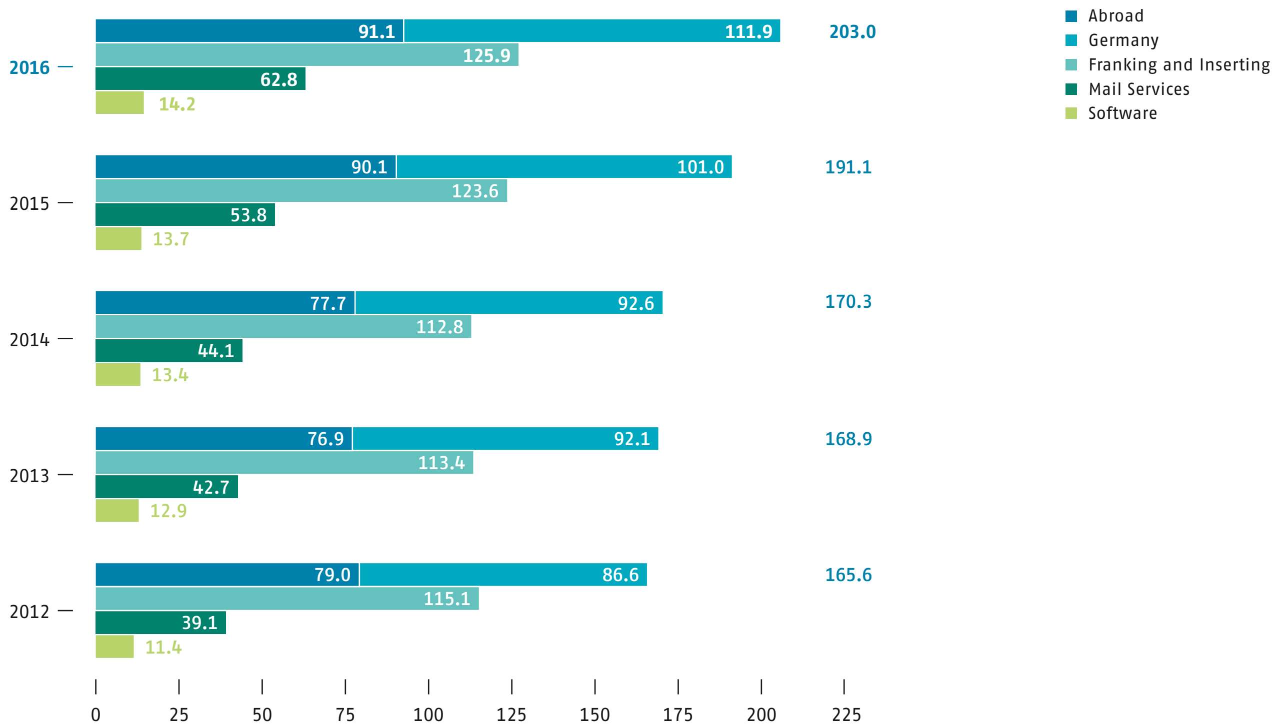
3. INCOME SITUATION

3.1 CHANGES IN MATERIAL ITEMS IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in EUR million	2016	2015	Change %
Revenues	**203.0**	**191.1**	**6.2%**
Change in inventories	0.2	–0.1	-
Other own work capitalised	11.4	15.8	–27.8%
Overall performance	**214.5**	**206.7**	**3.8%**
Other income	3.8	4.3	–12.5%
Cost of materials	96.5	91.3	5.7%
Staff costs	57.4	57.4	0.1%
Other expenses	37.1	35.6	4.3%
EBITDA	**27.2**	**26.8**	**1.6%**
Amortisation, depreciation and write-downs	17.5	17.8	–1.8%
EBIT	**9.7**	**9.0**	**8.1%**
Net interest income	–0.2	–1.6	-
Other financial result	0.1	0.2	–53.1%
Income taxes	–3.4	–3.9	–13.1%
Consolidated net income	**6.2**	**3.7**	**66.5%**

3.1.1 Revenue development

CONSOLIDATED REVENUES IN EUR MILLION



In fiscal year 2016, the FP Group maintained its growth trajectory and increased its revenues by 6.2% year on year. All segments contributed to this growth. Against the market trend, revenues in the traditional franking and inserting business increased by 1.9% year on year to EUR 125.9 million in 2016. Adjusted for negative exchange rate effects, the company generated a growth rate of 3.8% in the core business in 2016.

In the German domestic market, the FP Group increased its revenues by 10.8% year on year to EUR 111.9 million in fiscal year 2016. The Mail Services segment had a significant share in this growth; its revenues increased by 16.8% to EUR 62.8 million in 2016, due partly to a Deutsche Post AG tariff change. At the same time, mail volumes increased from around 198 million consignments in 2015 to around 212 million consignments. Revenues with new and existing customers also increased by 4.0% year on year to EUR 14.2 million in the business with software solutions. In the Franking and Inserting segment, the company increased its revenues by 3.9% to EUR 35.2 million in 2016 (previous year: EUR 33.9 million).

The FP Group's largest foreign market in 2016 was again the US, where revenues moved up from EUR 42.7 million in the previous year to EUR 43.5 million. Following the end of decertification, new business with PostBase continued to enjoy positive performance. Due to the strong euro following the Brexit vote, however, revenues in the UK fell to EUR 17.2 million in 2016 compared to EUR 19.3 million a year before. Based on the euro, foreign revenues rose to EUR 91.1 million in total compared to EUR 90.1 million in the previous year, despite the strong negative impact of currency effects. The exchange rate effects across all currencies were negative, totalling EUR 2.3 million in 2016.

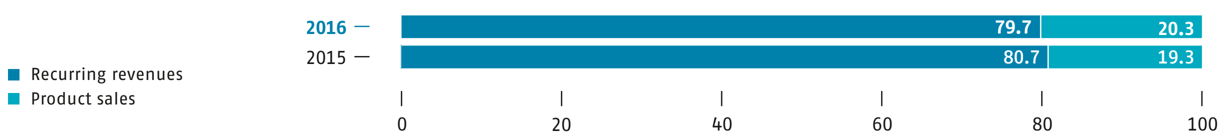
REVENUES BY PRODUCT AND SERVICE

in EUR million	2016	2015	Change %
Recurring revenues	**161.9**	**154.3**	**4.9**
Rental	32.7	31.4	4.2
Service / customer service	19.7	22.3	-11.5
Consumables	23.4	23.1	1.3
Teleporto	9.0	10.0	-10.2
Mail Services	62.8	53.8	16.8
Software	14.2	13.7	4.0
Product sales income	**41.1**	**36.8**	**11.7**
Franking	32.6	28.2	15.6
Inserting	7.1	7.3	-2.7
Other	1.4	1.3	7.5
Total	**203.0**	**191.1**	**6.2**
Recurring revenues	79.7%	80.7%	
Non-recurring revenues	20.3%	19.3%	

The increase in revenues from the leasing of franking systems is based in particular on the sales success in the US lease market. In 2015, the FP Group successfully replaced franking systems that had been removed for post purposes (decertification), laying the basis for recurring revenues in the medium and long terms. In fiscal year 2016, the company seamlessly continued the positive development. By contrast, revenues from services and Teleporto declined. In the previous year, postage changes had a stronger influence on the service business abroad, especially the US and Austria. The high quality of PostBase generally means there are fewer ad hoc servicing incidents. With all-in contracts increasingly being concluded in the US, a shift from service / Teleporto revenues towards leasing revenues is being observed.

The significant year-on-year increase in income from product sales in the core business is especially attributable to the sales successes and the persistent high demand for the Post-Base franking system in Germany, France, the UK and Sweden as well as from international dealers. In the UK, the FP Group is also its customers' financing partner and made greater use of finance leases in 2016 in order to boost sales and customer retention.

ALLOCATION OF REVENUES IN PERCENT



3.1.2 Other own work capitalised

The planned reduction in own work capitalised in the 2016 reporting year is mainly a consequence of the completed decertification in the US, which led to a particularly pronounced upturn in demand for the PostBase franking system in 2015. The additions to leased products reported in own work capitalised amounted to EUR 6.8 million in 2016 compared with EUR 11.0 million in the previous year. The development costs contained therein fell slightly by EUR 0.2 million compared to 2015 to EUR 4.6 million.

3.1.3 Other income

In 2016, the FP Group generated increased income from cost subsidies and grants of EUR 1.4 million (previous year: EUR 1.0 million) and income from statute-barred liabilities of EUR 1.2 million (previous year: EUR 1.4 million). The decline in other income in the reporting year totalling EUR 0.5 million is based primarily on deconsolidation effects from intra-year changes in the consolidated group, which had a positive effect on other income in 2015.

3.1.4 Cost of materials

The increase in the cost of materials in the reporting year was driven mainly by the strong growth in the Mail Services segment. As a result, the cost of purchased services increased to EUR 60.9 million in 2016, compared with EUR 54.6 million in the previous year. Expenses for raw materials, consumables and supplies declined to EUR 35.6 million in 2016 compared to EUR 36.7 million in 2015 despite the slight increase in revenues in the core business of franking and inserting. The performance of the euro against the pound sterling made an impact here. The cost of materials ratio ultimately remained on a par with the previous year at 47.6%.

3.1.5 Staff costs

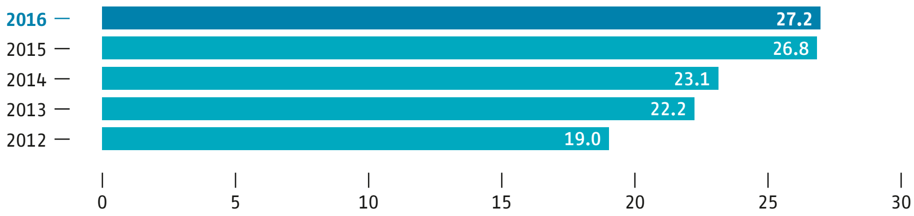
Staff costs remained close to the previous year's level in the reporting year despite general salary increases around the world and the isolated recruitment in connection with the strategic reorientation of the FP Group. Meanwhile, exchange rate effects had a positive effect. In 2015, one-time expenses of EUR 0.8 million were also incurred for the realignment of customer service in Germany and of EUR 0.4 million in connection with the early resignation of the CEO. As a result of the rise in revenues, the staff costs ratio improved to 28.3% in the reporting year compared to 30.0% in the previous year.

3.1.6 Other expenses

The increase in other expenses in the reporting year primarily reflects the reorientation of the FP Group in line with the ACT strategy. In particular, expenses for fees and consulting services increased to EUR 5.4 million compared to EUR 3.9 million in the previous year. In addition, miscellaneous other expenses rose by EUR 0.5 million to EUR 5.1 million in connection with the ACT strategy. The main item therein was expenses in connection with the realignment of the De-Mail and EGVP products amounting to EUR 1.2 million. Other material items in other expenses in 2016 included increased expenses for marketing and staff-related costs of EUR 3.2 million and EUR 1.8 million compared to EUR 2.8 million and EUR 1.5 million in the previous year. Other expenses were reduced in the reporting year by the elimination of expenses for operating the business in Singapore, which was discontinued in 2015, and changes in exchange rates compared to the previous year.

3.1.7 EBITDA

EBITDA IN EUR MILLION



The FP Group's EBITDA margin decreased to 13.4% in the reporting year after 14.0% in the previous year. EBITDA was reduced by currency effects, especially the performance of the euro against pound sterling. The negative exchange rate effects in 2016 totalled EUR 1.1 million. EBITDA was also influenced by the following extraordinary factors in 2016:

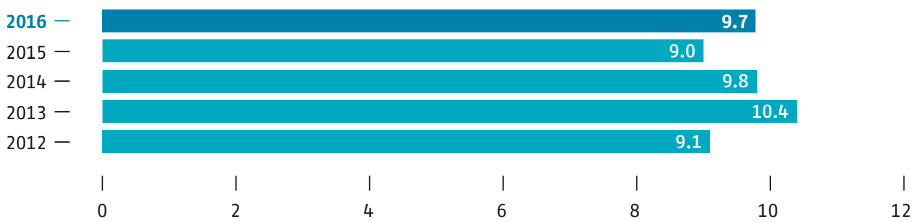
- Expenses for drawing up the ACT strategy and implementing initial FP FIT measures of EUR 1.0 million
- Expenses relating to the realignment of the De-Mail and EGVP products in line with the ACT strategy totalling EUR 1.3 million
- Income from the derecognition of statute-barred liabilities of EUR 1.2 million

3.1.8 Amortisation, depreciation and write-downs

Amortisation, depreciation and write-downs – adjusted for impairment of EUR 0.3 million (previous year: EUR 1.0 million) – increased slightly in the reporting year as expected. This was mainly due to higher depreciation on leased products, including finance lease assets, of EUR 9.4 million (previous year: EUR 9.0 million).

3.1.9 EBIT

EBIT IN EUR MILLION



EBIT increased by 8.1% year on year to EUR 9.7 million in 2016 due to the higher EBITDA and the lower amortisation, depreciation and write-downs.

3.1.10 Net interest income

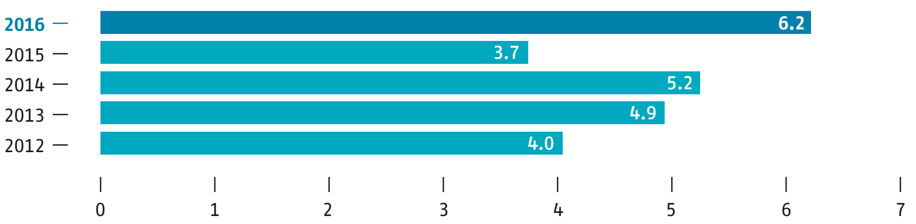
The significant improvement in net interest income in 2016 resulted primarily from lower interest expenses from financial liabilities of EUR 0.9 million (previous year: EUR 1.4 million), higher interest income from finance leases of EUR 1.1 million (previous year: EUR 0.6 million) and non-recurring effects from tax-related interest income and expenses.

3.1.11 Income taxes

As announced, the FP Group implemented measures to significantly improve the tax rate in 2016, which consequently amounted to 35.5% after 51.3% in the previous year.

3.1.12 Consolidated net income

CONSOLIDATED NET INCOME IN EUR MILLION



Earnings per share (EPS) improved by 64.5% to EUR 0.36 in 2016 compared to EUR 0.22 in the previous year (basic / diluted) as a result of the significantly improved consolidated net income.

3.1.13 Summary of results per segment

	Revenues [1]			EBITDA		
in EUR million	2016	2015	Changes in %	2016	2015	Changes in %
Production	4.9	4.4	11.8%	7.0	10.6	-33.9%
Sales Germany	112.2	101.4	10.7%	8.6	6.6	31.3%
International Sales	85.7	85.4	0.3%	18.6	16.6	12.2%
Central Functions	–	–	–	-6.6	-4.3	-54.3%
Group [2]	203.0	191.1	6.2%	27.2	26.8	1.6%

1) Revenues 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 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 segment operating activities and the resultant cash flow. The company also uses loans from financial institutions and finance leases.

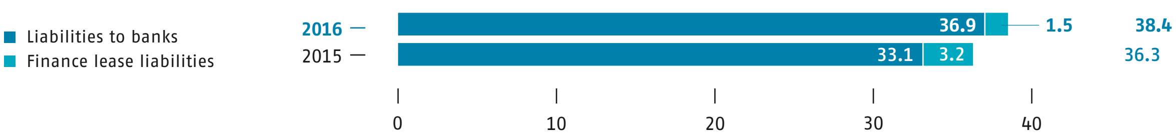
4.2 DIVIDEND-BEARING NET PROFIT AND DIVIDENDS

At the AGM on 7 June 2017, the Management Board and Supervisory Board will propose that the meeting approves a dividend payment of EUR 0.16 per share for fiscal year 2016.

The dividend payment for fiscal year 2016 shall be made from taxable distributable profit. The gross dividend is increasing by EUR 0.04 year on year. The FP Group paid a tax-free gross dividend of EUR 0.12 per share in fiscal year 2016. Please refer to section IV of the notes 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 2.6 million. The Management Board proposes that the remaining accumulated profit be carried forward.

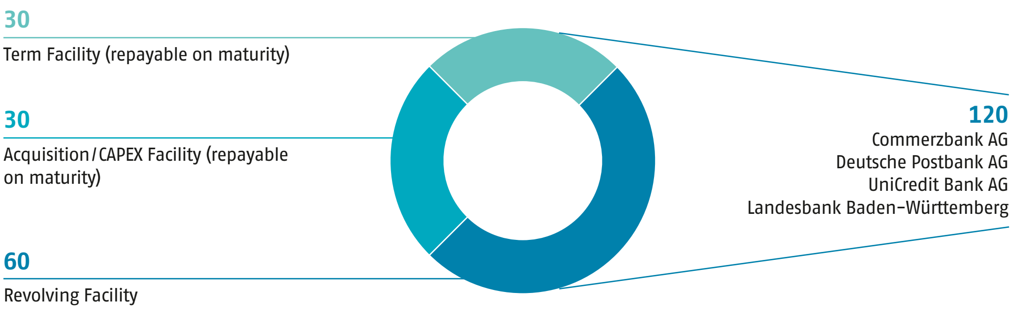
4.3 FINANCING ANALYSIS

FINANCIAL LIABILITIES IN EUR MILLION



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

CONSORTIAL LOANS IN EUR MILLION



In fiscal year 2016, the FP Group concluded a significantly extended syndicated loan agreement at improved terms and conditions with a strong, international syndicate of banks for an amount of EUR 120.0 million, with an option to increase the volume by a further EUR 30.0 million. The agreement has a duration of five years to 14 June 2021, plus two one-year extension options. This was used to repay liabilities ahead of schedule in connection with the previous loan which had a duration to October 2019 and an amount of EUR 30.1 million.

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

$$\text{Leverage} = \frac{\text{Total net debt}}{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}} \leq 3.0\times$$

$$\text{Interest Cover} = \frac{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}}{\text{Net interest income (adjusted for IAS 23 Borrowing Costs)}} \geq 5.0\times$$

In the previous loan agreement, the FP Group had to comply with four key financial ratios with a much narrower definition (debt ratio, debt service coverage ratio, adjusted own funds and own funds ratio).

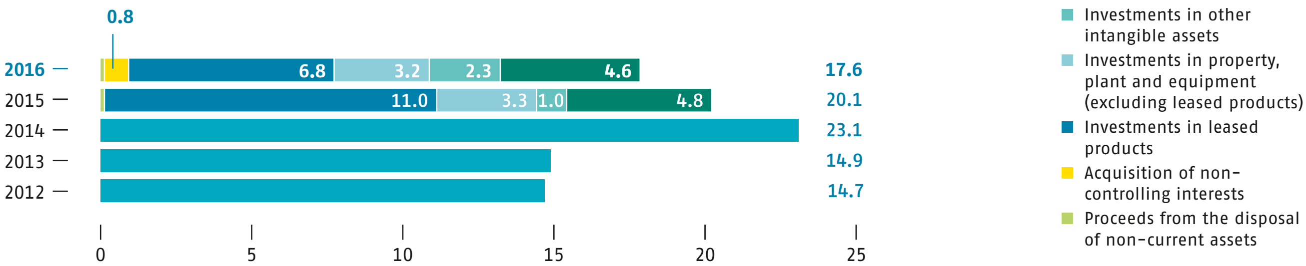
Additional key new elements of the financing documents on the basis of the British Loan Market Association (LMA) include the option of utilising part of the loan facility in foreign currency. Furthermore, the new loan agreement also creates financing security for acquisitions. In the future, the FP Group has entrepreneurial headroom to enter into additional financial obligations. What is more, 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 significant improvement in the assessment and perception of the company on the banking and capital market is an expression of the FP Group's new financial strength.

The credit conditions were complied with consistently throughout the reporting year.

In 2016, the FP Group exercised the Contingent Capital and increased the share capital by 55,356 shares to 16,215,356 no-par value bearer shares.

4.4 INVESTMENT ANALYSIS

DEVELOPMENT OF INVESTMENT FUNDS IN EUR MILLION



The FP Group pursues a focused growth strategy. In 2016, the company again made significant investments in future growth, including in product development, production and other core and supporting processes, and a large number of franking systems for leasing in the US, UK, Netherlands and Italy.

The planned reduction in investment in leased products in the 2016 reporting year is a consequence of the completed decertification in the US, which led to a particularly pronounced upturn in demand for the PostBase franking system in 2015. The increase in investment in other intangible assets is due primarily to the investment in customer relationship management (CRM) software in the core business in Germany and in smaller acquisitions in customer lists in the UK and Canada. The FP Group also acquired non-controlling interests in IAB in 2016.

4.5 OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

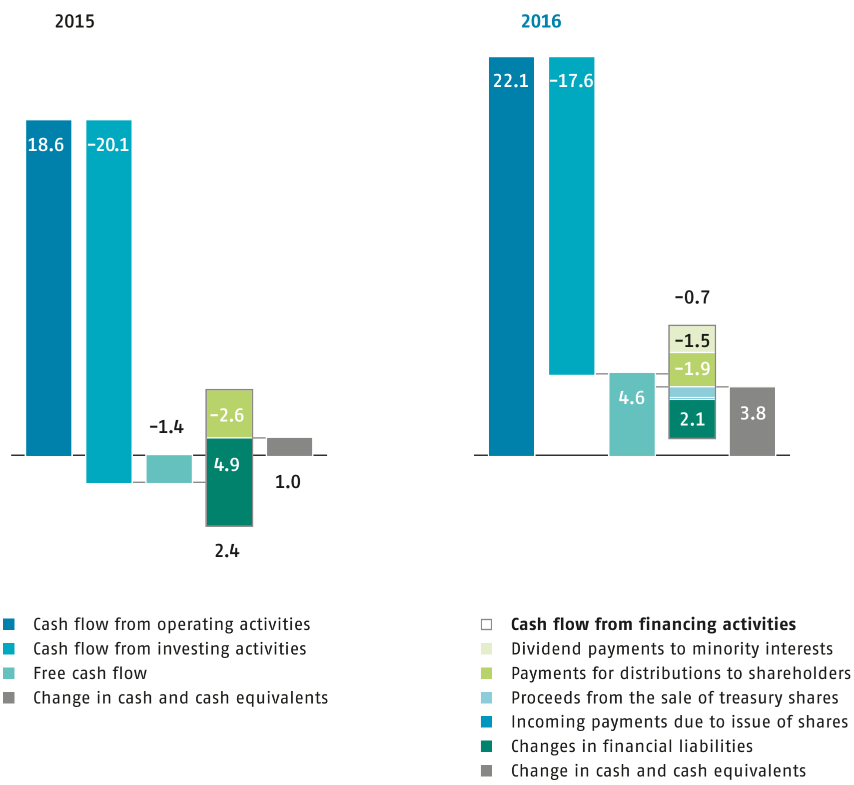
The FP Group uses operating leases to lease business premises or vehicles, for example. Furthermore, there are tax loss carryforwards of EUR 5.7 million (previous year: EUR 9.9 million) that were not recognised.

