

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 (Aktengesetz – AktG). In the fiscal year 2017, the Supervisory Board performed the duties required of it pursuant to prevailing law, the Articles of Association and the Rules of Procedure, while taking the associated decisions as and when necessary. The Supervisory Board regularly advised the Management Board on the company's management, monitored its work and dealt continuously with the course of business and situation of the FP Group. The Supervisory Board was directly involved in all important decisions from an early stage. The Management Board informed the members of the Supervisory Board of the company's situation regularly, comprehensively and in due time. Whenever a decision was required from the Supervisory Board regarding individual measures of the Management Board, the Supervisory Board passed resolutions on this, if necessary by written procedure. A total of seven meetings took place in the past year. The Management Board participated in all 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 Solutions segments, the following issues were prioritised:

- Implementation of the ACT strategy, including FP FIT measures
- Detection of deviations and occasional irregularities due to employee misconduct in the internal recording and billing of letter volumes in the consolidation business and the associated operational review
- Remuneration model for the Management Board

The 2017 joint meetings of the Supervisory Board and the Management Board were held on 1 March, 30 March, 6 June, 28 September, 4 October (continuation), 28 November and 14 December (budget meeting).

Implementation of the ACT Strategy, Including FP FIT Measures

The ACT strategy and the associated FP FIT measures were presented in November 2016. FP is pursuing ambitious targets as part of the ACT strategy. By 2023, its 100th year, the company wants to double its revenue to around EUR 400 million and achieve an EBITDA margin of approximately 20%. FP intends to generate revenue of around EUR 250 million and an EBITDA margin of at least 17% as early as 2020. The ACT strategy and the associated FP FIT measures to increase efficiency and cut costs clearly bring out the potential of FP. They form the basis for our targets. The company had launched a range of initiatives and measures even before announcing ACT, and these are already proving successful. Further initiatives and measures were commenced and implemented in the last fiscal year. Accordingly, the Supervisory Board and Management Board discussed the status quo of strategic projects and initiatives in detail at each meeting. The Supervisory Board is supporting the implementation of ACT and FP FIT and the associated investments with full confidence.

Franking and Inserting, Mail Services and Software Solutions Segments

The ACT strategy has shifted the focus 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 FP Group's core business with franking systems for small and medium volumes of mail is growing. This confirms one of the basic assumptions underlying ACT. We achieved our planned progress in the core countries of the US and France in particular.

Another fundamental assumption behind the ACT strategy, that digitalisation will not happen overnight, is also being confirmed. We are nevertheless paying particular attention to the development of innovative and digital products and services and thus to the transformation of the FP Group. Projects such as FP Sign, discoverFP and FP IoT were therefore discussed extensively at the meetings of the Supervisory Board and Management Board (particularly on 4 October 2017). At the meeting on 14 December, the ACT "Structure & Organisation" project, which has been brought forward, was presented by the Management Board and discussed. The Supervisory Board sees how important this project is to the future of the FP Group and supports the first measures that have been proposed.

In addition, the Supervisory Board and Management Board talked in detail about the irregularities detected in the Mail Services segment in the second quarter of 2017. These were discussed at the regular meetings on 6 June, 28 September, 4 October, 28 November and 14 December. Naturally, the Supervisory Board and Management Board were also in close contact before and after meetings. The Supervisory Board supports the measures taken by the Management Board. Like the Management Board, the Supervisory Board believes it is vital to continue the realignment of the Mail Services and Software segments quickly and consistently. Within the ACT strategy, FP plans to give priority to the restructuring of the Mail Services and Software segments and to integrate the product segments.

Finally, the Supervisory Board was kept regularly informed of the status of measures to improve efficiency in connection with the FP Group's De-Mail service and discussed this. As a result of the low mail volume in 2017, the De-Mail customer contracts, for which a provision for onerous contracts was established last year, were not profitable. In addition, the Supervisory Board and the Management Board discussed a sale as one of several options for divesting these agreements in the short to medium term.

Members of the Management Board

The Supervisory Board extended the Management Board contract of Mr Sven Meise until 31 December 2021 with effect from 1 January 2018. Sven Meise will remain responsible for the areas of research and development, IT and digital business development and for the Mail Services and Software Solutions segments. Issues such as the realignment and integration of the Mail Services and Software segments in connection with the growing demands of the FP Group itself and FP customers with regard to their digital transformation are currently shaping the work being done in the areas for which Mr Meise is responsible. The extension of Mr Meise's contract means that work can continue seamlessly on these challenges, the promising ACT "Structure & Organisation" project and on projects such as the FP IoT, the customer discoverFP portal, global IT initiatives and the Excellence project in research and development and that these projects can be brought to a successful conclusion.