4.6 LIQUIDITY ANALYSIS

LIQUIDITY ANALYSIS

in EUR million	1.1.–31.12.2016	1.1.–31.12.2015
Cash flow from operating activities	22.1	18.6
Cash flow from investing activities	–17.6	–20.1
Free cash flow	**4.6**	**–1.4**
Cash flow from financing activities	–0.7	2.4
Change in cash and cash equivalents	**3.8**	**1.0**
Change in cash and cash equivalents due to currency translation	–1.1	0.6
Cash and cash equivalents at beginning of period	15.9	14.4
Cash and cash equivalents at end of period	**18.7**	**15.9**

LIQUIDITY ANALYSIS IN EUR MILLION



The increase in cash flow from operating activities resulted from the rise in EBITDA with a sound development in working capital. At the same time, cash flow from operating activities was influenced by the use of finance leases to boost sales and retain customers, resulting in significantly higher finance lease receivables of EUR 4.1 million. There was a positive effect from a non-recurring payment of EUR 1.7 million from the successful conclusion of mutual tax agreement procedures in accordance with the EU Arbitration Convention.

In fiscal year 2016, cash flow from investing activities benefited primarily from the planned reduction in investment in leased products. Cash flow from investing activities was also affected by the acquisition of non-controlling interests in IAB of EUR 0.8 million. Please see the investment analysis for more information about the further change.

The increase in free cash flow underlines the positive performance in 2016. Adjusted for the investment in finance lease assets and non-controlling interests in IAB, the FP Group generated adjusted free cash flow of EUR 9.5 million in the reporting year (previous year: EUR 3.1 million).

The change in cash flow from financing activities is primarily attributable to dividend payments to shareholders and minority interests totalling EUR 3.4 million, the repayment of liabilities from finance leases of EUR 1.7 million and an increase in liabilities to banks of EUR 3.8 million.

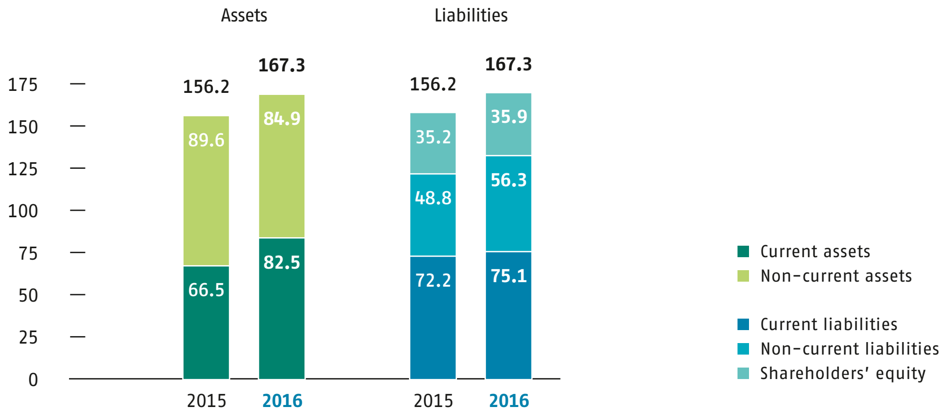
The FP Group was able to meet its payment obligations at all times in the reporting year.

COMMITTED, BUT NOT FULLY UTILISED CREDIT FACILITIES IN EUR MILLION

In accordance with the syndicated loan agreement, the FP Group has undertaken to comply with two defined financial covenants (see section 4.3).

5. FINANCING SITUATION

STATEMENT OF FINANCIAL POSITION STRUCTURE IN EUR MILLION



The growing operating business also shaped the FP Group's statement of financial position as at 31 December 2016.

5.1 NON-CURRENT AND CURRENT ASSETS

in EUR million	2016	2015	Reason for change
Intangible assets	34.9	33.0	Increase in other intangible assets, especially CRM software, as a result of investment
Property, plant and equipment	39.3	42.0	Decline in leased products and finance lease assets (EUR 3.0 million) due to depreciation
Other assets	9.7	6.0	Increase in finance lease receivables (EUR 3.8 million)
Tax assets	0.9	8.6	In connection with the progress of the mutual agreement and arbitration procedures, intra-year settlement of a receivable from the UK (EUR 1.7 million) and reclassification of additional tax receivables to current income taxes receivable (EUR 5.0 million)
Non-current assets	**84.8**	**89.6**	
Inventories	11.2	11.7	Slight decline as part of working capital management
Trade receivables	19.0	16.9	Increase due to the expansion of operating business
Other assets	25.3	19.0	Increase in income taxes receivable (see above) and other current assets in connection with the expansion of operating business
Securities and cash	27.1	18.9	Increase in cash and cash equivalents and postage credit managed by the FP Group (EUR 5.5 million)
Current assets	**82.5**	**66.5**	

5.2 EQUITY

As at 31 December 2016, the share capital of Francotyp-Postalia Holding AG amounted to EUR 16.22 million, divided into 16,215,356 no-par value bearer shares.

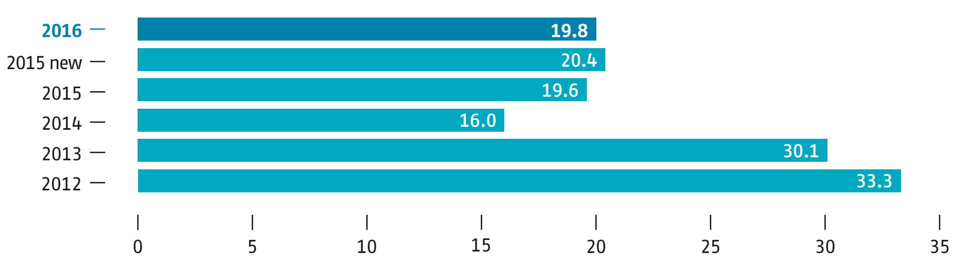
As at the end of 2016, the company no longer held any treasury shares due to stock options exercised under the 2010 stock option plan (previous year: 163,944 shares or 1.0% of the share capital). More information about authorised and contingent capital and conversion and option rights can be found in the explanatory report by the Management Board in accordance with section 315(4) HGB (German Commercial Code).

5.3 NON-CURRENT AND CURRENT LIABILITIES

in EUR million	2016	2015	Reason for change
Provisions for pensions and similar obligations	17.1	15.5	Increase due to continuingly low interest rates
Other provisions, deferred tax liabilities and other liabilities	1.7	1.6	
Financial liabilities	37.5	31.7	Decline in finance lease liabilities (EUR 0.9 million), increase in liabilities to banks (totalling EUR 3.8 million) and amended recognition primarily under non-current liabilities
Non-current liabilities	**56.3**	**48.8**	
Tax liabilities	3.6	3.9	
Other provisions	8.0	5.9	Increase relating to the realignment of the De-Mail/EGVP products in line with the ACT strategy (EUR 1.3 million), increase in miscellaneous provisions (EUR 1.2 million)
Financial liabilities	0.9	4.6	Amended recognition of liabilities to banks primarily under non-current liabilities (previous year: EUR 3.0 million), decline in finance lease liabilities (EUR 0.8 million)
Trade payables	10.6	9.9	Increase due to the expansion of operating business
Other liabilities (incl. hedging derivatives)	52.0	47.9	Increase in liabilities from hedging derivatives (EUR 1.9 million), increase in Teleporto liabilities (EUR 1.1 million; adjusted for exchange rate effects EUR 1.8 million)
Current liabilities	**75.1**	**72.2**	

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



In light of the newly concluded syndicated loan agreement, the FP Group has harmonised and tightened its reporting of net debt and the corresponding definition of cash and cash equivalents since 30 June 2016. Under the new, uniform definition, cash and cash equivalents comprise cash less restricted funds (postage credit managed by the FP Group) and securities. Treasury shares are not included in cash and cash equivalents. 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. Financial liabilities include liabilities to banks and finance lease liabilities.

in EUR million	31.12.2016	New 31.12.2015	Old 31.12.2015
Financial liabilities	38.4	36.3	36.3
Cash and cash equivalents	18.7	15.9	16.7
Net debt	**19.8**	**20.4**	**19.6**
Shareholders' equity	35.9	35.2	35.2
Net debt ratio	**55.0%**	**57.9%**	**55.6%**

On the basis of the positive operating performance and the planned reduction in investments in leased products, the FP Group's net debt decreased in 2016. Similarly, equity increased as at 31 December 2016, resulting in an improvement in the company's net debt ratio.

5.4 LEASES

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 total carrying amount of EUR 26.9 million (previous year: EUR 29.9 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 total EUR 12.5 million (previous year: EUR 8.4 million). Without these business models, total assets would be EUR 127.9 million instead of EUR 167.3 million. On the liabilities side, the financial liabilities (non-current and current) include EUR 1.5 million for sale and lease-back transactions relating to the financing of leased franking systems. Without this component, total liabilities would be EUR 165.8 million instead of EUR 167.3 million.

6. OVERALL STATEMENT ON THE FINANCIAL POSITION

6.1 COMPARISON OF ACTUAL / FORECAST BUSINESS PERFORMANCE

The table below shows the financial and non-financial performance indicators of the FP Group.

in EUR million	2016 forecast [1]	Actual 2016	Note
Revenues	Slight increase year on year (EUR 191.1 million)	EUR 203.0 million	*Growth exceeded expectations in the core business despite negative currency effects, driven by higher product sales. Growth exceeded expectations considerably in the Mail Services and Software segments*
EBITDA	Slight increase year on year (EUR 26.8 million)	EUR 27.2 million	*Improvement as planned despite negative currency effects and higher expenses for developing and implementing the ACT strategy*
Free cash flow	Positive (previous year: EUR -1.4 million)	EUR 4.6 million	*Positive operating performance and planned lower investment laid the foundation for positive free cash flow, as expected. In addition, the one-time payment from mutual tax agreement procedures provided a boost. Adjusted for the investment in finance lease assets and non-controlling interests in IAB, adjusted free cash flow amounted to EUR 9.5 million*
Quality indicator	< 29.0 (previous year: 24.1)	24.2	
Improvement indicator	< 0.14 (previous year: 0.11)	0.09	

1) Assuming constant exchange rates for foreign currencies

6.2 BUSINESS PERFORMANCE IN 2016

The FP Group compiled the new ACT strategy over the course of 2016 and presented it to the public in November. This strategy heralds a new era and makes the Group a dynamically growing company. The ACT strategy is supported by the FP FIT programme to increase efficiency and implementation expertise in all areas, with the four priorities of finance, HR, sales and digitalisation.

Detailed information about new ACT strategy on **page 14.**

In fiscal year 2016, the FP Group again increased its revenues and EBITDA and was able to considerably improve the positive free cash flow. In terms of revenues, the company particularly benefited from the success of the PostBase franking system on a number of markets, as well as from the expansion of the Mail Services business on the German market. Negative exchange rate effects impacted both revenues and EBITDA. Free cash flow reflected the positive operating performance, the planned reduction in investments in leased products and the solid development of working capital. In addition, free cash flow was influenced by a non-recurring payment from the conclusion of mutual tax agreement procedures, investments in the acquisition of non-controlling interests in IAB and the increase in finance leases to boost sales and retain customers. The Management Board judges the business performance in 2016 to have been generally favourable.

7. RISK AND OPPORTUNITY REPORT

ORGANISATION

The FP Group restructured its opportunity and risk reporting in fiscal year 2016, improving the approach and introducing a new policy for company-wide opportunity and risk management. On behalf of the Management Board, a risk coordinator monitors compliance with these standards throughout the Group. The risk coordinator is responsible for implementing uniform risk strategy and methodology. He is supported by the report recipients, who analyse opportunities and risks in their fields according to the prescribed methodology and deliver the results to the risk coordinator.

These report recipients are responsible for identifying, analysing and evaluating opportunities and risks and for subsequently taking the opportunities and managing the risks. All report recipients form a committee that regularly communicates on the identification, analysis and evaluation of opportunities and risks in the Group. They are supported in their work by report officers, who are mostly divisional heads and managing directors of the domestic and foreign companies. The Management Board still has overall responsibility for the risk and opportunity management system of the FP Group. The Management Board keeps the Supervisory Board informed about risk and opportunity management, which assumes a supervisory role.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

The risk and opportunity management system of the FP Group, which was optimised once again in 2016, 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 to monitor risk has been set up in line with section 91(2) AktG (German Stock Corporation Act). This system is used for the early detection of risks that may be a threat to the continued existence of the FP Group.

In the future, an inventory of all legal, business, operational, financial and IT risks in the FP Group will be drawn up at least twice a year. In the past year, the inventory was only drawn up once due to the revision of the policy. The risks identified are then assessed in accordance with their potential for damage and their probability of occurrence in addition to whether or not they are a threat to the continued existence of the company. Risks that are a threat to continued existence are recorded separately and placed under further observation. To diagnose which risks may be a threat to continued existence, all risks are subdivided into five different categories, according to the frequency of occurrence and the amount of damage they could potentially cause. The tables on the next page show the evaluation grids for quantitative and qualitative evaluation of probability of occurrence and the extent of damage of individual risks.

The FP Group regards risk management as a continuous and consistent process. Once all listed individual risks have been documented in the risk directory by the operating subsidiaries and divisions, they are evaluated in the form of a risk matrix. The respective category of probability of occurrence is multiplied by the factor of the potential extent of damage. The result produces the risk indicator for the individual risks. The risk coordinator catalogues all reported risks and opportunities and aggregates any key risks (all risks with a risk indicator of 15 or more) and carries out a general assessment of the Group's risk statement.

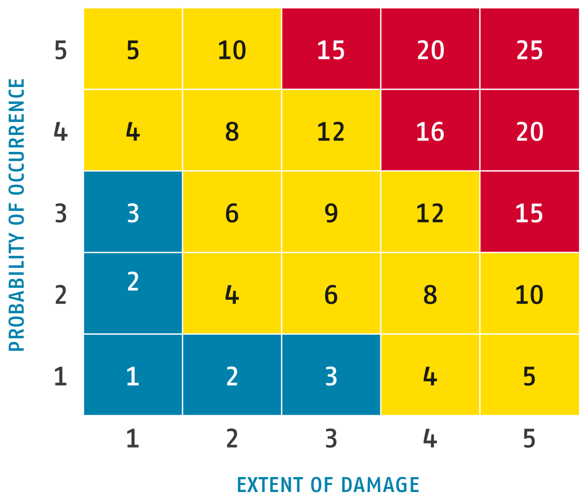
Evaluation of the probability of occurrence

Category	Scale	Evaluation
1	Unlikely	On average every five years at the most
2	Possible	On average every three to five years
3	Medium	On average every one to two years
4	Likely	Annually
5	Unavoidable	Monthly

Evaluation of the extent of damage

Category	Scale	Evaluation
1	Very low	Less than 5% of forecast EBITDA
2	Low	Between 5% and 7% of forecast EBITDA
3	Medium	Between 7% and 15% of forecast EBITDA
4	High	Between 15% and 35% of forecast EBITDA
5	Very high	Over 35% of forecast EBITDA

Overview of risk indicators



The Management Board is informed about the current risk situation of the FP Group by the risk coordinator, and if necessary, recommends any further action to be taken. After the Management Board has seen the Group risk report, it is presented to the Supervisory Board.

Risk prevention is a key element of the risk management system, so risks and their impact on the company are discussed at monthly Management Board meetings and performance meetings with the subsidiaries. Proposed measures to limit or eliminate any serious risks are also discussed.

In addition to this, risks identified during the course of the year, which have a high probability of occurring and which have a high potential of causing damage, are immediately brought to the attention of the Management Board 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.

Those risks that the FP Group currently classifies as being of significance to business activities or to its continued existence are subsequently explained in closer detail. These risks are marked in red and have a risk indicator of 15 or more. "Liquidity risk", "devaluation risk" and "tax risks" were ceased to be classifiable as material key risks during fiscal year 2016.

7.1 RISKS FACED BY THE FP GROUP

7.1.1 Market-related risks

Customer behaviour

Since the middle of the last decade, volumes of letter mail have been declining on all markets, although no longer at such a rapid rate; at the same time, there is an increase in the number of packets and parcels being shipped (e-business). More secure e-mail solutions are replacing conventional mail services and the digital transformation of the economy is advancing. The FP Group generates a significant proportion of its recurring revenues by selling franking systems and providing consumables. In light of the changes in customer behaviour, the demand for franking systems and consumables could fall. The FP Group limits this risk (damage category 5) with intensive market observation and customer surveys. With a current market share of more than 10% of the franking systems installed worldwide, the FP Group also currently sees good opportunities in taking targeted measures, such as growing the sales department, to increase its market share and grow in the franking business. Unlike the competition, the FP Group focuses on systems for smaller and medium volumes of correspondence and is thus meeting the changed demand. At the same time, the company is adopting digital technologies in order to benefit from the trend of increasingly digitalised communications in the medium and long terms.

Change in postage discounts

At the start of 2017, Deutsche Post AG will cut its part-performance discounts for consolidators. These are discounts for service providers that collect letters from customers, pre-sort them and deliver them to Deutsche Post. In principle, the reduction of the discounts could lead to declining revenues and earnings, as consolidation will become less attractive to customers. The FP Group is limiting this risk primarily by cooperating intensively with its customers. A closer bond will reduce their willingness to switch providers, and the discount cut could be passed on to the customers.

7.1.2 Performance-related risks

Patent law risk

When developing products and especially new franking systems in the Franking and Inserting segment, great care is taken not to infringe any third-party patents. This task is carried out very carefully and sometimes with external support. However, a 100% guarantee is impossible. This means there is a risk that the FP Group could be confronted with claims for licence fees from competitors or other companies. The FP Group revised its patent strategy in 2016 in order to counter patent law risk to a greater extent than before. In addition, the company aims to reach licence agreements with competitors allowing the mutual use of patents.

Contractual risk

All FP Group's franking systems are certified by national, licensed state-owned or private postal companies. There is a risk that the company could violate manufacturing contracts with the national postal companies in the event of serious system failures or misprints. Such violations could result in claims for damages or decertification. The FP group limits this risk (damage category 5) with contract-compliant conduct, sophisticated emergency procedure, continuous training and 24/7 system monitoring. The company also prepares systematically for the regular audits by postal organisations, demonstrating high performance in the past. In connection with the realignment of individual products in line with the ACT strategy, there are risks for customer agreements already concluded. The FP Group limits these risks with pro-active, customer-oriented contract management.

Detailed commentary of ACT strategy on **page 23.**

7.1.3 Financial risks

Currency risk

The FP Group's procurement costs accrue predominantly in euro as the company has its production facilities in Germany. Currency risks arise when revenues are realised in other currencies, such as the US dollar or pound sterling. Therefore, any rise in the euro against other currencies has an adverse effect on consolidated revenues, 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 draw up their 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 Groups limits these currency risks (damage category 4) by concluding currency hedging transactions and by purchasing in the US dollar region.

7.1.4 Other risks

Cross-border 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 system failures and external attacks. The company counters potential IT risks (damage category 5) by using modern hardware and software that meet current security standards. In order to handle business processes securely, a global IT assessment was conducted in 2016, from which the improvement measures for the next three years to make the FP Group fit for the future were derived. 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 or Orchid, 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 the IT was 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.

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, even unforeseeable changes. The FP group limits this risk (damage category 3) by professionalising the analysis of requirements and with extensive internal communication. Other measures 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.

7.1.5 Overall statement on the Group's risk situation

In principle, each risk concerns all segments, with the exception of currency risks for the Sales Germany segment. No risks are currently discernible that will lead to a permanent, significant impairment of the net assets, financial position or profit and loss of the FP Group when 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 not currently anticipate that the risk situation will change fundamentally. From an organisational view point, the company has laid all the necessary foundations required to ensure potential new risks are recognised in good time and can be acted upon quickly.

7.2 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE ACCOUNTING 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 the 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:

- accounting guidelines at Group level;
- a clearly-defined division of labour and allocation of responsibilities among the segments involved in the accounting process;
- the involvement of external experts as far as necessary, to measure pension obligations, for example;

- the 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, and;
- 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 enacting 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 Management Board member is supported in this task by the heads of the Finance, Controlling and Accounting divisions, and by the department heads of Accounting and Finance and of Controlling.

The FP Group guarantees that its annual and consolidated financial statements strictly comply with German and international accounting standards by employing 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 audited.

The duty of all subsidiaries to report their business figures to the Group holding company 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.

7.3 RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

The FP Group has a centralised financial management, where Francotyp-Postalia Holding AG (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 and UK. FP Holding identifies these risks in cooperation with the Group companies, and uses appropriate measures to manage them, e.g. entering into forward currency transactions. Interest rate risks result from medium-term financial liabilities. In order to manage interest rate risks, FP Holding did not conclude any new interest rate derivatives in fiscal year 2016. The purpose of liquidity planning is to identify liquidity exposure 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 in section IV. (21) Financial instruments.

7.4 OPPORTUNITIES FOR THE FP GROUP

The FP Group qualitatively determined opportunities for 2016. As in the previous year, they were not quantified for management purposes or displayed in an opportunity matrix.

7.4.1 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. This means that opportunities exist for the

FP Group to share in this growth. However, opportunities also exist on established postal markets. This particularly applies to markets in which the FP Group is not yet present or strongly represented. 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 and Germany, especially due to the shift towards the A segment.

Further information about digitalisation on **page 21.**

Digitalisation is advancing in many areas, but more slowly than experts expected. The FP Group can also benefit from this trend in established markets and in Germany in particular – there are corresponding opportunities from marketing innovative software solutions for communication and document processes.

The German Federal Network Agency wrote in a discussion paper that the postal market was in a period of upheaval and subject to constant change. The rise in digitalisation in particular offers scope for innovation on the one hand but it places traditional business models under pressure on the other hand. The FP Group made timely preparations for this transformation and now offers a broad service spectrum for conventional and digital mail transmission.

7.4.2 Product opportunities

The FP Group's innovative products are the guarantor for the company's success. These encompass the continuous development of the franking systems along with new solutions for digital and hybrid mail transmission. Thanks to the PostBase family, the FP Group has a modern and high-performance product range in the core business, enabling it to grow in this area. 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. The Group presented this digital transaction management solution for the first time in 2017 at this year's CeBIT.

Further information about our products on **page 23.**

7.4.3 Selling opportunities

Developing and strengthening sales creates opportunities for the FP Group on established markets. For example, the company is increasingly using telesales and leasing offers in order to reach a large number of customers. The company sees opportunities here to expand distribution channels and increase market penetration. In Germany in particular, the expansion of solution-related expertise is opening up new possibilities for the company. The FP Group is also establishing itself as a provider of encryption and archiving software for electronic communication and the optimisation of all processes relating to inbound and outbound mail thanks to its comprehensive solution portfolio.

7.4.4 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 statement of financial position and floating 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, which result in future cash flows.

7.4.5 Overall statement on opportunities

As in the previous year, opportunities and risks are balanced.

8. FORECAST

FORECAST

	2017 forecast
Revenues	*Slight increase on 2016*
EBITDA	*Slight increase on 2016*
Free cash flow (adjusted) [1)]	*On a par with the previous year*
Quality indicator	*Slight improvement on 2016*
Improvement indicator	*Slight improvement on 2016*

1) Adjusted for M&A and investment in finance lease assets

The planning and all subsequent statements are based on the level of knowledge available at the start of 2017. The FP Group wishes to point out that the planning information stated may differ from the values actually reached at a later date.

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
- Smooth progress of negotiations for the UK's departure from the European Union, especially stable development in the pound sterling exchange rate
- Stable development in exchange rates for foreign currencies
- Moderate downturn or stagnation in mail volumes on traditional markets
- Expansion of the installed base in the franking system business
- Expansion of the Mail Services and Software business

Detailed commentary of ACT strategy on **page 14.**

8.1 EXPECTED MACROECONOMIC AND MICROECONOMIC CONDITIONS

The International Monetary Fund (IMF) anticipates robust development for the global economy this year. It forecasts higher growth in global gross domestic product (GDP) compared to 2016. The IMF expects solid growth rates for the eurozone and Germany in 2017. In the US, the FP Group's most important foreign market, GDP growth is expected to increase significantly.

Forecast for global economy:
http://www.imf.org

TABLE OF EXPECTED GDP GROWTH IN 2017 (ACCORDING TO IMF)

World	United States	Eurozone	Germany
+3.4%	+2.3%	+1.6%	+1.5%

The economic climate has an influence on future industry growth and, hence, 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 strategy is based on growth in the franking business and on the digital markets. With regard to franking systems, the Group will considerably enhance its activities in the world's most attractive markets, the US and France, in 2017. In addition, there is to be continued improvement in the competitive position in the important markets of the UK and the home nation of Germany. The Group has created the right conditions for this; the complete PostBase family means it can now offer the industry's newest up to date product range for the particularly interesting A segment and the B segment. The company is also improving its competitive position in various countries by expanding the leasing business in order to boost sales and retain customers. At the same time, the company is enhancing its portfolio with software solutions. The FP Group already presented one of the new products, FP-Sign, at CeBIT in March 2017. In the Mail Services segment, the sorting centres throughout Germany are beginning to be upgraded into digitalisation hubs for inbound mail in order to combine logistics and IT services.

Further information about the product FP-Sign on **page 23.**

8.3 EXPECTED DEVELOPMENT OF PERFORMANCE INDICATORS

For fiscal year 2017, the FP Group anticipates a slight increase in revenues. Here, the company anticipates positive development in all three divisions.

The FP Group also expects a slight year-on-year increase in EBITDA.

FP Fit

Definition of FP Fit on **page 29.**

Based on high investments in the modernisation of the product portfolio in previous years, the FP Group expects amortisation and depreciation to rise in 2017. Despite a slight increase in investments for ACT and FP FIT, the company expects free cash flow to be on a par with the previous year in 2017 when adjusted for M&A and investments in finance lease assets.

The anticipated development of financial performance indicators for fiscal year 2017 is based on the assumption of constant exchange rates.

The non-financial performance indicators are also likely to continue improving in 2017. A slight positive development compared to the previous year's figure is expected for both the quality indicator and the improvement indicator.

9. OTHER DISCLOSURES

9.1 EXPLANATORY REPORT BY THE MANAGEMENT BOARD IN ACCORDANCE WITH SECTIONS 289(4) AND 315(4) GERMAN COMMERCIAL CODE (HGB)

Disclosures in accordance with sections 289(4), 315(4) no. 2 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 their transfer.

The authorisation to purchase and sell treasury shares, which was resolved by the Annual General Meeting on 1 July 2010 and restricted until 30 June 2015, was revoked by resolution of the Annual General Meeting of 11 June 2015 and replaced with a new authorisation. Accordingly, the company is authorised 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 until 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.

As at 31 December 2016, no treasury shares were held due to stock options exercised under the 2010 stock option plan (previous year: 163,944 shares or 1.0% of the share capital). No voting rights are exercised in the case of treasury shares. The Management Board of Francotyp-Postalia Holding AG is not aware of any restrictions that may result from agreements between shareholders.

Disclosures in accordance with sections 289(4), 315(4) no. 3 HGB (Direct or indirect investments in capital exceeding 10% of the voting rights)

As at 31 December 2016, 3R Investments Ltd, based in Cyprus, held 10.2% in Francotyp-Postalia Holding AG's share capital. This equates to 1,660,000 shares. These voting rights are attributable to Tamlino Import & Advisory LP, Limassol, Cyprus, Tamlino Investments Ltd., Limassol, Cyprus, and Klaus Röhrig, in each case in accordance with section 21(1) German Securities Trading Act (WpHG) and section 22(1) sentence 1, no. 1 WpHG as an indirect stake.

Disclosures in accordance with sections 289(4), 315(4) no. 4 HGB (shares with special rights)

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

Disclosures in accordance with sections 289(4), 315(4) no. 5 HGB (control of voting rights of employee shareholders)

There are no controls over voting rights.

Disclosures in accordance with sections 289(4), 315(4) no. 6 HGB (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.

Disclosures in accordance with sections 289(4), 315(4) no. 7 HGB (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 thousand 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 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 shareholders' 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 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 by 10 June 2020 on the basis of the authorisation of the Annual General Meeting in accordance with the adjustment of the 2010 stock option plan and Contingent Capital 2010. 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 2016, the FP Group exercised the Contingent Capital and increased the share capital by 55,356 shares to 16,215,356 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 by 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 and 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' pre-emption rights to bonds.

The Annual General Meeting of Francotyp-Postalia Holding AG on 10 June 2015 authorised the Management Board, with the approval of the Supervisory Board, to acquire treasury shares up to a total of 10% of the share capital at the time of this resolution. The shares acquired under this authorisation, together with other treasury shares held by the company or attributable to it in accordance with the sections 71d and 71e of the German Stock Corporation Act, 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 of the company 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 in section IV. (16) Equity.

Disclosures in accordance with sections 289(4), 315(4) no. 8 HGB (significant agreements of the parent company subject to a change of control following 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 syndicate loan agreement, which includes a right of termination in the event of a change of control. No further agreements were entered into with either third parties or subsidiaries.

Disclosures in accordance with sections 289(4), 315(4) no. 9 HGB (compensation agreement on the part of the parent company in the event of a takeover offer)
No such agreements were in place as at 31 December 2016.

9.2 DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH SECTION 289A HGB

The declaration on corporate governance in the FP Group contains the information required in accordance with section 289a(2) HGB and is published on the homepage of the FP Group (http://www.fp-francotyp.com/en/FP/company/investors/corporate-governance).

10. REMUNERATION REPORT IN ACCORDANCE WITH SECTION 315(2) NO. 4 SENTENCE 1 HGB

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. For the purposes of clarity and comparability, all amounts in the remuneration report are shown in thousands of euro (EUR thousand).

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

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 amounts to EUR 400,000 per year. Thomas Grethe and Sven Meise's basic remuneration amounts to EUR 265,000 per year. The basic remuneration of Hans Szymanski, CEO of Francotyp-Postalia Holding AG until 11 January 2016, amounted to EUR 275,000.

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, accommodation and moving costs.

10.3 VARIABLE COMPONENTS

10.3.1 Variable remuneration

The short-term variable remuneration component depends on the free cash flow generated and the EBITA obtained after taking into account any bonus payments payable by the company. The value of the bonus depends largely on the level of achievement as measured against the targets on and the specifications from the budget for the respective fiscal year (12 months) agreed by the Supervisory Board.

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 basic requirement for attaining a credit balance is firstly to achieve at least 90% of the budget for the fiscal year 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. The long-term goals to be achieved are agreed individually for each Management Board member.

For the CEO / CFO, the first long-term goal is 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. The Supervisory Board shall define targets as it reasonably sees fit for each Management Board member's second long-term goal for the coming fiscal year at the latest in its last meeting in the preceding fiscal year.

The arrangement for the CSO targets an average annual growth rate for the 2016 and 2017 fiscal years of at least 3% for EBIT accumulated across the entire franking machine segment and for the number of FP franking machines installed in relation to the market as a whole (world) according to post office statistics.

For the CDO, the first long-term goal is an average annual growth rate for the 2016 and 2017 fiscal years of at least 10% for EBITDA 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. Companies leaving the Group must be accounted for accordingly. The second long-term goal is average annual growth for the 2016 and 2017 fiscal years of at least 3% for EBIT (earnings before interest and taxes) of the FP Group.

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. The Management Board member is obliged to promptly refund to the company any difference between the advance payments and the defined long-term bonus.

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 executives of the FP Group, whereby these pre-emptive rights entitle the holders to subscribe to a maximum up to the statutory limit of 10% of share capital (2015 stock option plan). For further explanation, please refer to the disclosures in the notes in section IV (16) Equity.

10.4 COMMITMENTS IN CONNECTION WITH THE CESSATION OF ACTIVITY IN 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 at the end of the statutory notice period according to section 622(1)(2) BGB or three months from the end of the month of the Board member being notified of the appointment being revoked.

When Mr Szymanski's Management Board contract was revoked, this member of the Management Board was also entitled to a lump sum of 1.75 times the annual remuneration due on the day of the legal termination, but not exceeding the remuneration entitlement for the remainder of the contract. Mr Günther's contract also contains this provision, but the lump sum amounts to one and a half times the annual remuneration. If his appointment is revoked, Mr Meise's contract provides for a lump sum of half his annual remuneration 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 six months' remuneration, one year's remuneration or up to one and a half years' remuneration (severance pay cap) 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 2016

10.5.1 Remuneration of members of the Management Board

Please see the disclosures in the notes 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 AND CFO, 11.01.2016–31.12.2016

in EUR thousand	2015	2016	2016 (min.)	2016 (max.)
Fixed remuneration	0	400	400	400
Additional benefits	0	45	45	45
Total	**0**	**445**	**445**	**445**
Short-term variable remuneration	0	220	180	340
Long-term variable remuneration				
SOP Tranche 2015 (GCGC)	0	12	12	12
Long-term bonus	0	180	0	180
Total	**0**	**412**	**192**	**532**
Pension cost	0	19	19	19
Total remuneration	**0**	**876**	**656**	**996**

HANS SZYMANSKI, CEO AND CFO, 01.12.2008–10.01.2016

in EUR thousand	2015	2016	2016 (min.)	2016 (max.)
Fixed remuneration	275	0	0	0
Revocation (reimbursement, lump sum, long-term bonus)	369 1)	0		
Additional benefits	14	0	0	0
Total	**658**	**0**	**0**	**0**
Short-term variable remuneration	–11	–40 2)	0	0
Long-term variable remuneration				
SOP Tranche 2010 (GCGC)	0	0	0	0
SOP Tranche 2015 (GCGC)	3	0	0	0
Long-term bonus	–14	–6 2)	0	0
Total	**–22**	**–46**	**0**	**0**
Pension cost	76	0	0	0
Total remuneration	**712**	**–46**	**0**	**0**

1) This provision amount constitutes an expense of EUR 369 thousand relating to other periods.
2) This amount comprises income relating to other periods from the reversal of a provision.

THOMAS GRETHE, CSO, 15.06.2013–31.12.2016 (RESPONSIBLE FOR SALES)

in EUR thousand	2015	2016	2016 (min.)	2016 (max.)
Fixed remuneration	230	293	293	293
Additional benefits	10	16	16	16
Total	**240**	**309**	**309**	**309**
Short-term variable remuneration	-11	10 [1]	0	77
Long-term variable remuneration				
SOP Tranche 2015 (GCGC)	5	14	14	14
Long-term bonus	-10	11 [2]	0	42
Total	**-16**	**35**	**14**	**133**
Pension cost	21	21	21	21
Total remuneration	**245**	**365**	**344**	**463**

1) This amount comprises income relating to other periods of EUR 40 thousand from the reversal of a provision and the creation of a provision of EUR 50 thousand.
2) This amount comprises income relating to other periods of EUR 31 thousand from the reversal of a provision and the creation of a provision of EUR 42 thousand.

SVEN MEISE, CDO, 01.02.15–31.12.16 (RESPONSIBLE FOR DIGITAL SOLUTIONS)

in EUR thousand	2015	2016	2016 (min.)	2016 (max.)
Fixed remuneration	183	233	233	233
Additional benefits	18	26	26	26
Total	**201**	**259**	**259**	**259**
Short-term variable remuneration	24	42 [1]	0	70
Long-term variable remuneration				
SOP Tranche 2015 (GCGC)	4	12	12	12
Long-term bonus	0	41	0	42
Total	**28**	**95**	**12**	**124**
Pension cost	19	21	21	21
Total remuneration	**248**	**375**	**292**	**404**

1) This amount comprises income relating to other periods of EUR 3 thousand from the reversal of a provision and the creation of a provision of EUR 45 thousand.

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

The following cash outflows occurred in connection with the Management Board remuneration:

	Hans Szymanski, CEO & CFO, 01.12.2008–10.01.2016		Rüdiger Andreas Günther, CEO & CFO, 11.01.2016–31.12.2016		Thomas Grethe, CSO, 15.06.2013–31.12.2016		Sven Meise, CDO, 01.02.2015–31.12.2016	
in EUR thousand	2015	2016	2015	2016	2015	2016	2015	2016
Fixed remuneration	275	92	0	400	230	293	183	233
Additional benefits	14	5	0	45	10	16	18	26
Total	**289**	**97**	**0**	**445**	**240**	**309**	**201**	**259**
Short-term variable remuneration	40	0	0	0	25	0	0	24
Long-term variable remuneration								
Long-term bonus	20	0	0	0	14	18	0	0
Other	0	237	0	0	0		0	0
Total	**60**	**237**	**0**	**0**	**39**	**18**	**0**	**24**
Pension cost	76	26	0	19	21	21	19	21
Total remuneration	**425**	**360**	**0**	**464**	**300**	**348**	**220**	**304**

Of the share-based payment granted in fiscal year 2010 from the 2010 stock option plan, EUR 213 thousand or 180,000 options related to the Management Board. No further options were granted under this 2010 stock option plan by 31 December 2015. The exercise period for the options began in fiscal year 2014.

Of the share-based payment granted in fiscal year 2015 from the 2015 stock option plan, EUR 280 thousand or 360,000 options related to the Management Board. 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 and a blanket amount for moving expenses 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 (2016: EUR 3 thousand; 2015: EUR 2 thousand).

EUR 1,141 thousand was set aside for pension obligations to former Management Board members of Francotyp-Postalia Holding AG as at 31 December 2016 (previous year: EUR 928 thousand). EUR 45 thousand (previous year: EUR 32 thousand) was added to provisions in the 2016 reporting year.

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 2016 amounted to EUR 113 thousand (previous year: EUR 113 thousand). The total amount is divided into EUR 45 thousand for Mr Klaus Röhrig, EUR 37.5 thousand for Mr Robert Feldmeier and EUR 30 thousand for Mr Bortho 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	9,886	0.1
Botho Oppermann (Supervisory Board member)	300,000	1.9
Hans Szymanski (Management Board member until 10 January 2016)	120,000	0.7
(Indirect)		
Klaus Röhrig (Chairman of the Supervisory Board) via 3R Investment Ltd, Limassol, Cyprus; Tamlino Import & Advisory LP, Limassol, Cyprus; and Tamlino Investments Ltd, Limassol, Cyprus	1,660,000	10.2

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.

FP Holding indirectly offers businesses and authorities innovative solutions for secure communication via its subsidiaries and second-tier subsidiaries. FP Holding is able to cover all dispatch channels relating to mail – from franking and inserting physical letters, mail consolidation to hybrid mail and the fully digital, secure and traceable dispatch of documents.

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 profit transfer agreements, the cost of loss absorption contracts 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). For the 2016 annual financial statements, the amendments made to HGB by the German Accounting Directive Implementation Act (BilRUG) were applied for the first time. In the reporting year, this resulted in reclassifications from other operating income to revenues amounting to EUR 0.1 million (previous year: EUR 0.0 million) and from other operating expenses to cost of materials amounting to EUR 0.8 million (previous year: EUR 0.4 million). The reclassifications of other operating income as revenues relate to rental income. The other operating expenses attributable to this revenues are recognised under cost of materials (purchased services).

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

in EUR million	2016	2015 1)	Change %
Revenues	**2.4**	**2.1**	**16.9**
Other operating income	2.3	1.2	83.0
Cost of materials	0.8	0.4	108.1
Staff costs	4.8	4.0	20.2
Other operating expenses and amortisation, depreciation and write-downs	5.7	3.4	69.4
Income from investments	5.3	15.1	–65.1
Interest results	0.5	1.1	–54.1
Taxes on income and earnings	0.4	4.0	–89.4
Earnings after taxes	**–0.4**	**7.9**	**–**
Net profit / loss	**–0.4**	**7.9**	**–**

1) Adjusted according to BilRUG

11.1.1 Revenues

The increase in FP Holding's revenues in 2016 resulted from higher Group operating expenses despite there being no change in the service activities rendered by FP Holding.

11.1.2 Other operating income

As in the previous year, FP Holding generated other operating income in 2016 primarily through the receipt of a wage subsidy.

11.1.3 Cost of materials

The increase in the cost of materials from purchased services in the reporting year resulted from higher Group operating expenses and other services.

11.1.4 Staff costs

The increase in staff costs in 2016 follows general salary increases and the recruitment of new employees in connection with the strategic reorientation of FP Holding in line with the Group's ACT strategy.

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

The considerable increase in the reporting year is due primarily to the year-on-year increase in legal and consulting fees by EUR 1.2 million. In addition, other material and service costs increased by EUR 0.5 million and advertising expenses by EUR 0.2 million.

11.1.6 Income from investments

The significant decline in income from investments and profit transfer agreements in 2016 is due primarily to reduced profit transfers on the basis of a year-on-year decline in operating performance, restructuring within the Group, the associated spin-off of an entity from the income tax group, and lower profit distributions from foreign affiliates.

11.1.7 Interest results

The decline in the interest result is mainly due to reduced interest income from affiliated companies.

11.1.8 Taxes on income and earnings

Income from taxes on income and earnings of EUR 0.4 million (previous year: expenses of EUR 3.9 million) resulted primarily from the negative earnings before taxes in 2016 and the adjustment of deferred taxes through profit and loss due to corrections to tax accounting in previous years.

11.1.9 Net profit / loss

FP Holding generated a net loss of EUR -0.4 million compared to net profit of EUR 7.9 million in the previous year, which was primarily due to a considerable decline in profit transfers.

11.2 FINANCIAL POSITION

LIQUIDITY ANALYSIS

in EUR million	01.01.-31.12.2016	01.01.-31.12.2015
Cash flow from operating activities	-3.7	-3.1
Cash flow from investing activities	-0.4	-0.3
Free cash flow	**-4.2**	**-3.4**
Cash flow from financing activities	3.2	4.4
Change in cash and cash equivalents	**-0.9**	**1.0**

The change in cash flow from operating activities in 2016 is mainly due to reduced interest income from affiliated companies of EUR 0.6 million.

The cash flow from financing activities decreased largely as a result of a lower balance of incoming and outgoing payments of liabilities to banks of EUR 4.6 million (previous year: EUR 6.8 million) and a lower dividend payment of EUR 1.9 million (previous year: EUR 2.6 million).

FP Holding was able to meet its payment obligations at all times in 2016.

11.3 NET ASSETS

CONDENSED STATEMENT OF FINANCIAL POSITION OF FP HOLDING

in EUR million	2016	2015	Change
Non-current assets	76.6	64.2	12.4
Current assets	38.3	47.2	-8.9
Prepaid expenses and deferred tax assets	1.7	1.7	-
Assets	**116.7**	**113.2**	**3.5**
Shareholders' equity	71.0	72.8	-1.8
Provisions	6.0	5.6	0.4
Liabilities and deferred tax liabilities	39.7	34.8	4.9
Liabilities	**116.7**	**113.2**	**3.5**

11.3.1 Non-current assets

Financial assets increased year on year due to restructuring within the Group.

11.3.2 Current assets

The reduction in current assets resulted in particular from the decline in intra-Group receivables (EUR –8.2 million). This decline is connected to restructuring within the Group (spin-off and addition of a subsidiary) and resulting capital contributions, which were set off against intra-Group receivables.

11.3.3 Equity

Equity declined in the reporting year due to the net loss of EUR –0.4 million as a result of the EUR 1.9 million dividend payment in 2016. The equity ratio fell from 64.3% to 60.9%.

11.3.4 Provisions

The slight increase in provisions in 2016 was based on a EUR 0.7 million decline in provisions for taxes and a EUR 1.1 million increase in other provisions mainly due to increased variable remunerations as well as higher expenses for legal and consulting costs.

11.3.5 Liabilities and deferred tax liabilities

The increase in liabilities and deferred tax liabilities is mainly due to an increase in liabilities to banks of EUR 4.6 million.

11.4 COMPARISON OF THE ACTUAL / FORECAST BUSINESS PERFORMANCE OF FP HOLDING

The forecast for fiscal year 2016 envisaged revenues at the previous year's level and a slight decline in net profit. The expected decline in net profit was based on lower anticipated income from investments.

In 2016, FP Holding generated revenues of EUR 2.4 million and thus achieved the forecast amount. The income from investments and consequently the net loss were significantly influenced by the approximately EUR 9.8 million reduction in income from investments and profit transfer agreements – primarily from reduced profit transfers on the basis of a year-on-year decline in operating performance and restructuring within the Group. The net loss of EUR –0.4 million was positively affected by income from taxes on income and earnings of EUR 0.4 million (previous year: expenses of EUR 3.9 million).

11.5 OVERALL STATEMENT ON BUSINESS PERFORMANCE

Fiscal year 2016 was a successful year on the whole for the FP Group and thus for FP Holding. The FP Group compiled the new ACT strategy over the course of 2016 and presented it to the public in November. This strategy heralds a new era and makes the Group a dynamically growing company. The ACT strategy is supported by the FP FIT programme to increase efficiency and implementation expertise in all areas, with the four priorities of finance, HR, sales and digitalisation. Initial measures in connection with this have been implemented successfully, such as the improvement of the tax rate, the increase in security and quality in accounting and reporting processes, the establishment of a Treasury division and the reformation of the risk and opportunity management system. As a result, FP Holding's position as the management holding company was significantly reinforced in fiscal year 2016.

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 are basically in proportion to its level of ownership. Risks and opportunities are featured in the "Risks 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 and the net loss to increase slightly in fiscal year 2017. With an anticipated increase in income from profit transfers, the increased net loss is attributable to a decline in other operating income and higher anticipated staff costs.

These plans are based on the level of knowledge available at the start of 2017. The FP Group wishes to point out that the planning information stated may differ from the values actually reached at a later date.

12. RESPONSIBILITY STATEMENT BY LEGAL REPRESENTATIVES IN ACCORDANCE WITH SECTION 315(1) SENTENCE 6 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 the consolidated financial statements, we assure that the consolidated financial statements give a true and fair view of the net assets, financial position, and profit or loss of the Group, and the management report of the company and the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year year.

Berlin, 29 March 2017

Rüdiger Andreas Günther	Thomas Grethe	Sven Meise
CEO & CFO	Management Board member	Management Board member

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016

in thousand euro	III and IV Notes	1.1.–31.12.2016	1.1.–31.12.2015
Revenue	(1)	202,969	191,056
Increase / decrease in inventories of finished goods and work in progress		155	-126
		203,124	**190,930**
Other own work capitalised	(2)	11,391	15,779
Other income	(3)	3,771	4,311
Cost of materials	(4)		
a) Expenses for raw materials, consumables and supplies		35,647	36,673
b) Cost of purchased services		60,872	54,600
		96,519	**91,273**
Staff costs	(5)		
a) Wages and salaries		49,050	48,757
b) Social security contributions		7,569	7,658
c) Expenses for pensions and other benefits		800	935
		57,419	**57,350**
Amortisation, depreciation and write-downs	(10)	17,487	17,801
Other expenses	(6)	37,125	35,591
Net interest income	(7)		
a) Interest and similar income		1,348	693
b) Interest and similar expenses		1,563	2,244
		-215	**-1,551**
Other financial result	(7)		
a) Other financial income		3,787	4,676
b) Other finance costs		3,695	4,480
		92	**196**
Income taxes	(8)	-3,414	-3,927
Consolidated net income		**6,199**	**3,723**
Other comprehensive income			
Foreign currency translation of financial statements of foreign entities		-517	2,721
of which taxes		19	33
of which reclassified to consolidated net income		-64	-108
Provisions for pensions and partial retirement obligations in accordance with IAS 19		-1,207	1,166
of which taxes		-495	-495
Cash flow hedges – effective part of changes to fair value		-249	0
of which taxes		108	0
Other comprehensive income after taxes		**-1,973**	**3,887**
Total comprehensive income		**4,226**	**7,610**
Consolidated net income, of which:		6,199	3,723
Consolidated net income attributable to the shareholders of FP Holding		5,857	3,543
Consolidated net income attributable to non-controlling interests		342	180
Total comprehensive income, of which		4,226	7,610
Total comprehensive income attributable to the shareholders of FP Holding		3,884	7,420
Total comprehensive income attributable to non-controlling interests		342	190
Earnings per share (basic and diluted, in EUR):	(9)	**0.36**	**0.22**
Earnings per share (diluted):		**0.36**	**0.22**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

ASSETS

in thousand euro	Notes	31.12.2016	31.12.2015
NON-CURRENT ASSETS	(10)		
Intangible assets			
Intangible assets including customer lists		22,117	13,821
Goodwill		8,494	8,494
Development projects in progress and advance payments		4,265	10,715
		34,876	**33,030**
Property, plant and equipment	(10)		
Land, land rights and buildings		3,044	3,285
Technical equipment and machinery		4,729	4,944
Other equipment, operating and office equipment		4,348	3,764
Leased products		23,807	24,602
Finance lease assets		3,103	5,299
Advance payments and assets under construction		315	96
		39,346	**41,990**
Other assets			
Associates	(21)	36	36
Other equity investments	(21)	163	163
Finance lease receivables	(11, 21)	9,375	5,567
Other non-current assets		149	251
		9,723	**6,017**
Tax assets	(18)		
Deferred tax assets		866	1,901
Current tax assets		0	6,689
		866	**8,590**
		84,811	**89,627**
CURRENT ASSETS			
Inventories	(12)		
Raw materials, consumables and supplies		5,187	5,956
Work in progress		552	710
Finished goods and merchandise		5,457	5,025
		11,196	**11,691**
Trade receivables	(13, 21)	18,966	16,937
Other assets			
Finance lease receivables	(11, 21)	3,169	2,829
Income taxes receivable	(18)	6,480	1,914
Derivative financial instruments	(21)	86	992
Other current assets	(14, 21)	15,557	13,287
		25,292	**19,022**
Securities	(21)	679	681
Cash and cash equivalents	(15, 21)	26,394	18,214
		82,527	**66,545**
		167,338	**156,172**

LIABILITIES

in thousand euro	Notes	31.12.2016	31.12.2015
EQUITY			
Equity attributable to shareholders of the parent company	(16)		
Issued capital		16,215	16,160
Capital reserves		34,620	34,937
Stock option reserve		1,179	1,046
Treasury shares		0	–810
Loss carried forward		–20,794	–22,414
Consolidated net income after minority interests		5,857	3,543
Total other equity		–1,131	1,251
		35,946	**33,713**
Non-controlling interests		0	1,519
		35,946	**35,232**
NON-CURRENT LIABILITIES			
Provisions for pensions and similar obligations	(17)	17,054	15,454
Other provisions	(19)	991	911
Financial liabilities	(20, 21)	37,530	31,698
Other liabilities	(20, 21)	110	0
Deferred tax liabilities	(18)	572	687
		56,257	**48,750**
CURRENT LIABILITIES			
Tax liabilities	(18)	3,635	3,899
Provisions	(19)	7,969	5,899
Financial liabilities	(20, 21)	911	4,631
Trade payables	(20, 21)	10,612	9,850
Other liabilities			
of which telepostage EUR 28,119 thousand (previous year: EUR 27,064 thousand)	(20, 21)	52,008	47,911
		75,135	**72,190**
		167,338	**156,172**

CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016

in thousand euro	III and IV Notes	1.1.–31.12.2016	1.1.–31.12.2015
1. Cash flow from operating activities			
Consolidated net income		6,199	3,723
Net income tax recognised in profit or loss	(8)	3,414	3,927
Net interest income recognised in profit or loss	(7)	214	1,551
Amortisation, depreciation and write-downs on non-current assets	(10)	17,487	17,801
Decrease (–) / increase (+) in provisions and tax liabilities	(17, 18, 19)	–314	–746
Loss (+) / gain (–) on the disposal of non-current assets		120	420
Decrease (+) / increase (–) in inventories, trade receivables and other assets not attributable to investing or financing activities (without finance lease)	(12, 13, 14)	471	–3,857
Decrease (+) / increase (–) in receivables from finance lease		–4,148	–4.553
Decrease (–) / increase (+) in trade payables and other liabilities [1] not attributable to investing or financing activities	(20)	–731	3,043
Other non-cash income		–376	175
Interest received	(7)	1,348	693
Interest paid	(7)	–1,290	–2,147
Income taxes received		1,458	
Income taxes paid	(8)	–1,722	–1,396
Cash flow from operating activities		**22,129**	**18,634**
2. Cash flow from investing activities			
Payments for the capitalisation of development costs	(2, 10)	–4,413	–4,607
Payments for capitalised interest for development costs		–168	–200
Proceeds from disposals of non-current assets	(10)	85	82
Payments for investments in intangible assets	(10)	–2,309	–1,030
Payments for investments in property, plant and equipment	(10)	–9,962	–14,320
Payments for the acquisition of non-controlling interests		–800	
Cash flow from investing activities		**–17,567**	**–20,075**

1) Postage credit balances managed by the FP Group of EUR 8,418 thousand (previous year: EUR 2,967 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 679 thousand (previous year: EUR 681 thousand).

in thousand euro	III and IV Notes	1.1.–31.12.2016	1.1.–31.12.2015
3. Cash flow from financing activities			
Dividend payments to minority interests		−1,470	−37
Payments for distributions to shareholders	(16)	−1,923	−2,559
Bank loan repayments	(20)	−33,127	−3,011
Repayments of finance lease liabilities	(20)	−1,675	−2,505
Proceeds from the assumption of finance lease liabilities	(20)	0	228
Proceeds from the sale of treasury shares	(16)	410	97
Proceeds for the issue of new shares	(20)	138	0
Proceeds from the assumption of bank loans		36,914	10,199
Cash flow from financing activities		**−733**	**2,412**
Cash and cash equivalents [1)]			
Change in cash and cash equivalents	V.	3,829	971
Change in cash due to currency translation		−1,102	561
Cash at beginning of period	V.	15,928	14,396
Cash at end of period	**V.**	**18,655**	**15,928**

1) Postage credit balances managed by the FP Group of EUR 8,418 thousand (previous year: EUR 2,967 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 679 thousand (previous year: EUR 681 thousand).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016

in thousand euro	Issued capital	Capital reserves	Stock option reserve	Treasury shares	Consolidated net income
IV Notes (16) [1]					
As at 1.1.2015	**16,160**	**35,032**	**977**	**−1,002**	**−19,855**
Consolidated net income 1.1.–31.12.2015	0	0	0	0	3,543
Foreign currency translation of financial statements of foreign entities					
Adjustment of provisions for pensions					
Other comprehensive income 1.1.–31.12.2015	0	0	0	0	0
Total comprehensive income 1.1.–31.12.2015	0	0	0	0	3,543
Stock option settlement		−95	69	192	
Distributions					−2,559
As at 31.12.2015	**16,160**	**34,937**	**1,046**	**−810**	**−18,871**
As at 1.1.2016	**16,160**	**34,937**	**1,046**	**−810**	**−18,871**
Consolidated net income 1.1.–31.12.2015					5,857
Foreign currency translation of financial statements of foreign entities					
Adjustment of provisions for pensions					
Cash flow hedges					
Other comprehensive income 1.1.–31.12.2016	0	0	0	0	
Total comprehensive income 1.1.–31.12.2016	0	0	0	0	5,857
Distributions					−1,923
Stock option settlement	55	−317	133	810	
Acquisition of non-controlling interests					0
As at 31.12.2016	**16,215**	**34,620**	**1,179**	**0**	**−14,937**

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

Total other equity							
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
628	254	-3,508	0	0	28,686	1,365	30,051
0	0	0		0	3,543	180	3,723
2,797	-76				2,721		2,721
		1,156			1,156	10	1,166
2,797	-76	1,156	0	0	3,877	10	3,887
2,797	-76	1,156	0	0	7,420	190	7,610
					166		166
					-2,559	-36	-2,595
3,425	178	-2,352	0	0	33,713	1,519	35,232
3,425	178	-2,352	0	0	33,713	1,519	35,232
0	0	0	0	0	5,857	342	6,199
-471	-46				-517		-517
		-1,177			-1,177	-30	-1,207
				-249	-249	0	-249
-471	-46	-1,177	0	-249	-1,943	-30	-1,973
-471	-46	-1,177	0	-249	3,914	312	4,226
					-1,923	-1,470	-3,393
					681		681
			-439		-439	-361	-800
2,954	132	-3,529	-439	-249	35,946	0	35,946

NOTES +

I. GENERAL INFORMATION

GENERAL INFORMATION ON THE COMPANY

Francotyp-Postalia Holding AG, headquartered in Berlin (hereinafter also referred to as "FP Holding"), is entered in the commercial register of the Charlottenburg Local Court under HRB 169096 B.

The FP Group is an international company in the area of secure communication for businesses and authorities with a history dating back 90 years. Its business activities focus on traditional product business, which consists of the development, manufacture and distribution of franking systems, as well as inserting machines and after-sales business. Through its subsidiaries, freesort, Mentana-Claimsoft and IAB, the FP Group also offers its customers in Germany sorting and consolidation services in addition to products for fully electronic communication and hybrid mail products.

The Management Board of Francotyp-Postalia Holding AG approved the consolidated financial statements for submission to the Supervisory Board on 29 March 2017. 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 2016 in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, as applicable in the EU, and the supplementary provisions in accordance with section 315a(1) of the German Commercial Code (HGB).

ACCOUNTING PRINCIPLES

Francotyp-Postalia Holding AG 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 2016 were 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 below, the accounting policies applied are the same as in the previous year.

Tax income and expense from deferred and current income tax are netted in the income statement for the first time in the 2016 fiscal 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.

Standard	Note	Impact on the consolidated financial statements
Improvements to IFRS 2010–2012	Amendments were made to seven standards as part of the annual improvement project. Changes made to the wording of individual IFRSs are intended to clarify the existing regulations. There are also amendments affecting disclosures in the notes. These standards were IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. Although the standards are applicable to reporting periods beginning on or after 1 February 2015, the amendments to IFRS 2 and IFRS 3 must be applied to transactions occurring on or after 1 July 2014.	
Improvements to IFRS 2012–2014	Amendments were made to four standards as part of the annual improvement project. Changes made to the wording of individual IFRSs/IASs are intended to clarify the existing regulations. These standards were IFRS 5, IFRS 7, IAS 19 and IAS 34.	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 9 Financial Instruments	Published in July 2014, IFRS 9 replaces the existing guidelines of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised guidelines for the classification and measurement of financial instruments, including a new model of expected credit losses to calculate impairment on financial assets, and new general accounting rules for hedges. It also includes the guidelines for the recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for the first time for reporting periods beginning on or after 1 January 2018. Early adoption is permitted.	The actual impact on the consolidated financial statements of applying IFRS 9 in 2018 is not known and cannot be reliably estimated as this depends on the financial instruments the Group holds and the economic situation at this time as well as the accounting policies the Group selects and judgements the Group exercises. The new standard requires the Group to adjust accounting processes and internal controls in connection with the presentation of financial instruments. The adjustments have not yet been completed.

IAS 8.30, HAS BEEN ENDORSED BY THE EU

Standard	Note	Impact on the consolidated financial statements
IFRS 15 Revenue from Contracts with Customers and Amendment to IFRS 15 – Clarification to IFRS 15 (the amendment has not yet been endorsed by the EU)	IFRS 15 Revenue from Contracts with Customers sets out a comprehensive framework for determining whether, how much and when revenues should be recognised. It replaces the existing guidance on the recognition of revenues, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for the first time for reporting periods beginning on or after 1 January 2018. Early adoption is permitted, but is not currently intended.	IFRS 15 establishes a five-step model to account for revenues arising from all contracts with customers. In addition, the disclosure requirements were expanded. The analysis of the impact across the Group on the consolidated financial statements of applying IFRS 15 is not yet complete. The adoption of IFRS 15 is not currently expected to have a material effect on the Group's financial position and results of operations. The FP Group generates its revenues primarily from selling franking and inserting machines and rendering services. In respect to revenues from sales, we do not expect any material changes against current practice under IAS 18. Pursuant to IFRS 15, service agreements are regarded as multiple-element arrangements. For the individual elements, individual transaction prices are to be determined. These form the basis for revenue recognition. The analysis on the matter has not been concluded. The Group has not yet decided which of the available transitional methods and options it will use.

IAS 8.30, ENDORSEMENT BY THE EU IS STILL PENDING

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 classify leases as finance and operating leases. IFRS 16 replaces the existing guidance 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 Involving the Legal Form of a Lease. Subject to EU endorsement, the standard is effective for the first time for reporting periods beginning on or after 1 January 2019. Early adoption is permitted for companies which apply IFRS 15 Revenue from Contracts with Customers when applying IFRS 16 for the first time or before.	The Group has not yet started an analysis of the possible impact of applying IFRS 16 on the consolidated financial statements.
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". Subject to EU endorsement, the modifications are effective for payment transactions granted or changed in reporting periods beginning on or after 1 January 2018.	
Amendments to IAS 7 – Disclosure Initiative	The objective of the amendments is to improve information about changes in liabilities arising in a company. According to the amendments, a company has to disclose information on changes in financial liabilities where incoming and outgoing payments are shown in the cash flow statement in cash flow from financing activities. The relevant financial liabilities are also to be disclosed (e.g. assets from hedging transactions). Changes from financing cash flows, changes arising from acquiring or disposing companies, the effect of changes in foreign exchange rates, changes in fair values and other changes must be disclosed. Subject to EU endorsement, the amendments are effective for the first time for reporting periods beginning on or after 1 January 2017.	In order to comply with the disclosure requirements, the company intends to prepare a reconciliation between the opening and closing balances for liabilities for changes arising from financing activities.

IAS 8.30, ENDORSEMENT BY THE EU IS STILL PENDING

Standard	Note	Impact on the consolidated financial statements
Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	The amendments clarify the recognition of deferred tax assets for unrealised losses for debt instruments measured at fair value. Subject to EU endorsement, the amendments are effective for reporting periods beginning on or after 1 January 2017. Early adoption is permitted.	The Group is currently assessing the possible impact of the amendment on its consolidated financial statements. The Group is not expecting any material effect.
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. Subject to EU endorsement, the interpretation is effective for the first time for reporting periods beginning on or after 1 January 2018. Earlier adoption is permitted.	The Group is currently assessing the possible impact of the amendments on its consolidated financial statements. The Group is not expecting any material effect.
Improvements to IFRS 2014–2016	With the Annual Improvements to IFRSs (2014–2016), three IFRSs were amended. IFRS 12 clarifies that the disclosure requirements pursuant to IFRS 12 also apply to an entity's interests in subsidiaries, joint ventures or associates classified as held-for-sale in accordance with IFRS 5. An exception here is the disclosure requirements pursuant to IFRS 12.B10-B16 (financial information). 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) are cancelled for those applying IFRS for the time. Subject to EU endorsement, the amendments to IFRS 12 are effective for reporting periods beginning on or after 1 January 2017 and the amendments to IFRS 1 and IAS 28 are effective for reporting periods beginning on or after 1 January 2018. Earlier adoption is permitted.	The Group currently does not expect any material impact on the consolidated financial statements.

CONSOLIDATED GROUP

The consolidated financial statements of FP Holding include all companies whose financial and operating policies can be controlled by FP (subsidiaries). If control ends, these companies are deconsolidated.

The consolidated group changed in fiscal year 2016. The liquidation of the non-operational company, IAB Verwaltungs- und Vertriebs GmbH, Berlin, Germany, was completed, and the company deconsolidated.

In October 2016, the Group acquired an additional 49% stake in internet access GmbH Berlin Gesellschaft für Kommunikation und Digitaltechnik, Berlin, Germany ("IAB") for EUR 800 thousand, thus increasing its holding from 51% to 100%. At the acquisition date, the carrying amount of IAB net assets in the consolidated financial statements was EUR 785 thousand. The Group recognised a decline of EUR 391 thousand in non-controlling interests, a EUR 409 thousand decrease in OCI.

In addition to Francotyp-Postalia Holding AG, the 2016 consolidated financial statements include ten (previous year: eleven) German and nine (previous year: nine) foreign subsidiaries (see list on page 8).

COMPANIES CONTROLLED BUT NOT CONSOLIDATED AND ASSOCIATES

The total operating earnings of the subsidiaries not consolidated amount to around –1.4% (-0.1%) of consolidated operating earnings. As in the previous year, the estimated effect of the consolidation of the companies on the Group's total assets is around 0.5% of the Group's total assets.

LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 313 HGB [1), 2)]

No.	Name and registered office of the company	31.12.2016 Share in % [3)]
	Consolidated companies	
1	Francotyp-Postalia Holding AG, 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 Digital-technik, 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 Hanse GmbH, Hamburg, Germany	100.00
8	FP InovoLabs GmbH, Berlin, Germany	100.00
9	Francotyp-Postalia Unterstützungseinrichtung GmbH, Berlin, Germany	100.00
10	FP Produktionsgesellschaft mbH, Wittenberge, Germany	100.00
11	Mentana-Claimsoft GmbH, Fürstenwalde, Germany	100.00
12	Francotyp-Postalia N.V./S.A., Antwerpen, Belgium	99.97
13	Francotyp-Postalia GmbH, Vienna, Austria	100.00
14	Ruys Handelsvereniging B.V., Zoetemer, Netherlands	100.00
15	Italiana Audion s. r. l, Milan, Italy	100.00
16	Francotyp-Postalia Ltd., Dartford, UK	100.00
17	Francotyp-Postalia Inc., Addison, Illinois, USA	100.00
18	Francotyp-Postalia Canada Inc., Concord, Canada	100.00
19	Francotyp-Postalia Sverige AB, Solna, Sweden	100.00
20	Francotyp-Postalia France SARL, Rungis, France	100.00
	Companies not included in consolidation	
21	Francotyp-Postalia Asia Pte. Ltd., Singapore	100.00
22	FP Data Center Inc., Osaka, Japan	49.00
23	Nippon Postalia-Francotyp Co. Ltd, Tokyo, Japan	24.01
24	FP Systems India Private Limited, Mumbai, India	99.998
25	FP Direct Ltd., Dartford, UK	100.00

1) Four 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 amortised cost as associates or other equity investments under other non-current assets in accordance with IAS 39.

2) Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb und Service GmbH, FP Hanse GmbH, FP Direkt Vertriebs GmbH, FP InovoLabs GmbH, Mentana-Claimsoft GmbH, FP Produktionsgesellschaft mbH and Francotyp-Postalia Unterstützungseinrichtung GmbH are exempt from the obligation to publish 2016 annual financial statements in accordance with section 264(3) HGB in conjunction with section 325 HGB. These companies are also exempt from the obligation to prepare a 2016 management report in accordance with section 264(3) HGB in conjunction with section 289 HGB. The corresponding resolutions were submitted to the operator of the electronic Federal Gazette, the respective announcement was arranged.

3) Including directly and indirectly attributable shares.

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 EUR =	**31.12.2016**	31.12.2015	**2016**	2015
US dollar (USD)	1.0554	1.0893	1.1071	1.1099
Pound sterling (GBP)	0.8554	0.7351	0.8196	0.7260
Canadian dollar (CAD)	1.4170	1.5130	1.4662	1.4176
Swedish krona (SEK)	9.5835	9.1820	9.4685	9.3550

ACCOUNTING POLICIES

In preparing the 2016 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** are recognised when service is rendered or goods are delivered, i.e. when risk has transferred to the customer. Other conditions are the probability that the economic benefits associated with the transaction will flow to the Group, and the amount of the income can be measured reliably. Revenues are reported net of trade discounts and rebates. Revenues from operating leases is recognised over the term of performance; for agreements with flat-rate payment, such as service contracts, revenues are recognised on a straight-line basis over the term of the agreement.

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 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 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.

The recoverabilty of **purchased intangible assets** is calculated in accordance with IAS 36 using the multi-period excess earnings method. 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 (multi-period excess earnings method), whereby the value of customer relationships is shown by discounting the resulting cash flows. The cost of revenue generation is deducted from any revenues 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 attributed to the development project are capitalised for the production period as part of the cost. 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.

Property, plant and equipment is measured at cost less depreciation due to use. 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, depreciation is essentially based on the following useful lives:

Property, plant and equipment	Useful life
Land and buildings	2 to 25 years
Technical equipment and machinery	2 to 13 years
Operating and office equipment	3 to 19 years
Leased products	3 to 8 years
Finance lease assets	3 to 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.

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

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 are contracts that give rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. In accordance with IAS 32, 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 assets are divided into the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and cash and cash equivalents.

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

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.

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

After first-time measurement, financial assets held for sale are measured at fair value. The fair value is generally the market value or listed price. If there is no active market, the fair value is 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 are recognised in other comprehensive income. If such a financial asset is derecognised or impaired, the amounts previously recognised in other comprehensive income are reclassified to profit or loss. Objective indications are 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 cannot be reliably determined, as in the above cases, they are measured at cost.

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

The assets at fair value through profit and loss category includes 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** is recognised if there is objective evidence that the amounts due are not fully recoverable (e.g. opening of insolvency proceedings or significant delays in payment by the debtor).

Bank balances have been partially pledged in connection with postal funds managed.

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

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

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** reflects 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 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 SARL, Rungis, France, provisions are recognised for pension obligations that become due when employees leave the company as prescribed by the legal provisions 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 provisions are netted against plan assets measured at fair value in the form of insurance used to cover semi-retirement commitments.

The Group recognises a provision for profit-sharing and bonuses when there is a contractual obligation or a constructive obligation as a result of past business practices.

Provisions for warranty expenses are recognised when the products in question are sold in accordance with the management's best estimate of the expenses necessary to fulfil the Group's obligation.

Accounting for leases in which Francotyp-Postalia is the lessor

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 revenues.

The leases for franking and inserting machines, for 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. Key areas for exercising judgement are:

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.

A certain degree of discretion with a potentially significant impact on the consolidated financial statements is exercised 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 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 on trade receivables includes specific valuation allowances and portfolio-based valuation allowances. The specific valuation allowances reflect individual and specifically discernible risks, whereas general methods are used to calculate portfolio-based valuation allowances. The maturities of receivables are also taken into account.

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 value of the cash-generating unit, there is no need to determine the fair value less costs to sell.

Value in use is determined on the basis of discounted cash flows, which, in turn, are 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 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.

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 as at the end of the reporting period in which the change occurred.

II. SEGMENT REPORTING

Based on the segments defined on the basis of internal management, Francotyp-Postalia is divided into the 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 systems, 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 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 Holding AG (separate financial statements). Revenues were 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 revenues under section III, note 1. Francotyp-Postalia is not dependent on major customers as defined by IFRS 8.34.

SEGMENT INFORMATION 2016

in thousand euro	A Production	B Sales Germany	C International Sales	D Central Functions	Group reconcilia-tion	Total
Revenues	87,045	116,833	85,880	2,365	-89,154	202,969
from third parties	4,872	112,245	85,707	0	145	202,969
inter/intra-segment revenues	82,173	4,588	173	2,365	-89,299	0
EBITDA	**7,039**	**8,646**	**18,598**	**-6,582**	**-479**	**27,223**
Amortisation, depreciation and write-downs	1,488	2,388	15,731	134	-2,254	17,487
Net interest income	-1,437	-520	868	524	351	-215
of which interest expense	1,839	528	294	1,254	-2,352	1,563
of which interest income	402	7	1,162	1,778	-2,001	1,348
Other financial result	1,321	1,530	0	5,382	-8,141	92
Consolidated earnings before taxes and profit transfer	5,434	7,267	3,735	-810	-6,015	9,611
Net tax income	-49	124	79	416	-3,985	-3,414
Profit transfer	-5,386	-50	0	0	5,435	0
Net income	0	7,343	3,814	-394	-4,564	6,199
Segment assets	115,577	63,629	114,948	116,671	-243,486	167,338
Investment	3,161	1,243	12,573	412	-536	16,852
Segment liabilities	114,037	37,528	70,581	45,672	-136,426	131,392

SEGMENT INFORMATION 2015

in thousand euro	A Production	B Sales Germany	C International Sales	D Central Functions	Group reconcilia-tion	Total
Revenues	90,769	106,026	85,793	2,049	-93,581	191,056
from third parties	4,357	101,350	85,426	0	-77 [4]	191,056
inter/intra-segment revenues	86,412	4,676	367	2,049	-93,504	0
EBITDA	**10,645**	**6,584**	**16,581**	**-4,265**	**-2,740**	**26,805**
Amortisation, depreciation and write-downs	1,305	2,739	14,728	110	-1,081	17,801
Net interest income	-1,704	-977	-187	1,141	176	-1,551
of which interest expense	2,575	1,027	714	1,209	-3,281	2,244
of which interest income	871	49	527	2,350	-3,105	693
Other financial result	7,669	-3	-227	15,088	-22,330	197
Consolidated earnings before taxes and profit transfer	15,305	2,865	1,439	11,854	-23,814	7,649
Net tax income	0	-351	-1,049	-3,916	1,390	-3,926
Profit transfer	-15,305	-4,010	0	0	19,316	0
Net income	0	-1,496	390	7,938	-3,108	3,723
Segment assets	138,156	35,911	110,488	113,158	-241,540	156,172
Investment	1,459	2,075	19,365	273	-3,030	20,141
Segment liabilities	136,616	30,934	88,376	40,389	-175,375	120,940 [5]

4) Effects of finance lease adjustment
5) of which: Effects of adjustment of pension provisions EUR 13,235 thousand (previous year: EUR 11,542 thousand)

in thousand euro	Production	Sales Germany	International Sales	Central Functions	Group reconcilia-tion	Total
2016	A	B	C	D		
Utilisation of the provision for restructuring	0	-771	0	0	0	-771
Income from the reversal of provisions	232	704	10	267	-1,213	0
2015	A	B	C	D		
Utilisation of the provision for restructuring	-65	775	0	0	-710	0
Income from the reversal of provisions	422	180	0	43	-645	0

ASSETS BY REGION 2016

in thousand euro	31.12.2016	Current	Non-current
Germany	295,877	101,720	194,157
USA and Canada	55,679	22,785	32,894
Europe (not including Germany)	59,269	25,997	33,272
Other regions	0	0	0
	410,825	150,502	260,323
Effects of IFRS remeasurement	37,436		
Effects of write-downs on customer relationships	-95		
Effects of write-downs on internally generated software	0		
Effects at consolidation level (including elimination of intragroup balances)	-280,827		
Assets according to financial statements	**167,338**		

ASSETS BY REGION 2015

in thousand euro	31.12.2015	Current	Non-current
Germany	287,224	132,586	154,638
USA and Canada	57,466	18,815	38,651
Europe (not including Germany)	53,021	23,187	29,834
Other regions	0	0	0
	397,712	174,587	223,124
Effects of IFRS remeasurement	38,732		
Effects of write-downs on customer relationships	-518		
Effects of write-downs on internally generated software	-122		
Effects at consolidation level (including elimination of intragroup balances)	-279,631		
Assets according to financial statements	**156,172**		

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

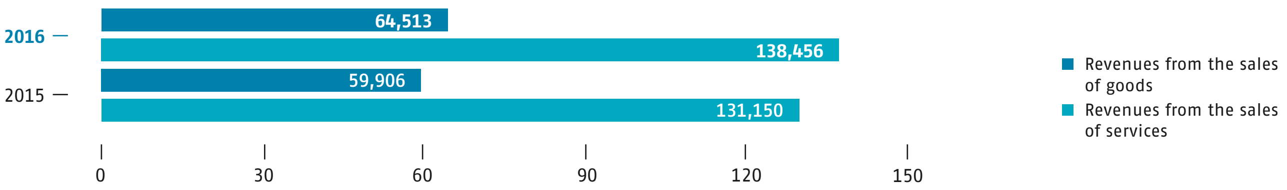
III. NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) REVENUES

in thousand euro	2016	2015
Franking	32,650	28,235
Inserting	7,067	7,263
Other	1,401	1,304
Product sales income	**41,118**	**36,802**
Mail Services	62,834	53,806
Service / customer service	19,699	22,265
Equipment hire	32,748	31,439
Consumables	23,395	23,104
Teleporto	8,973	9,987
Software	14,202	13,653
Recurring revenues	**161,851**	**154,254**
Total	**202,969**	**191,056**

Adding revenues from the sale of consumables to income from product sales, the FP Group generated income of EUR 64,513 thousand from the sale of goods in 2016 (previous year: EUR 59,906 thousand). Income of EUR 138,456 thousand (previous year: EUR 131,150 thousand) was generated from the sale of services (including equipment hire).

REVENUES FROM THE SALE OF GOODS OR SERVICES (IN THOUSAND EURO)



The regional breakdown of revenues is as follows (regional allocation of revenues according to customer's domicile):

in thousand euro	2016	2015
Germany	111,873	100,965
United States	43,524	42,711
Europe (not including Germany or UK)	24,562	22,188
UK	17,159	19,326
Other	5,851	5,867
Total	**202,969**	**191,056**

(2) OWN WORK CAPITALISED

in thousand euro	2016	2015
Capitalised development costs	4,581	4,796
Rental machinery	6,436	10,547
Other	374	436
Total	**11,391**	**15,779**

Of the capitalised development costs, EUR 800 thousand related to PostBase 90 V2.0 (previous year: EUR 1,123 thousand), EUR 907 thousand to PostBase dynamic scales (previous year: EUR 358 thousand) and EUR 579 thousand to CentorMail Plus (previous year: EUR 1,299 thousand) and EUR 1,000 thousand (previous year: TEUR 1,260 thousand) to the development of additional national variants of (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 essentially includes franking systems sold to and used by VS GmbH (EUR 214 thousand) and software developments of EUR 154 thousand.

(3) OTHER INCOME

in thousand euro	2016	2015
Cost subsidies and grants	1,440	998
Derecognition of liabilities	1,177	1,355
Prior-period income	362	239
Usage fees	201	231
Damages	67	84
Commission income	50	28
Book gains from the sale of non-current assets	25	264
Impairment losses on receivables	13	48
Result of deconsolidation	0	549
Other income	436	515
Total	**3,771**	**4,311**

The derecognition of liabilities of EUR 1,195 thousand essentially relates to expired liabilities, EUR 1,144 of which are teleporto obligations. Cost subsidies and grants include state subsidies of EUR 1,388 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 26 thousand (previous year: EUR 6 thousand).

Income relating to other periods of EUR 362 thousand result primarily from credit notes.

(4) COST OF MATERIALS

in thousand euro	2016	2015
Expenses for raw materials, consumables and supplies	35,647	36,673
Cost of purchased services	60,872	54,600
of which postage fees	54,240	46,302
Total	**96,519**	**91,273**

(5) STAFF COSTS

in thousand euro	2016	2015
Wages and salaries	49,050	48,757
Social security contributions	7,569	7,658
of which defined contribution plans (Germany)	2,280	2,271
of which defined contribution plans (non-Germany)	482	420
Expenses for pensions and other benefits	800	935
of which defined benefit plans	156	163
Total	**57,419**	**57,350**

EUR 345 thousand (previous year: EUR 366 thousand) of expenses for foreign defined contribution plans relate to defined benefit 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 2017. According to the insurance provider, as in the previous year, the pension plans have surplus assets at the end of 2016.

(6) OTHER EXPENSES

in thousand euro	2016	2015
Rents / leases	5,402	5,706
Professional fees, consulting	5,351	3,908
Sales commission	3,938	4,009
Marketing	3,151	2,753
Packaging and freight	2,488	2,687
Repairs and maintenance	2,180	2,436
Staff-related costs	1,838	1,452
Travel expenses	1,707	1,667
Additions to other provisions	1,574	156
Messaging and postage	1,532	1,771
Purchased IT services	1,382	1,380
Motor vehicle costs	608	543
Prior-period expenses	327	1,059
Other	5,647	6,064
Total	**37,125**	**35,591**

Key changes in fiscal year 2016 related to third-party and consulting fees of EUR 5,351 thousand after EUR 3,908 thousand in the previous year. These relate primarily to expenses in connection with preparing the Group strategy and further internal future projects to optimise processes and systems. In connection with contractual risks, EUR 1,574 thousand (previous year: EUR 156 thousand) was transferred to other provisions for uncertain obligations.

(7) FINANCIAL RESULT

in thousand euro	2016	2015
Other interest receivable and similar income	1,348	693
of which from finance leases	1,081	557
of which from bank balances	44	57
of which from third parties	223	80
Interest and similar expenses	1,563	2,244
of which from bank liabilities	1,038	1,257
of which interest on the net liability for pension obligations	364	303
of which from finance leases	107	251
Other	54	433
Net interest income	**-215**	**-1,551**
Other financial income	3,787	4,676
Other finance costs	3,695	4,480
Total	**-123**	**-1,355**

As in the previous year, other financial income and other finance costs essentially result from foreign currency translation. It also includes expenses from the development of currency hedges of EUR 2,440 thousand (previous year: income of EUR 613 thousand).

(8) TAXES

in thousand euro	2016	2015
Current tax expense	2,082	2,246
of which prior-period	215	29
Deferred tax expenses	1,332	1,681
of which temporary differences	121	412
of which loss and interest carryforwards	1,211	1,269
Income taxes	**3,414**	**3,927**

In 2016, the external tax audit for 2009 up to and including 2012 continued and was extended to include almost all Group companies. The audit has not yet resulted in any written findings by the tax authorities.

Deferred taxes were measured using tax rates enacted or substantively 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 corporations. As was the case in the previous year, the German tax rates were between 28.43% and 30.18%.

Country-specific tax rates of 20.00% to 38.35% (previous year: 17.00% to 38.50%) were calculated for the foreign companies. Tax rate adjustments resulted in deviations totalling EUR −165 thousand on deferred taxes.

The change in deferred taxes recognised in other comprehensive income as an expense totalled EUR 368 thousand in 2016 (previous year: EUR 462 thousand).

in thousand euro	2016	2015
Consolidated net income before taxes	**9,613**	**7,650**
Forecast tax expense (30.18%)	2,901	2,309
Tax rate differences	−165	−595
Tax effect of non-deductible expenses and tax-free income	375	553
Income taxes for previous years	215	448
Change in recognition / non-recognition of deferred taxes assets on loss carryforwards and deductible temporary differences	−88	1,150
Other deviations	176	62
Income taxes	**3,414**	**3,927**
Tax expense in %	**35.5**	**51.3**

(9) 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. 370,444 treasury shares were acquired in total.

163,944 treasury shares were issued in the reporting period due to stock options exercised under the 2010 stock option plan. Thus the company owns no treasury stock as at 31 December 2016.

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 55,356 and Contingent Capital 2015 / II utilised (see note 16. Contingent Capital 2015 / II).

	2016	2015
Ordinary shares outstanding as at 1 January	16,160,000	16,160,000
Effect of treasury shares	0	–163,944
Shares issued current year	55,356	0
Weighted average ordinary shares (basic) as at 31 December	**16,062,792**	**15,988,160**
Effect of issued stock options	237,065	251,782
Weighted average ordinary shares (diluted) as at 31 December	**16,299,857**	**16,239,942**
Consolidated net income (shareholders of FP Holding)	**5,857**	**3,543**
Basic result (in EUR / share)	**0.36**	**0.22**
Diluted result (in EUR / share)	**0.36**	**0.22**

IV. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(10) NON-CURRENT ASSETS

The development in individual items of non-current assets in the reporting period is shown in the statement of changes in non-current assets at the end of the notes (annex to the notes).

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 6.46% a recoverable amount of EUR 3,443 thousand was determined (previous year: EUR 2,433 thousand). For customer relationships in Germany acquired in the previous year, using a WACC of 6.02% a recoverable amount of EUR 16,826 thousand was determined.

In the 2016 reporting year, further customer relationships with a total value of EUR 399 thousand were acquired in Great Britain and Canada. As the customer relationships were bought in the reporting year, they were not subject to an impairment test.

	2016	2015
Research and development costs	9,286	8,811
of which expenses	4,705	4,015
of which capitalised	4,581	4,796

In the reporting year, EUR 168 thousand (previous year: EUR 200 thousand) borrowing costs were capitalised. An average capitalisation rate of 1.59% (previous year: 2.71%) was applied.

Goodwill of EUR 8,933 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 3,092 thousand (previous year: EUR 2,643 thousand) to the IAB cash-generating unit and is allocated to the Sales Germany 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 (unchanged year-on-year).

2016	freesort	IAB
Recoverable amount CGU	24,560	14,057
Carrying value	12,254	5,915
Difference	12,306	8,142
Impairment	0	0
Threshold figure EBIT [6)]	40.5%	31.7%
EBITDA margin trend	slightly rising	rising
Growth rate perpetual maturity	1.0%	2.0%
Basic assumptions		
Revenues growth range	3.0%–6.0%	5.5%–13.3%
Gross margins [7)]	3.4%–4.3%	6.2%–11.9%
Discount rate (WACC)	6.75%	10.10%
Discount rate before taxes	10.16%	22.28%

6) Recoverable amount equal to the carrying amount of the cash-generating unit
7) EBITDA as % of revenues

2015	freesort	IAB
Recoverable amount CGU	13,034	8,266
Carrying amount	12,856	7,895
Difference	178	371
Impairment	0	0
Threshold figure EBIT[8)]	98.70%	96.00%
EBIDTA margin trend	moderate increase	moderate increase
Growth rate perpetual maturity	1.0%	2.0%
Basic assumptions		
Revenues growth range	2.5–2.6%	7.1%–7.7%
Gross margins[9)]	3.1–3.8%	7.5%–11.8%
Discount rate (WACC)	10.82%	11.63%
Discount rate before taxes	14.63%	15.30%

8) Recoverable amount equal to the carrying amount of the cash-generating unit
9) EBITDA as % of revenues

The sensitivity of the main calculation parameters, with all other parameters remaining constant, is as follows:

31.12.2016	freesort		IAB	
Discount rate	6.75%	8.50%	10.10%	11.50%
Impairment	–	–	–	–
Fluctuation in planned EBIT	100%	90%	100%	90%
Impairment	–	–	–	–
Growth rate	1.0%	0.0%	2.0%	0.0%
Impairment	–	–	–	–

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 11,391 thousand (previous year: EUR 15,779 thousand) was recognised in manufacturing costs under property, plant and equipment in the reporting period.

(11) FINANCE LEASE RECEIVABLES

31.12.2016

in thousand euro	Total	Remaining term Up to 1 year	1 to 5 years	More than 5 years
Future minimum lease payments	17,033	4,700	11,636	697
Finance charges	4,489	1,531	2,762	196
Receivables from finance leases (present value)	**12,544**	**3,169**	**8,874**	**501**
of which FP Vertrieb und Service GmbH	982			
of which Francotyp-Postalia Ltd.	8,617			
of which Italiana Audion s.r.l.	1,841			
of which FP France SARL	818			
of which FP Inc., Illinois, USA	286			

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 17,033 thousand (previous year: EUR 11,613 thousand). After deducting finance charges of EUR 4,489 thousand (previous year: EUR 3,217 thousand), this results in net investments of EUR 12,544 thousand (previous year: EUR 8,396 thousand), which, as the difference between gross and net investment, is equal to the unearned finance income. As at the end of the reporting period there were no allowances for uncollectible minimum lease payments receivable or contingent rents recognised as income in the 2015 reporting period (previous year: also not).

31.12.2015

in thousand euro	Total	Remaining term Up to 1 year	1 to 5 years	More than 5 years
Future minimum lease payments	11,613	3,170	7,934	509
Finance charges	3,217	955	2,080	182
Receivables from finance leases (present value)	**8,396**	**2,215**	**5,854**	**327**
of which FP Vertrieb und Service GmbH	1,406			
of which Francotyp-Postalia Ltd.	5,087			
of which Italiana Audion s.r.l.	1,704			
of which FP Inc., Illinois, USA	199			

31.12.2016

in thousand euro	Total	Remaining term Up to 1 year	1 to 5 years	More than 5 years
Future minimum lease payments under non-cancellable operating leases	57,513	28,896	28,465	152

31.12.2015

in thousand euro	Total	Remaining term Up to 1 year	1 to 5 years	More than 5 years
Future minimum lease payments under non-cancellable operating leases	56,454	26,407	29,971	76

(12) INVENTORIES

in thousand euro	31.12.2016	31.12.2015
Raw materials, consumables and supplies	5,187	5,956
Work in progress	552	710
Finished goods and goods for resale	5,457	5,025
Total	**11,196**	**11,691**

Impairment losses on inventories amount to EUR 1,809 thousand (previous year: EUR 1,778 thousand) and are reported under "Cost of materials" in the consolidated statement of comprehensive income. In the reporting period, utilisation of inventories amounted to EUR 35,647 thousand (previous year: EUR 36,973 thousand) in the consolidated statement of comprehensive income.

(13) TRADE RECEIVABLES

in thousand euro	31.12.2016	31.12.2015
Trade receivables – Germany	7,385	6,302
Trade receivables – abroad	11,581	10,635
Total trade receivables	**18,966**	**16,937**

A gross amount of EUR 20,809 thousand (previous year: EUR 18,423 thousand) was reported under trade receivables as at 31 December 2016.

WRITE-DOWNS

in thousand euro	
As at 1 Jan. 2015	**1,329**
Foreign currency effects	82
Charge for the year (impairment loss)	1,430
Utilised	1,351
Unused amounts reversed	6
As at 31 Dec. 2015	**1,485**
Foreign currency effects	8
Charge for the year (impairment loss)	2,010
Utilised	1,660
Unused amounts reversed	0
As at 31 Dec. 2016	**1,843**

Additions to allowance accounts are recognised under other operating expenses.

MATURITY STRUCTURE

in thousand euro	Nominal amount Total	Of which not past due	Of which trade receivables past due		
			0 to 60 days	61 to 120 days	>121 days
31.12.2016					
Gross carrying amount	20,809	12,425	5,202	1,605	1,577
Impairment	1,843	231	315	610	687
31.12.2015					
Gross carrying amount	18,423	11,032	4,327	2,070	994
Impairment	1,485	386	260	173	666

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

a) agreements underlying the receivables with the debtors, in particular the collection or return of goods supplied and

b) 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 2016, the Group received cash and cash equivalents at the level of the carrying amount of the derecognised receivables (EUR 727 thousand; previous year: EUR 0).

The bank receives forfeiting interest in return for buying the receivables and a forfeiting fee in return for assuming the del credere risk. In 2016, the two cost elements resulted in an expense of EUR 5 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.

(14) OTHER CURRENT ASSETS

in thousand euro	31.12.2016	31.12.2015
Deferred payments	5,183	5,502
Creditors with debit balances	3,882	2,786
Receivables from other taxes	2,431	1,771
Miscellaneous financial assets	4,059	3,228
Total	**15,555**	**13,287**

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 2,112 thousand (previous year: EUR 1,667 thousand).

Miscellaneous financial assets relate primarily to prepayments of EUR 759 thousand (previous year: EUR 881 thousand), franchise fees EUR 809 thousand (previous year: EUR 0), receivables from trading partners EUR 676 thousand (previous year: EUR 742 thousand) and deposits of EUR 213 thousand (previous year: EUR 185 thousand).

(15) CASH AND CASH EQUIVALENTS

in thousand euro	31.12.2016	31.12.2015
Bank balances	25,775	17,907
Checks and cash on hand	619	307
Total	**26,394**	**18,214**

EUR 8,418 thousand (previous year: EUR 2,967 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.

(16) SHAREHOLDERS' EQUITY

Changes in equity are shown in the statement of changes in equity.

The share capital is divided into 16,215,356 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 Holding AG 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. No further shares were purchased in the reporting year.

163,944 treasury shares were issued in the reporting period due to stock options exercised under the 2010 stock option plan. Thus as at 31 December 2016 the company no longer had any treasury shares (previous year: 163,944 shares or 1.26% of the share capital with a market value of EUR 795 thousand as at 31 December 2015).

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 55,356 and Contingent Capital 2015/II utilised.

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

	Number of shares outstanding
Capital reserves	16,160,000
Treasury shares	–163,944
As at 31 Dec. 2015	**15,996,056**
Number of shares (31 Dec. 2015)	16,160,000
Capital increase (Contingent Capital 2015/II)	55,356
As at 31 Dec. 2016	**16,215,356**

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 thousand euro		
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; 1,446,000 shares at EUR 2.66	3,884
	less contributions to subscribed capital and expenses of the capital increase after tax	−1,625
2014–2016	share subscription from the 2010 stock option plan	−820
As at 31 Dec. 2016		**34,620**

AUTHORISATIONS FOR AUTHORISED AND CONTINGENT CAPITAL

in thousand euro	
Authorised Capital 2015/I	8,080
Contingent Capital 2015/I	6,464
Contingent Capital 2015/II	959

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 by 10 June 2020 on the basis of the authorisation of the Annual General Meeting in accordance with the adjustment of the 2010 stock option plan and Contingent Capital 2010. 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 by 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 and 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

(i) Contingent capital increase of up to EUR 959,500.00 by issuing up to 959,500 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 959,500 shares against payment of the exercise price.

The company can elect to use treasury shares to serve the subscription rights under the 2015 stock option plan instead of new shares if this is covered by a separate resolution to authorise passed by the Annual General Meeting.

The purpose of both stock option plans, in accordance with item 1.3 of the respective stock option plan, is "a lasting link between the interests of management and executives and the interests of the shareholders in a long-term increase in enterprise value."

In accordance with item 2.2 of the respective stock option plan, each stock option grants the right to acquire one share in Francotyp-Postalia Holding AG.

Date of grant	Number of instruments (EUR k)	Contractual term of the option after award date	Securitisation	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 allocated in the 2015 plan, 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 value of the options of the individual tranches for the 2010 and 2015 stock option plans and the underlying valuation criteria. The options were measured using a Black-Scholes option pricing model as there is no public trading of options for Francotyp-Postalia shares with the same features.

		Award date							
		SOP 2010					SOP 2015		
		1.9.2010	27.4.2012	7.9.2012	6.12.2013	11.6.2014	31.8.2015	25.11.2015	31.8.2016
31.12.2016									
One option	EUR	1.37	1.31	1.17	1.85	1.82	1.07	1.07	1.07
All options	EUR k	427	39	23	106	0	482	43	193
31.12.2015									
One option	EUR	1.37	1.31	1.17	1.85	1.82	1.07	1.07	n/a
All options	EUR k	727	39	23	106	0	497	43	n/a
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 [10]		EUR 2.50	EUR 2.61	EUR 2.34	EUR 3.86	EUR 4.56	EUR 4.48	EUR 4.39	EUR 3.90
Forecast average holding period in years		31.8.2015	26.4.2017	6.9.2017	5.12.2018	10.6.2019	30.8.2020	24.11.2020	30.8.2022
Forecast average holding period in years		5	5	5	5	5	5	5	5
Expected date of exercise		31.8.2015	26.4.2017	6.9.2017	5.12.2018	10.6.2019	30.8.2020	24.11.2020	30.8.2022
Expected volatility [11]		74.48%	70.84%	71.31%	59.94%	52.21%	38.81%	37.41%	36.62%
Annual dividend yield [12]		2%	2%	2%	2%	2%	3%	3%	3%
Matched-term, risk-free interest rate [13]		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 year-on-year increase of more than 10%		95%	80%	95%	95%	90%	90%	90%	50%

10) 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 Holding AG. Item 9 of the stock option plan states: "The Supervisory Board must stipulate maximum total annual remuneration (a cap) for the Management Board in accordance with item 4.2.3 of the German Corporate Governance Code. This will be agreed in a supplementary agreement to Management Board members' contracts before options are awarded."

11) Determined in reference to the price volatility of an FP share in the respective period.

12) Assessment takes account of the distribution behaviour of the FP Group in the past.

13) The matched-term, risk-free interest rate for the expected option term of five 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.

	SOP 2010		SOP 2015	
Options	Number	Average exercise price in EUR	Number	Average exercise price in EUR
As at 31 Dec. 2014	**707,500**	**2.70**	**0**	**n/a**
Granted in fiscal year	0	n/a	505,000	4.48
Forfeited in fiscal year	-30,000	4.56	0	n/a
Exercised in fiscal year	-39,000	2.50	0	n/a
Expired in fiscal year	0	n/a	0	n/a
As at 31 Dec. 2015	**638,500**	**2.62**	**505,000**	**4.48**
Range of exercise price		2.34-3.86		4.48
Average remaining term as at 31 Dec. 2015		62 months		116 months
Exercisable as at 31 Dec. 2015	531,000	2.50	0	n/a
As at 31 Dec. 2015	**707,500**	**2.70**	**505,000**	**4.48**
Granted in fiscal year	0	n/a	180,000	3.90
Forfeited in fiscal year	0	n/a	-15,000	4.48
Exercised in fiscal year	-219,300	2.50	0	n/a
Expired in fiscal year	0	n/a	0	n/a
As at 31 Dec. 2016	**419,200**	**2.69**	**670,000**	**4.32**
Range of exercise price		2.34–3.86		3.90–4.48
Average remaining term as at 31 Dec. 2016		53 months		107 months
Exercisable as at 31 Dec. 2016	361,700	2.50	0	n/a

As at 31 December 2015, EUR 133 thousand (previous year: EUR 69 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 long-term loans to FP USA, FP UK, FP Canada and FP Sweden. (In the previous year, this related to only FP Canada and FP Sweden.)

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 –64 thousand (previous year: EUR 35 thousand) is recognised in other comprehensive income in accordance with IAS 21.32 f.

Non-controlling interests

On 1 October 2016, IAB distributed EUR 3,000 thousand, EUR 1,470 thousand of which went to non-controlling interests. Subsequently, with economic effect on 1 October 2016, the FP Group acquired the remaining 49% stake in IAB. As at 31 December, there were no longer any non-controlling interests.

Distribution of a dividend

In 2016, there was a dividend distribution of EUR –1,923,366.72. 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	31.12.2016
Issued capital	16,215,356.00
Capital reserves	39,135,531.39
Net retained profits	15,648,619.10
Shareholders' equity	**70,999,506.49**
./. Issued capital	–16,215,356.00
./. Capital reserves	–39,135,531.39
./. Distribution restriction as per section 268(8) HGB	–702,506.43
Distribution potential	**14,946,112.67**

(17) 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. The amount of pension commitments is based on the duration of employment and employees' pay.

Death benefits are payable to the surviving dependents 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. 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 percent per year	31.12.2016	31.12.2015
Interest rate	1.42	2.38
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 still based on the 2005 G Heubeck mortality tables, which are generally accepted for the measurement of occupational pension commitments.

in thousand euro	Defined benefit obligation		Fair value of plan assets		Net pension liability	
	2016	2015	2016	2015	2016	2015
As at 1 Jan. of the reporting period	**15,843**	**17,698**	**-388**	**-344**	**15,456**	**17,354**
In profit or loss						
Current service cost	155	162	–	–	155	162
Interest expense (+) income (-)	368	309	-9	-6	359	303
In other comprehensive income						
Remeasurement						
Actuarial gains and losses						
from changes in biometric assumptions	–	–	–	–	–	–
from changes in financial assumptions	2,168	-1,428	–	–	2,168	-1,428
due to experience adjustments	-461	-218	–	–	-461	-218
Return on plan assets (not including above interest income)	–	–	27	-14	27	-14
Other						
Employer contributions to pension plan	–	–	–	-24	–	-24
Payments from pension plan	-1,021	-680	371	–	-650	-680
As at 31 Dec. of the reporting period	**17,053**	**15,843**	**1**	**-388**	**17,054**	**15,454**

The plan assets consist of insurance policies in the form of classical endowment and annuity pensions with bonuses.

Employer contributions to plan assets for fiscal year 2017 are expected to amount to EUR 0 thousand (previous year: EUR 2 thousand).

DEFINED BENEFIT OBLIGATION

in percent	31.12.2016	31.12.2015
Active beneficiaries	21.1	19.4
Beneficiaries who have left the company	25.5	25.2
Retired employees	53.4	55.4

All pension commitments are vested.

The weighted average term of pension commitments is 15.1 years as at 31 December 2016 (previous year: 14.0 years).

MATURITY OF THE UNDISCOUNTED PENSION OBLIGATIONS

in thousand euro	31.12.2016	31.12.2015
Up to 1 year	629	636
1–5 years	2,815	3,185
6–10 years	3,815	3,899
More than 10 years	15,027	16,116
Total	**22,286**	**23,836**

EFFECT ON DEFINED BENEFIT OBLIGATIONS AS AT 31 DEC. 2016

in thousand euro	Increase	Decrease
Interest rate (change of 1.00%)	–2,206	2,789
Salary trend (change of 0.50%)	467	–431
Pension trend (change of 0.25%)	492	–471
Life expectancies (change of 1 year)	561	–549

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 2016 separately.

(18) TAX RECEIVABLES AND LIABILITIES

TAX RECEIVABLES

in thousand euro	31.12.2016	31.12.2015
Deferred	866	1,901
Actual	0	6,689
Tax receivables (non-current)	**866**	**8,590**
Receivables (current; other intangible assets)	**6,480**	**1,914**
Tax receivables (total)	**7,346**	**10,504**

TAX LIABILITIES

in thousand euro	31.12.2016	31.12.2015
Deferred tax liabilities (non-current)	572	687
Current tax liabilities (current)	3,635	3,899
Tax liabilities	**4,207**	**4,586**

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 thousand euro	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	31.12.2016	31.12.2016	31.12.2015	31.12.2015
Non-current assets	6,275	14,527	4,133	11,505
Other assets	661	660	591	1,691
Provisions	4,195	0	3,691	0
Liabilities	3,308	2,594	2,059	911
Tax loss carryforwards	3,636	0	4,847	0
Total	**18,075**	**17,781**	**15,321**	**14,107**
Offset	-17,209	-17,209	-13,420	-13,420
Group carrying amount	**866**	**572**	**1,901**	**688**

The deferred tax assets for loss carryforwards are based on the expectation that loss carryforwards can be offset against future taxable profits.

At EUR 2,025 thousand (previous year: EUR 3,019 thousand) in total, no deferred tax assets were recognised for loss carryforwards and deductible temporary differences. The deferred taxes not capitalised are based on loss carryforwards and deductible temporary differences of EUR 6,779 thousand (previous year: EUR 9,856 thousand). These loss carryforwards relate particularly to subsidiaries in France and Italy.

In 2010 income tax audits were ordered for German FP Group companies for 2005 to 2008. The audits commenced in the 2011 reporting year and ended with reports dated 16 January 2013. The audit resulted in significant corrections of transfer prices for deliveries of goods by the FP GmbH entity to its foreign sales companies. The additional taxes were established in 2013 and paid in part, with the remainder expensed and continued in addition to interest at the level of FP Holding as at 31 December 2013. The assessments in question have been appealed. Furthermore, on account of the transfer price corrections in Germany, FP GmbH has applied for the initiation of mutual agreement procedures in accordance with the Double Taxation Agreement and the EU Arbitration Convention between the Federal Republic of Germany and the UK, the US, Austria, the Netherlands and Belgium. The procedure aims to establish a corresponding adjustment of transfer prices in the respective countries. In the reporting period, the mutual agreement procedure between the Federal Republic of Germany and the UK was concluded. It is anticipated that the remaining outstanding mutual agreement procedures will be concluded in the 2017 reporting period. For the expected reimbursement, a current income tax receivable of EUR 4,997 thousand was recognised (previous year: non-current receivable of EUR 6,689 thousand).

Since 2014, an ongoing audit of 2009 up to and including 2012 has been pending, which has not yet produced any results or audit findings.

Prior to this audit, Francotyp-Postalia had already changed its transfer pricing system to the transactional net margin method (TNMM) from fiscal year 2009. Sales contracts were revised accordingly and in December annual transfer prices were adjusted to the edge of the interquartile margin ranges of similar sales companies. This approach is consistent with a transfer pricing study for 2005 to 2008 published by the audit company Deloitte.

As part of a review for 2009 up to and including 2012, it was noticed that the final EBIT margins for international sales companies, despite the contractual adjustment of transfer prices, were in some cases outside the range for arm's length EBIT margins. In particular, this is because the transfer price adjustments recognised entirely in profit or loss in Germany were in some cases recognised in other comprehensive income in the respective period in accordance with local accounting standards at companies outside Germany (capitalisation of leased assets in particular) and will only result in higher write-downs in subsequent periods. The adjustment requirement calculated by FP as part of the review for 2009 up to and including 2012 amounted to EUR 3.8 million. Given the result of operations of the FP Holding AG income tax group and sufficient loss carryforwards, the income correction resulted in a minor increase in cash-effective German taxes for these years. Furthermore, it is anticipated that the transfer pricing adjustment in Germany will result in the corresponding mutual agreement procedures in the countries impacted, which will result in the relevant claims to reimbursement outside Germany.

Francotyp-Postalia took the results of the review as an opportunity to analyse the system of transfer price calculation again, taking into consideration the different accounting treatment abroad. In the 2016 reporting period, this resulted in adjustments being made to the calculation of transfer prices and intergroup agreements. For the 2017 reporting year, further measures to develop the establishment of transfer prices and documentation are planned.

(19) OTHER PROVISIONS (CURRENT) AND PROVISIONS (NON-CURRENT)

in thousand euro	As at 01.01.2016 (restated)	Currency differences	Charge for the year	Utilisation	Unused amounts reversed	As at 31 Dec. 2016	of which non-current	of which current
Staff provisions	4,479	2	4,398	-3,280	-651	4,948	702	4,246
Restructuring	771	0	0	-565	-206	0	0	0
Warranties	770	0	91	-561	-131	169		169
Invention royalties	225	0	215	-201	0	239	0	239
License costs	0	0	198	0	0	198		198
Litigation costs	111	0	763	-49	-42	783	0	783
Anticipated losses	64	0	1,050	-64	0	1,050	0	1,050
Miscellaneous provisions	389	-3	1,404	-217	0	1,573	289	1,284
(Other) provisions	**6,809**	**-1**	**8,119**	**-4,937**	**-1,030**	**8,960**	**991**	**7,969**

All other provisions reported under non-current liabilities in the consolidated statement of financial position have a remaining term of more than one year. As in the previous year, the interest effect of interest accrued on and the discounting of non-current provisions is EUR 38 thousand (previous year: EUR 9 thousand).

Staff provisions essentially include provisions for severance payments, anniversary provisions, obligations under semi-retirement plans and bonuses.

Provisions for onerous contracts relate primarily to contracts of Mentana-Claimsoft GmbH De-Mail customers.

Miscellaneous provisions includes uncertain liabilities of EUR 1,240 thousand and archiving costs of EUR 104 thousand.

The obligations under semi-retirement plans (EUR 375 thousand; previous year: EUR 586 thousand) are based on the following key actuarial assumptions:

in percent per year	31.12.2016	31.12.2015
Interest rate	-0.32	0.36
Salary trend	3.00	3.00

The anniversary provisions (EUR 181 thousand; previous year: EUR 203 thousand) are based on the following key actuarial assumptions:

in percent per year	31.12.2016	31.12.2015
Interest rate	–0.15	0.36
Salary trend	3.00	3.00

The biometric data, such as mortality and disability, for pensions in Germany is still based on the 2005 G Heubeck mortality tables.

The provisions for litigation costs essentially relate to expected costs for pending legal disputes. Please also see section III, note 26.

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

The income from the reversal of provisions of EUR 1,030 thousand (previous year: EUR 346 thousand) essentially relates to provisions for bonuses of EUR 432 thousand, provisions for severance payments of EUR 214 thousand, provisions for warranties of EUR 130 thousand and provisions for litigation costs of EUR 42 thousand.

	31.12.2016			31.12.2015		
in thousand euro	Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years	Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years
Staff provisions	4,948	4,246	702	4,479	3,701	778
Restructuring	0	0	0	771	771	0
Warranties	169	169	0	770	770	0
Invention royalties	239	239	0	226	226	0
License costs	198	198				
Litigation costs	783	783	0	111	111	0
Anticipated losses	1,050	1,050	0	64	64	0
Miscellaneous provisions	1,573	1,284	289	389	256	133
(Other) provisions	**8,960**	**7,969**	**991**	**6,810**	**5,899**	**911**

(20) LIABILITIES

	31.12.2016			31.12.2015		
in thousand euro	Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years	Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 year
Liabilities to banks	36,915	6	36,908	33,128	2,969	30,159
Finance lease liabilities	1,526	905	621	3,201	1,662	1,539
Financial liabilities	**38,440**	**911**	**37,530**	**36,329**	**4,631**	**31,698**
Trade payables	**10,612**	**10,612**	**0**	**9,850**	**9,850**	**0**
Other liabilities						
from taxes	2,095	2,095	0	1,373	1,373	0
For social security contributions	261	261	0	327	327	0
from teleporto	28,119	28,119	0	27,064	27,064	0
to employees	1,553	1,553	0	1,181	1,181	0
from derivatives	2,170	2,170	0	318	318	0
from deferral accounts	12,114	12,114	0	12,596	12,596	0
Miscellaneous liabilities	5,806	5,696	110	5,052	5,052	0
Other liabilities	**52,118**	**52,008**	**110**	**47,911**	**47,911**	**0**
Total	**101,170**	**63,530**	**37,640**	**94,090**	**62,392**	**31,698**

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. As at 31 December 2015, the loans amounted to EUR 36,908 thousand (previous year: EUR 33,126 thousand; please see the comments on the syndicated loan agreement under "Financial instruments – Fair values and risk management", 4. Liquidity risks, in section IV).

In accordance with the syndicated loan agreement in place on 31 December 2016, 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 EURBIOR, interest rate hedging was not sensible as at the reporting date.

The financing agreements concluded in the reporting year do not result in any contractual payment obligations in 2017. Accordingly, the liabilities are reported with a remaining term of more than one year.

Deposits totalling EUR 0 thousand (previous year. EUR 50 thousand) were paid in connection with leases. Interest expenses of EUR 100 thousand in total (previous year: EUR 251 thousand) related to leases.

Teleporto liabilities relate to customer funds held in trust.

The liabilities from deferral accounts of EUR 12,114 thousand (previous year: EUR 12,596 thousand) include deferred revenues received under finance leases.

(21) FINANCIAL INSTRUMENTS

In the context of its operating activities, the FP Group is exposed to credit risks, liquidity and market risks in the financial sector. In particular, market risks relate to interest rate and exchange rate risks. Detailed information on risk management can be found below. The following information refers exclusively to the quantitative effects of risks in the fiscal year. These risks affect the following financial assets and liabilities.

CLASSES OF FINANCIAL INSTRUMENTS

Figures in EUR thousand	Carrying amounts 31.12.2016	Carrying amounts 31.12.2015
Financial assets at fair value through profit or loss		
Securities	679	681
Asset derivatives	86	992
Loans and receivables		
Trade receivables	18,966	16,937
Other financial assets	8,092	6,265
Equity investments and associates [14)]	199	199
Finance lease receivables	**12,544**	**8,396**
Cash and cash equivalents	**26,394**	**18,214**
Financial liabilities at amortised cost		
Liabilities to banks	37,067	33,128
Trade payables	10,612	9,850
Other financial liabilities	33,815	32,116
Finance lease liabilities	**1,526**	**3,201**
Financial liabilities at fair value through profit or loss		
Liability derivatives	2,170	318

14) In the previous year reported under "Financial assets available-for-sale".

For the other financial liabilities, the reported carrying amount is the cash payment in the following year.

CLASSES OF FINANCIAL INSTRUMENTS

Figures in EUR thousand	Fair value 31.12.2016	Fair value 31.12.2015	Measurement method	Significant unobservable inputs	Hierarchy
Financial assets at fair value through profit or loss					
Securities	679	681	Quoted market price	not applicable	Level 1
Asset derivatives	86	992	Mark to market: The fair values are based on quoted prices from brokers	not applicable	Level 2
Financial liabilities at fair value through profit or loss					
Liability derivatives	2,170	318	Mark to market: The fair values are based on quoted prices from brokers	not applicable	Level 2

There were no reclassifications between measurement classes of financial instruments in the reporting year.

The fair values of available-for-sale financial assets are calculated based on market prices (level 1) or discounted cash flows (level 3).

The reported securities with a fair value of EUR 679 thousand (previous year: EUR 681 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.

I. Translation risks:

Income from translation differences of EUR 3,787 thousand (previous year: EUR 4,676 thousand) and expenses of EUR 3,076 thousand (previous year: EUR 3,793 thousand) were recognised in net finance costs in the reporting year.

II. Transaction risks:

The risk is mainly mitigated by invoicing business transactions (sales and purchases of products and services as well as investing and financing activities) in the respective functional currency. Moreover, it offsets the foreign currency risk in part by procuring goods, raw materials and services in the corresponding foreign currency.

Operating units are prohibited from borrowing or investing funds in foreign currencies for speculative reasons. 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) were used as the benchmark for the calculated sensitivities.

EXCHANGE RATE USD

In thousand euro	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2016			
USD	+5%	895	895
	-5%	-810	-810
2015			
USD	+5%	290	290
	-5%	-262	-262

EXCHANGE RATE GBP

In thousand euro	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2016			
GBP	+5%	327	327
	-5%	-296	-296
2015			
GBP	+5%	86	86
	-5%	-78	-78

EXCHANGE RATE CAD

In thousand euro	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2016			
CAD	+5%	90	90
	-5%	-81	-81

EXCHANGE RATE SEK

In thousand euro	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2016			
SEK	+5%	64	64
	-5%	-58	-58

The foreign currency risks from anticipated future cash inflows in US dollars (USD), Canadian dollars (CAD) and pound sterling (GBP) are hedged to a significant extent.

To minimise earnings fluctuations, hedging transactions together with the underlying transactions were transferred to a new hedging unit as at 31 December 2016, taking account of the provisions of IAS 39.

Overview: hedges – hedge accounting IFRS:

Currency	Total expected cash flow in foreign currency	Hedged volume in foreign currency (31 Dec. 2016)	Type of hedge	Effectiveness test/ effective part (OCI)	Effectiveness test/ ineffective part (P&L)
USD	26,030,000.00	6,634,000.00	Currency forwards/ Cah flow hedge	-321,108.66	0
CAD	3,594,000.00	1,170,000.00	Currency forwards/ Cah flow hedge	-36,342.78	0

The FP Group is anticipating cash flows in US dollars of USD 26,030 thousand in 2017 from the operating activities of its US subsidiary. As at 8 November 2016, six currency forwards with a fixed maturity in the amount of USD 6,634 thousand were concluded.

The FP Group is anticipating cash flows in CAD dollars of CAD 3,594 thousand in 2017 from the operating activities of its Canadian subsidiary. As at 8 November 2016, six currency forwards with a fixed maturity in the amount of CAD 1,170 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	6,562	0	**6,562**
USD thousand	26,030	6,634	**19,396**
CAD thousand	3,594	1,170	**2,424**
SEK thousand	11,600	0	**11,600**

Additional currency risks were concluded as individual derivative translations. According to IAS 39 these are not defined as hedges required for hedge accounting. This relates to the following transactions:

Currency	Nominal volume in foreign currency	Type of hedge	Market value as at 31 Dec. 2016
GBP thousand	12,000.00	Currency swap	-1,679,591.42
GBP thousand	1,250.00	Currency swap with duration option	85,609.71
USD thousand	1,080.00	Bucket currency forward with target dates	-133,035.79

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.

All interest hedges expired on 30 December 2016.

The new loan agreement concluded in June 2016 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.

All changes in fair value are reflected in consolidated net income.

Floating rate financial liabilities 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.

	Change in percentage points	Effect on consolidated net income before taxes in EUR thousand	Effect on equity before taxes in EUR thousand
2016	+1%	–350	–350
	–1%	+350	+350
2015	+1%	–295	–295
	–1%	+295	+295

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 a retention of title to goods purchased until all payments have been received in full. If a customer leasing machinery is in arrears or if a lessor refuses to execute a contract despite warnings, the customer is required to return the leased assets to Francotyp-Postalia and to pay damages on termination of the contract.

The discernible risks of default and general credit risks are taken into account with corresponding specific and general valuation allowances. The maturity structure of trade receivables can be seen in section IV, note 13. This maturity structure also shows the receivables past due.

In the reporting year, the Group concluded a factoring transaction for short-term trade receivables of EUR 727 thousand with a commercial bank which is one of its key banks. The resulting counterparty risk and debtor default is monitored on an ongoing basis.

For other financial assets (such as cash and cash equivalents, available-for-sale financial instruments and derivative financial instruments), the maximum risk of default is the respective reported carrying amount. Maturity structures are not shown for the other financial assets as there are no such assets past due but not impaired.

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 primarily uses 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 2016, 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 120,000 thousand, with an option to increase the volume by a further EUR 30,000 thousand. As at 30 December 2016, the FP Group had unutilised credit facilities of EUR 80,776 thousand. The agreement has a duration of five years to 14 June 2021, plus two one-year extension options. This was used to repay liabilities ahead of schedule in connection with the previous loan which had a duration to October 2019 and an amount of EUR 30,100 thousand. This derecognition generated a negative earnings effect of EUR 283 thousand.

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

$$\text{Leverage} = \frac{\text{Total net debt}}{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}} \quad \leq 3.0\times$$

$$\text{Interest Cover} = \frac{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}}{\text{Net interest income (adjusted for IAS 23 Borrowing Costs)}} \quad \geq 5.0\times$$

In the previous loan agreement, the FP Group had to comply with four key financial ratios with a much narrower definition (debt ratio, debt service coverage ratio, adjusted own funds and own funds ratio).

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. What is more, 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.

The following table shows the cash flows resulting from the syndicated loan agreement, including estimated interest payments and payments from associated derivatives. In addition to the stated loans of EUR 36,908 thousand (previous year: EUR 33,126 thousand), there were other liabilities to banks of EUR 6 thousand (previous year: EUR 2 thousand) payments from associated derivatives.

The following table shows the cash flows resulting from the syndicated loan agreement, including estimated interest payments and payments from associated derivatives. In addition to the stated loans of EUR 36,908 thousand (previous year: EUR 33,126 thousand), there were other liabilities to banks of EUR 6 thousand (previous year: EUR 2 thousand) payments from associated derivatives.

		Expected cash flows				
in thousand euro		2017	2018	2019	2020	2021
Carrying amount 31.12.2016						
Loans	**–36,908**	**–1,039**	**–200**	**–281**	**–929**	**–31,561**

		Cash flows			
in thousand euro		2016	2017	2018	2019
Carrying amount as at 31 Dec. 2015					
Loans	–33,126	–2,814	–3,373	–374	–28,279
Interest rate hedging	–36	–132	0	0	0
		–2,946	**–3,373**	**–347**	**–28,279**

Net gains and losses on financial instruments

NET INCOME

in thousand euro	**2016**	2015
Held-for-trading financial instruments [15]	–2	1
of which impairments	–2	0
Loans and receivables [16]	1,957	2,181
Financial liabilities at amortised cost [17]	–338	10

15) consist of the changes in their fair value and interest payments
16) consist of impairment losses, reversals thereof and foreign currency effects
17) consist of net gains and losses consist of foreign currency effects and gains and losses on disposal

Accounting for derivative financial instruments

Derivative financial instruments are used inside and outside hedges as defined by IFRS. Derivatives outside hedges are accounted for at fair value in profit or loss.

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.

in thousand euro	31.12.2016	31.12.2015
Liabilities to banks	36,915	33,128
Finance lease receivables	1,526	3,201
Liabilities	**38,440**	**36,329**
Cash and cash equivalents	–26,394	–18,214
Securities	–679	–681
Postage credit balance	8,418	2,967
Cash and cash equivalents	**–18,655**	**–15,928**
Net debt	**19,785**	**20,401**
Shareholders' equity	35,946	35,232
Net debt ratio	**55%**	**58%**

The goal of capital management is to achieve the highest possible credit rating. The future of the Group as a going concern must also be ensured.

In the 2016 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: revenues, EBITDA und free cash flow.

(22) COLLATERAL

in thousand euro	31.12.2016	31.12.2015
Guarantee obligations	1,027	1,347
Pledging of securities	0	590
Total	**1,027**	**1,937**

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, Mentana-Claimsoft GmbH, IAB GmbH, Francotyp-Postalia Inc. (USA), Francotyp-Postalia Ltd. (UK), Francotyp-Postalia Canada Inc. (Canada) and Francotyp-Postalia France SARL (France).

The loan utilised amounted to EUR 37,968 thousand as at 31 December 2016 (31 December 2015: EUR 33,373 thousand).

Collateral received has a fair value of EUR 1,301 thousand (previous year: EUR 1,304 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 and an insurance policy.

(23) OTHER FINANCIAL OBLIGATIONS

NOMINAL VALUES OF FINANCIAL OBLIGATIONS AS AT 31 DEC. 2016

in thousand euro	Total	< 1 year	1-5 years	> 5 years
Other contractual obligations	46,227	20,432	22,990	2,805
of which from operating leases	13,211	4,771	7,805	635
of which from purchase commitments	28,112	13,114	13,191	1,807
of which from miscellaneous other financial obligations	4,904	2,547	1,994	363

NOMINAL VALUES OF FINANCIAL OBLIGATIONS AS AT 31 DEC. 2015

in thousand euro	Total	< 1 year	1-5 years	> 5 years
Other contractual obligations	21,478	10,380	9,491	1,607
of which from operating leases	11,867	4,100	6,789	978
of which from purchase commitments	3,511	3,511	0	0
of which from miscellaneous other financial obligations	6,100	2,769	2,702	629

Owing to the impracticable separability of expenses of EUR 939 thousand (previous year: EUR 517 thousand), future minimum lease payments under operating leases also include leases that comprise a service component in addition to the lease expense. EUR 343 thousand (previous year: EUR 323 thousand) of this relates to short-term obligations and EUR 596 thousand (previous year: EUR 194 thousand) to medium-term obligations.

There are contractual obligations (purchase commitments) for the acquisition of property, plant and equipment of EUR 181 thousand (previous year: EUR 87 thousand), the acquisition of intangible assets of EUR 190 thousand (previous year: EUR 51 thousand) and other purchases of EUR 27,741 thousand (previous year: EUR 3,374 thousand). The significant increase of the purchase commitments as at 31 December 2016 was driven partly by the conclusion of new volume contracts which provide for an obligatory minimum take-up volume irrespective of actual consumption.

Lease payments of EUR 5,924 thousand (previous year: EUR 5,999 thousand) are recognised in profit or loss in the year under review. Lease expenses for the current year include incidental rental costs.

(24) OTHER DISCLOSURES ON FINANCE LEASES

NOMINAL AMOUNTS

	Future lease payments		Interest payments		Present value of future lease payments	
in thousand euro	**2016**	2015	**2016**	2015	**2016**	2015
Less than one year	939	1,762	35	100	905	1,662
Between one and five years	642	1,594	20	55	621	1,539
Finance lease liabilities	**1,581**	**3,356**	**55**	**155**	**1,526**	**3,201**

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 thousand euro	**31.12.2016**	31.12.2015
Carrying amount of assets leased to third parties	1,979	3,859
Carrying amount of the leased assets	3,102	5,299
Future minimum payments from subleases	3,220	5,905

(25) CONTINGENT ASSETS AND CONTINGENT LIABILITIES

A lawsuit filed against our subsidiary in the US is pending before the US District Court for Eastern District of Missouri (case no. 4:14-cv-01161-HEA). In the putative class action it is claimed that Francotyp-Postalia Inc. violated the Telephone Consumer Protection Act of 1991 by faxing unsolicited advertising. It has not yet been clarified whether the approach in question (advertising by fax) is covered by the statutory provisions.

The U.S. District Court for Eastern District of Missouri suspended the action on 17 February 2015 until a decision is reached by the Federal Communications Commission and the United States Court of Appeals for the D.C. Circuit on the application and validity of the Telephone Consumer Protection Act of 1991. This decision is currently pending.

The outcome of the lawsuit filed against Francotyp-Postalia Inc. is pending and could lead to potential damages of up to an estimated EUR 1,000 thousand. FP assumes that there is currently no obligation. On the basis of the current status of the lawsuit, FP anticipates that the legal dispute will be continued with legal assistance. Thus a future outflow of resources for legal fees is expected. A provision of EUR 267 thousand was recognised for this.

V. OTHER DISCLOSURES

NOTES TO THE CASH FLOW STATEMENT

in thousand euro	31.12.2016	31.12.2015
Cash and cash equivalents	26,394	18,214
plus securities	679	681
less restricted cash and cash equivalents (“postage credit held”)	–8,418	–2,967
Cash and cash equivalents	**18,655**	**15,928**

EMPLOYEES

AVERAGE NUMBER OF EMPLOYEES BY COUNTRY

	2016	2015
Germany	650	660
United States	118	119
UK	95	96
The Netherlands	52	53
Canada	44	39
Italy	26	21
Sweden	20	21
Austria	18	17
France	16	16
Belgium	8	10
Singapore	0	4
Total	**1,045**	**1,056**

AVERAGE NUMBER OF EMPLOYEES BY SEGMENT

	2016	3015
Sales Germany	453	472
International Sales	395	396
Production	163	158
Central Functions	34	30
Total	**1,045**	**1,056**

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 Holding AG, the responsibilities of the members of the Management Board are as follows:

Name	Appointment	End of appointment	Areas of responsibility
Rüdiger Andreas Günther Business graduate	11 January 2016	December 2019	– Strategic Business Development – Production / Procurement / Quality – HR / Legal / Compliance – Finance / Accounting / Controlling – Corporate Communications / Investor Relations / Press – Internal Communications – Mergers & Acquisitions
Thomas Grethe Banking and economics graduate	June 2013	June 2018	– (Strategic Business Development) – Internal Audit – Strategic Marketing / Brand Management – (Business Development / Product Portfolio Management) – Franking and Inserting (Sales Germany, International, Asia, Product Management)
Sven Meise Business management graduate (BA)	February 2015	January 2018	– (Strategic Business Development) – Business Development / Product Portfolio Management – Information Technology – Research and Development – Digital Solutions business area (freesort, IAB, Mentana-Claimsoft)

In the reporting year, Mr Günther was a member of the Commerzbank Unternehmerperspektive Mittelstand (Entrepreneur Perspective Mittelstand) and in the Commerzbank Regional Advisory Council East. 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 Holding AG 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 Partner of Mercury Capital Unternehmensberatungs-GmbH, Vienna, Austria – Managing Director, R3 Beteiligungen GmbH, Vienna, Austria – Managing Director, Active Ownership Capital SARL, Hesperange, Luxembourg	– None
Robert Feldmeier (member of the Supervisory Board since 28 July 2012; Deputy Chairman since 27 June 2013)	– Managing Director of Unigloves GmbH, Siegburg – Managing Director of Unigloves Arzt- und Klinikbedarfshandelsgesellschaft mbH, Siegburg – Managing Director of UNIGLOVES Holding GmbH, Munich	– None
Botho Oppermann (member of the Supervisory Board since 27 June 2013)	– Managing Partner of Internet Business Solutions Nord UG (haftungsbeschränkt), Wentorf bei Hamburg – Managing Partner of Internet Business Solutions Süd UG, (haftungsbeschränkt), Wentorf bei Hamburg – Managing Partner of Internet Business Solutions Ost UG, (haftungsbeschränkt), Wentorf bei Hamburg – Managing Partner of Internet Business Solutions West UG, (haftungsbeschränkt), Wentorf bei Hamburg	– President of the Board of Directors of Internet Business Solutions AG, Boppelsen, Switzerland – Supervisory Board of ID Information und Dokumentation im Gesundheitswesen GmbH & Co. KGaA, Berlin – Member of the Board of Directors of ID Suisse AG, St. Gallen, Switzerland – Member of the Board of Directors of HCG Holding AG, Herisau, Switzerland

SHAREHOLDER STRUCTURE (ADDITIONAL DISCLOSURES IN ACCORDANCE WITH GERMAN COMMERCIAL CODE (HGB))

In fiscal year 2016, Francotyp-Postalia Holding AG received the following notifications from its shareholders in accordance with section 21(1) of the German Securities Trading Act (WpHG) and published them in accordance with section 26(1) WpHG and section 26a WpHG:

Publication date	18 Jan. 2016	31 Aug. 2016
Reason of notification	Share purchase	Share sale
Person subject to disclosure requirement	Internationale Kapitalanlagegesellschaft mbh, Düsseldorf, Germany	Scherzer & Co. AG
Date threshold reached	12 Jan. 2016	30 Aug. 2016
Total share of voting rights		
Old	6.46%	3.02%
New	10.16%	2.90%
Voting rights (sections 21, 22 WpHG)	1,641,732	468,608

In fiscal year 2016, Francotyp-Postalia Holding AG 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:

Date of publication	26.09.2016	06.10.2016	06.10.2016
Information on persons exercising management tasks	Botho Oppermann	Rüdiger Andreas Günther	Rüdiger Andreas Günther
Reason for notification / position	Supervisory Board	Executive Board	Executive Board
Transaction type	Purchase	Purchase	Purchase
Price(s)	EUR 4.258185		
Volume	EUR 106,454.63		
Aggregate price	n / a	4.1430114 EUR	EUR 4.2540557
Aggregate volume	n / a	30,546.42 EUR	EUR 10,690.44
Date of transaction	22.09.2016	30.09.2016	05.10.2016
Place of transaction	Xetra	Xetra	Xetra

In fiscal year 2016, Francotyp-Postalia Holding AG published the following notifications on changes in voting rights in accordance with section 26a WpHG:

Publication date	04.01.2017	04.01.2017 Correction notification
Capital measure	Other capital measure (section 26a (1) WpHG)	Issue of subscription rights (section 26a (2) WpHG)
As at / Effective date	31.12.2016	31.12.2016
New total of voting rights	16,215,356	16,215,356

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 Francotyp-Postalia Asia Pte.;
- the non-consolidated subsidiary FP Direct Ltd., UK;
- 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);
- Active Ownership Capital SARL, Hesperange, Luxembourg (through a member of the Supervisory Board);
- Managing Director of UNIGLOVES GmbH, Siegburg (through a member of the Supervisory Board);
- Managing Director of UNIGLOVES Arzt-und Klinikbedarf Handelsgesellschaft mbH, Siegburg (through a member of the Supervisory Board);
- Managing Director of UNIGLOVES Holding GmbH, Munich;
- Managing Partner of Internet Business Solutions Nord UG (haftungsbeschränkt), Wentorf bei Hamburg (through a member of the Supervisory Board);
- Managing Partner of Internet Business Solutions Süd UG (haftungsbeschränkt), Wentorf bei Hamburg (through a member of the Supervisory Board);
- Managing Partner of Internet Business Solutions Ost UG, (haftungsbeschränkt), Wentorf bei Hamburg (through a member of the Supervisory Board);
- Managing Partner of Internet Business Solutions West UG, (haftungsbeschränkt), Wentorf bei Hamburg (through a member of the Supervisory Board);
- President of the Board of Directors of Internet Business Solutions AG, Boppelsen, Switzerland (through a member of the Supervisory Board);
- CamTech GmbH, Berlin (through a former member of the Management Board).

As in the previous year, no remuneration was paid to related parties with a significant influence on the financial and operating policies of the FP Group in the 2016 reporting year. 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 Mr Günter of EUR 180 thousand (previous year: EUR 0 thousand), Mr Grethe of EUR 11 thousand (previous year: EUR –10 thousand), Mr Meise of EUR 41 thousand (previous year: EUR 0 thousand) and Mr Szymanski of EUR -6 thousand (previous year: EUR -14 thousand) and the variable short-term remuneration in the amount of the probable achievement of goals were recognised in profit or loss in the 2016 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:

MR GÜNTHER (MANAGEMENT BOARD MEMBER FROM 11 JANUARY 2016)

in thousand euro		2016
Non-performance-based component	Fixed remuneration	400
	Additional benefits	45
	Total	**445**
Performance-based component		
without long-term incentive effect	Short-term variable remuneration:	220
with long-term incentive effect	Long-term variable remuneration:	
	2015 stock option plan	141
	Long-term bonus [18]	180
	Total	**541**
Pension cost		19
Total remuneration		**1,005**

18) 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 2016, a lower threshold of EUR 180 thousand was established. A provision at this level was recognised in profit and loss in the 2016 annual financial statements.

MR SZYMANSKI (MANAGEMENT BOARD MEMBER UNTIL 10 JANUARY 2016)

in thousand euro		2012	2013	2014	2015	2016
Non-performance-based component	Fixed remuneration	240	253	275	275	0
	Revocation (reimbursement, lump sum, long-term bonus)				369 [19]	0
	Additional benefits	15	11	12	14	0
	Total	**255**	**265**	**287**	**658**	**0**
Performance-based component						
without long-term incentive effect	Short-term variable remuneration:	30	130	91 [20]	-11	-40
with long-term incentive effect	Long-term variable remuneration:					
	2010 stock option plan	0	0	0	0	0
	2015 stock option plan	0	0	0	37	0
	Long-term bonus [21]	0	0	0	0	-6
	Total	**30**	**130**	**91**	**26**	**-46**
Pension cost		76	76	76	76	0
Total remuneration	**0**	**361**	**471**	**454**	**760**	**-46**

19) This provision amount constitutes an expense of EUR 369 thousand relating to other periods.

20) This amount is composed of expenses relating to other periods of EUR 40 thousand and the creation of a provision of EUR 51 thousand.

21) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met. EUR -6 thousand (previous year: EUR -14 thousand) was recognised in profit or loss in the 2016 annual financial statements as a reversal of the provision) in accordance with the achievement of goals.

MR GRETHE (MANAGEMENT BOARD MEMBER FROM 15 JUNE 2013)

in thousand euro		2012	2013	2014	2015	2016
Non-performance-based component	Fixed remuneration	0	119	200	230	293
	Additional benefits	0	6	12	10	16
	Total	**0**	**125**	**212**	**240**	**309**
Performance-based component						
without long-term incentive effect	Short-term variable remuneration:	0	20	36	–11	10
with long-term incentive effect	Long-term variable remuneration:					
	2015 stock option plan	0	0	0	54	0
	Long-term bonus [22]	0	0	0	0	38
	Total	**0**	**20**	**36**	**43**	**48**
Pension cost		0	2	21	21	21
Total remuneration		**0**	**147**	**269**	**304**	**378**

22) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met. In the 2016 annual financial statements, provisions for periods settled in 2016 were reversed and recognised anew in line with the probable achievement of goals. The amount recognised in profit and loss was EUR 11 thousand (previous year: EUR –10 thousand).

MR MEISE (MANAGEMENT BOARD MEMBER FROM 1 FEBRUARY 2015)

in thousand euro		2015	2016
Non-performance-based component	Fixed remuneration	183	233
	Additional benefits	18	26
	Total	**201**	**259**
Performance-based component			
without long-term incentive effect	Short-term variable remuneration:	24	42
with long-term incentive effect	Long-term variable remuneration:		
	2015 stock option plan	48	0
	Long-term bonus [23]	0	0
	Total	**72**	**42**
Pension cost		19	21
Total remuneration		**292**	**322**

23) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met. EUR 41 thousand (previous year: EUR 0 thousand) was recognised in profit or loss in the 2015 annual financial statements as an addition to provisions in line with the probable achievement of goals.

Of the share-based payment from the 2010 stock option plan granted in fiscal year 2010, EUR 231 thousand or 180,000 options related to Mr Szymanski. No further options were granted under this 2010 stock option plan by 31 December 2015. The exercise period for the options began in fiscal year 2014.

Of the share-based payment granted in fiscal year 2016 from the 2015 stock option plan, EUR 141 thousand or 180,000 options related to the Management Board. The exercise period for the options is in fiscal year 2019.

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 (2016: EUR 3 thousand; 2015: EUR 2 thousand).

EUR 1,141 thousand was recognised for pension obligations to former Management Board members of Francotyp-Postalia Holding AG as at 31 December 2016 (previous year: EUR 928 thousand). EUR 45 thousand (previous year: EUR 32 thousand) was added to provisions in the 2016 reporting year.

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 2016 amounted to EUR 113 thousand (previous year: EUR 113 thousand). The total amount is divided into EUR 45 thousand for Mr Klaus Röhrig, EUR 37.5 thousand for Mr Robert Feldmeier and EUR 30 thousand for Mr Bortho Oppermann.

AUDIT 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 2016. The total fee charged for services by the auditor in the fiscal year is as follows:

in thousand euro	2016	2015
Audits of financial statements	343	328
Tax advisory services	509	279
Other services	507	121
Total	**1,359**	**728**

EUR 88 thousand (previous year: EUR 139 thousand) of the fee charged in the 2016 reporting year relates to previous years, thereof EUR 53 thousand relates to audits of financial statements and EUR 35 thousand relates to tax advisory services.

The figures calculated comprise only the legally independent entity of the appointed auditor.

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

The Management Board will propose to the Supervisory Board and the 2017 Annual General Meeting that the net retained profits of EUR 15,648,619.10 be utilised as follows:

in EUR		
Dividend	of EUR 0.16 per entitled share	2,594,456.96
Profit carryforward		13,054,162.14
Net retained profits		**15,648,619.10**

NOTIFICATIONS AS PER SECTION 26A(1) GERMAN SECURITIES TRADING ACT VOTING RIGHTS

Date	Capital measure	New total of voting rights
4 January 2017	Issue of subscription rights	16,215,356
30 January 2017	Issue of subscription rights	16,255,356
28 February 2017	Issue of subscription rights	16,265,356

CORPORATE GOVERNANCE

The Management Board and the Supervisory Board of Francotyp-Postalia Holding AG have issued a declaration of compliance with the German Corporate Governance Code in accordance with section 161 AktG and made this declaration permanently accessible on the company's website (https://www.fp-francotyp.com/en/declaration-of-compliance/10ddeb512660af81).

Berlin, 29 March 2017.

The Management Board of Francotyp-Postalia Holding AG

Rüdiger Andreas Günther
CEO & CFO

Thomas Grethe
CSO

Sven Meise
CDO

APPENDIX 1
CHANGES IN INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT BETWEEN 1 JANUARY AND 31 DECEMBER 2015

	Cost or cost of manufacture					
in thousand euro	C/F 1.1.2015	Currency differences	Other additions	Disposals	Reclassifica-tions	Status 31.12.2015
Intangible assets						
Internally generated intangible assets	37,225	1	56		1,593	38,875
Other intangible assets	88,070	650	1,030	175		89,575
Intangible assets including customer lists	125,295	651	1,086	175	1,593	128,450
Goodwill	22,922					22,922
Development projects in progress and advance payments	7,556	1	4,751		-1,593	10,715
Total	**155,773**	**652**	**5,837**	**175**	**0**	**162,087**
Property, plant and equipment						
Land, land rights and buildings	3,699	29	380		1	4,109
Technical equipment and machinery	8,469	9	1,339	207	501	10,111
Other plant and operating and office machinery	30,958	82	1,306	1,920	6	30,432
Leased products	48,695	4,473	10,971	4,500	191	59,830
Finance lease assets	9,834	1,322	261	423	-191	10,803
Advance payments and assets under construction	508		96		-508	96
Total	**102,163**	**5,915**	**14,353**	**7,050**	**0**	**115,381**
Non-current assets total	**257,936**	**6,567**	**20,190**	**7,225**	**0**	**277,468**

Amortisation, depreciation and write-downs							Book values	
C / F 1.1.2015	Currency differences	Other additions	Disposals	Reclassifica-tions	Reversals	Status 31.12.2015	1.1.2015	31.12.2015
25,159	1	3,881				29,041	12,066	9,834
83,937	580	1,243	172			85,588	4,133	3,987
109,096	581	5,124	172	0	0	114,629	16,199	13,821
13,775		653				14,428	9,147	8,494
-1	1		0			0	7,557	10,715
122,870	**582**	**5,777**	**172**	**0**	**0**	**129,057**	**32,903**	**33,030**
554	8	262	0			824	3,145	3,285
4,617	8	686	144			5,167	3,852	4,944
26,670	41	1,682	1,725			26,668	4,288	3,764
29,833	2,156	7,374	4,254	119		35,228	18,862	24,602
3,447	546	2,020	390	-119		5,504	6,387	5,299
						0	508	96
65,121	**2,759**	**12,024**	**6,513**	**0**	**0**	**73,391**	**37,042**	**41,990**
187,991	**3,341**	**17,801**	**6,685**	**0**	**0**	**202,448**	**69,945**	**75,020**

CHANGES IN INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT BETWEEN 1 JANUARY AND 31 DECEMBER 2016

	Cost or cost of manufacture					
in thousand euro	C / F 1.1.2016	Currency differences	Other additions	Disposals	Reclassifica-tions	Status 31.12.2016
Intangible assets						
Internally generated intangible assets	38,875	−2	2,258	136	8,707	49,702
Other intangible assets	89,575	95	2,309	150	66	91,895
Intangible assets including customer lists	128,450	93	4,567	286	8,773	141,597
Goodwill	22,922	0	0	0	0	22,922
Development projects in progress and advance payments	10,715	0	2,323	0	−8,772	4,266
Total	**162,087**	**93**	**6,890**	**286**	**1**	**168,785**
Property, plant and equipment						
Land, land rights and buildings	4,109	−75	63	0	0	4,097
Technical equipment and machinery	10,111	6	641	325	30	10,463
Other plant and operating and office machinery	30,432	−25	2,148	800	95	31,850
Leased products	59,830	1,289	6,765	4,500	3,635	67,019
Finance lease assets	10,803	400	0	0	−3,635	7,568
Advance payments and assets under construction	96		345	0	−126	315
Total	**115,381**	**1,595**	**9,962**	**5,625**	**−1**	**121,312**
Non-current assets total	**277,468**	**1,688**	**16,852**	**5,911**	**0**	**290,097**

Amortisation, depreciation and write-downs							Book values	
C / F 1.1.2016	Currency differences	Other additions	Disposals	Reclassifica-tions	Reversals	**Status 31.12.2016**	1.1.2016	**31.12.2016**
29,041	-2	4,103	201	0	0	32,941	9,834	16,761
85,588	180	850	80	1	0	86,539	3,987	5,356
14,428	178	4,953	281	1	0	119,480	13,821	22,117
14,428	0	0	0	0		14,428	8,494	8,494
0	0	0	0	0	0	0	10,715	4,266
129,057	**178**	**4,953**	**281**	**1**	**0**	**133,908**	**33,030**	**34,877**
824	-38	267	0	0		1,053	3,285	3,044
5,167	7	882	322	0		5,734	4,944	4,729
26,668	15	1,672	852	-1		27,502	3,764	4,348
35,228	1,255	8,308	4,337	2,758		43,212	24,602	23,807
5,504	314	1,405	0	-2,758		4,465	5,299	3,103
0	0	0	0	0		0	96	315
73,391	**1,553**	**12,534**	**5,511**	**-1**	**0**	**81,966**	**41,990**	**39,346**
202,448	**1,731**	**17,487**	**5,792**	**0**	**0**	**215,874**	**75,020**	**74,223**

AUDITOR'S REPORT FOR THE FP GROUP

We have audited the consolidated financial statements prepared by Francotyp-Postalia Holding AG, Berlin, comprising the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and the notes to the consolidated financial statements together with the combined Group management report for the fiscal year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the combined Group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code) is the responsibility of the company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the combined Group management report based on our audit. In addition, we were engaged to assess whether the consolidated financial statements also comply with IFRS as a whole.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the German Commercial Code (HGB) and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and combined Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a(1) of the German Commercial Code and IFRS as a whole and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined Group management report is consistent with the consolidated financial statements, complies with legal requirements and as a whole provides a suitable view of the position of the Group and suitably presents the opportunities and risks of future development.

Berlin, 30 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Modder	Unger
(German Public Auditor)	(German Public Auditor)

GLOSSARY

TERMS AND DEFINITIONS OF FRANCOTYP

A

A Segment
Describes franking machine segment for customers with low mail volume (up to 200 letters per day).

After-Sales Business
Sale or rental of franking machines with follow-up business, e.g. service and technical support, sale of consumables.

B

B Segment
Describes franking machine segment for customers with medium mail volume (from 200 to 2,000 letters per day).

C

C Segment
Describes franking machine segment for customers with high mail volume (over 2,000 letters per day).

CentorMail
CentorMail is a high-tech franking machine from the FP Group for medium to high volumes of mail. The franking system with contact-free inkjet technology offers ease of use and comprehensive additional functions.

Certification
Official operating authorisation for franking machines.

Collective Communication
Individual daily mail, collated centrally.

Consolidation
Refers to the sorting of letters by postcode, followed by bundlin and passing on to a mail delivery centre in order to gain a rebate on the franking charge.

Country-Specific Variations
The postal organisations certify franking machines for a specific country in an extensive certification procedure. In order to obtain certification, the franking machines must meet the specifications set by the postal organisations. This results in a country-specific variation for each country in which a franking machine is certified.

D

De-Mail
De-Mail is a communication tool to enable legally binding and confidential exchange of electronic documents over the internet. Mentana-Claimsoft is a member of the De-Mail project initiated by the German government.

Decertification
Franking machines must be certified by the national postal authorities for sale or leasing. If a postal authority wishes to introduce a new technological standard, certification can be revoked. A current example of decertification is the US postal market, where franking machines which do not meet the IBIP (Information Based Indicia Program) standard must be withdrawn from the market by end-2015.

Digitalisation
Using the services offered by FP iab GmbH mail processing can be digitalised at certain points, i.e., inbound mail can be scanned and archived electronically. Outbound mail is sent electronically by PC to the printing centre, where it is processed into a completed letter.

DIN EN ISO 9001:2008
This quality management standard describes the requirements that the management of a company must satisfy in order to meet certain criteria in the implementation of quality management.

F

FP Box
FP's FP Box makes it possible for the first time to receive and send De-Mails and send hybrid mail with a small smart hardware device. The box can be connected to the client network and PC.

FP BusinessMail
FP BusinessMail, like FP WebMail, is a hybrid mail solution from the FP Group and works in a similar way to FP WebMail. This solution is aimed at larger companies, as in these cases, the flow of data can be accessed directly via a data connection and processed further.

FP Navigator
A software solution for easier operation of PostBase using a PC keyboard or, alternatively a 22" touchscreen.

FP WebMail
FP WebMail is a hybrid mail solution from the FP Group. With this mixture of electronic and physical mail, the sender sends a letter digitally and the recipient receives a physical letter. The FP Group takes care of such tasks as printing out and franking the letter, as well as inserting it into the envelope and handing it over to a mail delivery agent. This software solution works as a virtual printer, meaning that documents can be sent from Windows environments at the click of a mouse button. This entry-level solution is particularly suited to stand-alone solutions.

G
GoGreen
GoGreen is an environmental protection programme for responsible logistics. The goal is to reduce CO_2 emissions by offering the option of sending mail in a CO_2-neutral manner. By using GoGreen products, customers can also make an active contribution to climate protection for a small surcharge.

H
Hybrid Mail
Generic term for solutions in which letters are initially transported digitally, then printed out, inserted and franked. The finished letters are then passed on to a mail delivery centre.

I
iab
iab stands for internet access lilibit Berlin GmbH. Francotyp-Postalia Holding AG has an equity interest of 51% in this company.

Investor's Day
Investor's Day is a central event in the IR activities. The Management Board of Francotyp-Postalia Holding AG uses this opportunity to present to investors FP's strategic development and the measures planned for this, with particular emphasis on the achievement of key strategic milestones.

ISO 14001
The international environmental management standard ISO 14001 stipulates globally recognised requirements for an environmental management system that can be applied to both manufacturing and service-orientated companies.

L
Liberalisation
Liberalisation is a process initiated politically at EU level, which has been gradually implemented in European countries since the start of the 1990s. Germany is a forerunner in Europe. As at 1 January 2011, the complete liberalisation of the postal market in Europe was concluded.

M
Mentana-Claimsoft
Mentana-Claimsoft GmbH is a subsidiary of Francotyp-Postalia Holding AG, through which the FP Group distributes archiving, scanning and signature solutions in Germany. In 2012 Mentana-Claimsoft became the first company to be accredited for De-Mail by the BSI.

Multi-Channel
FP offers ist customers mail communication through all communication channels: physical, hybrid and fully electronic.

MyMail
MyMail is the FP Group's franking machine for smaller volumes of mail. With this entry-level solution, customers can save up to three advertising themes and manage three cost centres. The correct postage can also be automatically determined via the optional scales.

O

Office-Cryptor
Product of FP. Office-Cryptor is the standard software, which enables customers to encrypt confidential data.

OHSAS18001
OHSAS (Occupational Health and Safety Assessment System) standard 18001 is the basis of an occupational health management system for companies.

OptiMail30
OptiMail30 is a franking machine from the FP Group that is ideally suited to small to medium volumes of mail. This machine, with economical thermal transfer printing, saves up to six advertising themes and has a large, easy-to-use display.

P

Phoenix
See PostBase

Postage
Postage means the postal charges and / or the charges applied for the services. Payment is made by purchasing and attaching stamps, by printing with a franking machine or by electronic stamps – each of these methods is called franking.

Postage Credit Balance
Also referred to as restricted cash – in some countries, users of franking machines are obliged to pay postage credit in advance. These monetary amounts are managed by the FP Group and constitute amounts owed to customers. These credit balances are to be distinguished from teleporto.

PostBase
Latest franking system from the FP Group that combines the analogue and digital worlds of mail communication.

T

Teleporto
A system of franking whereby the franking charge is downloaded by telephone or modem to the franking machines.

U

UltiMail
UltiMail is an FP Group franking machine. It has a modular structure, offering up to nine storable advertising motifs, variable text messages in the franking imprint, optional differential weighing and as many as 150 cost centres.

USPS
The United States Postal Service (USPS), also known as the Post Office and U.S. Mail, is an independent agency of the United States federal government responsible for providing postal service in the United States. (Quelle: wikipedia)

GENERAL DEFINITIONS

A

Accreditation
The term accreditation (Latin: accredere, give trust) is used in various areas to describe the circumstances when a generally recognised body has attested a particular (beneficial) quality to another.

Aval
As a collective term, "banker's guarantee" encompasses both guarantees and sureties, as well as bill guarantees, which a bank assumes on behalf of one of its customers against a third party.

C

Cashflow
Cash flow is a measured quantity in financial terms that represents the net inflow of cash from revenue-generating activities and other ongoing operations during a period.

CeBIT
CeBIT (Centrum für Büroautomation, Informationstechnologie und Telekommunikation – Centre for Office, Information and Communications Technology) is the world's largest trade fair for information technology and since 1986 has been held each spring at the Hanover fairground. CeBIT is organised by Deutsche Messe AG (DMAG).

Corporate Governance Code
The German Corporate Governance Code (DCGK) is a set of regulations compiled by a commission of the German government which contains suggestions for organising good corporate governance, covering ethical employee conduct and the management of companies and organisations.

D

Derivatives
Derivatives are financial instruments whose price or value is linked to the rates or prices of other commercial goods (e.g. commodities or agricultural goods), assets (securities, such as shares or bonds) or to market-based parameters (interest rates, indices).

DPAG
Abbreviation for Deutsche Post AG.

E

EBIT
EBIT (earnings before interest and taxes) is a measurement of profitability. It comprises net income before taxes, interest expenses and extraordinary items.

EBITA
EBITA (earnings before interest, tax and amortisation), similarly to the EBIT profit ratio, denotes the result of ordinary operating activities.

EBITDA
Earnings before interest, taxes, depreciation and amortisation.

EBITDA margin
The EBITDA margin is the percentage share of EBITDA in the revenues of a company within a certain period.

EURIBOR
European InterBank Offered Rate (EURIBOR) is the interest rate in euros for short-term money in interbank lending.

I

IAS
International Accounting Standards. See also IFRS.

IFRS
International Financial Reporting Standards. These comprise the standards of the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) of the International Accounting Standards Committee (IASC) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

Interest rate swap
An interest rate swap is an interest rate derivative for which two contractual partners agree to exchange interest payments at specified nominal amounts on certain dates. Most of the interest payments are set such that one party pays an interest rate fixed at the time the contract is included, while the other party pays a variable interest rate ("plain vanilla swap").

Internationaler Währungsfonds (IWF)
The International Monetary Fund (IMF) is a special organisation of the United Nations. It is a sister organisation to the World Bank Group and is based in Washington, DC, USA. Its responsibilities include fostering global monetary cooperation, expanding international trade, stabilising exchange rates, granting loans, monitoring monetary policy and providing technical assistance.

ISIN
Abbreviation for International Securities Identification Number (ISIN)

L
LIBOR
London Interbank Offered Rate (also Libor, LIBOR) is the reference interest rate fixed daily for interbank lending that is fixed every working day at 11:00 hours London time.

M
M&A activities
Refers to both the process involved in company acquisitions and mergers as well as the sector of services providers which deal with them, such as investment banks, company lawyers, auditors and consultants. In the investment banking sector, M&A is regarded as a sub-area of corporate finance.

N
Net Working Capital
Net working capital enables the net funding requirement for current assets to be determined. It is defined as the capital that generates revenues for a company without resulting in capital costs in the strictest sense.

O
Outsourcing
Refers to the delegation of production and tertiary services to third parties.

S
SlideShare
SlideShare is a Web 2.0 based slide hosting service. Users can upload files privately or publicly in the following file formats: PowerPoint, PDF, Keynote or OpenOffice presentations.

Stock Corporation Act
The German Stock Corporation Act (Aktiengesetz – AktG) regulates the establishment, constitution, accounting, annual general meetings liquidation of stock corporations and partnerships limited by shares. German group law is also regulated in the Stock Corporation Act.

Syndicated loan
In banking, a syndicated loan is the extension of uniform credit to a borrower by at least two banks.

W
WKN
Abbreviation for Wertpapierkennnummer (Security Identification Number)

WpHG
The Securities Trading Act (Wertpapierhandelsgesetz – WpHG) regulates securities trading in Germany and serves in particular to monitor service providers involved in the trading of securities, as well as financial futures contracts, but also to protect customers.

FINANCIAL CALENDAR

Consolidated Financial Statements 2016	13 April 2017
Results for the First Quarter 2017	18 May 2017
Annual General Shareholder Meeting, Berlin	7 June 2017
Results for the Half Year 2017	24 August 2017
Results for the Third Quarter 2017	16 November 2017

IMPRINT

EDITOR AND CONTACT

Francotyp-Postalia Holding AG
Corporate Communications
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

SPECIAL THANKS

Hauptstadt-Gym, Berlin
www.hauptstadt-gym.de

CONCEPT AND DESIGN

IR-ONE, Hamburg
www.ir-one.de

PHOTOGRAPHY

Markus Altmann
www.markus-altmann.de

Andreas Preuss
www.preussmedia.com

Daniel Möller
https://fotodanielmoeller.de

STATEMENT RELATING TO THE FUTURE

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.

FRANCOTYP-POSTALIA HOLDING AG

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