Remuneration System

In connection with the German Corporate Governance Code's recommendation for the remuneration system of the Management Board, the Supervisory Board had dealt intensively with the issue of the remuneration structure in 2016. At the meeting on 1 March 2017, the Supervisory Board agreed to commission an external consultant to develop a remuneration model. Initial considerations were discussed with the consultant at the meeting on 30 March 2017. When considering the remuneration system, the Supervisory Board judged the following to be very important: one of the key duties of the Supervisory Board is to determine and regularly review the remuneration system for the Management Board. The criteria for determining remuneration include the duties of the Management Board member in question, his or her personal experience and performance and the economic situation and, very importantly, the success and future prospects of the company. The remuneration structure must be geared towards sustainable corporate development. The monetary remuneration components are therefore to include both fixed and variable components. In concrete terms, what that means for the Supervisory Board is that the measures and targets defined in connection with ACT are adequately reflected in the remuneration system for the Management Board. These considerations have been taken into account in the proposed remuneration system, applied for the first time in Sven Meise's contract and will be implemented for the entire Management Board imminently.

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. Since the “Gesetz zur Stärkung der nichtfinanziellen Berichterstattung der Unternehmen in ihren Lage- und Konzernlageberichten” [“law to strengthen companies’ non-financial disclosure in their management reports and group management reports”], known for short as the “CSR-Richtlinie-Umsetzungsgesetz” [“CSR Directive Implementation Act”], came into force on 19 April 2017, these supervisory duties have also included the FP Group’s non-financial report. The CSR report will be published for the first time at the end of March 2018, parallel to the annual report. Examination and monitoring is based on the regular reports by the Management Board.

Net Assets, Financial Position and Results of Operations

At every meeting, the Management Board reported on the net assets, financial position and results of operations of the FP Group. In particular, the detailed reports included an analysis of financing, investment and liquidity. In addition to regular reporting, information was provided on the “IFRS 15/16” project relating to compliance with accounting regulations at the meetings on 6 June and 28 September. At the meeting on 28 November 2017, the Supervisory Board resolved to bring forward the invitation to tender for the audit by one year. The invitation to tender was therefore published on 6 December 2017 and the process was commenced. On the basis of this selection procedure, the Supervisory Board will put forward a nomination for the auditor at the 2018 Annual General Meeting.

The budget for the following years that is prepared annually by the Management Board was also discussed in detail by the Supervisory and Management Boards at the meetings held on 28 November and 14 December. The Supervisory Board approved the budget on 14 December.

Auditing the Annual Financial Statements and Consolidated Financial Statements

The Supervisory Board has the task of examining the financial statements, the consolidated financial statements and the combined Group management report prepared by the Management Board and the Group’s separate non-financial report. The same applies to the report and conclusions reached by the independent auditor and independent auditor for the Group. KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, has audited the annual financial statements of Francotyp-Postalia Holding AG as at 31 December 2017 as well as the consolidated financial statements and combined Group management report as at 31 December 2017, and has issued an unqualified opinion thereof in each case.

In accordance with section 315e 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 22 March 2018, in the presence of the independent auditor, who reported on key audit findings, the 2017 annual financial statements, 2017 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 22 March 2018. The financial statements of Francotyp-Postalia Holding AG for 2017 have thus been established in accordance with section 172 AktG.

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

Corporate Governance

The Management Board and Supervisory Board have issued a declaration of compliance with the German Corporate Governance Code (the Code) in accordance with section 161 AktG, which now forms part of the group declaration on corporate governance pursuant to section 315d HGB in conjunction with section 289f HGB, and have made this permanently accessible to shareholders on the website of Francotyp-Postalia Holding AG. The Management Board and Supervisory Board comply to a large extent with the recommendations and proposals of the Code. The group declaration on corporate governance, which can also be found in the 2017 annual report, and the declaration of compliance explain in detail where the Management Board and Supervisory Board deviate from the recommendations and proposals of the Code.

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

Efficiency Review

The Supervisory Board examines the efficiency of its activities in a regular cycle. The Supervisory Board initiated the last efficiency review with the aid of an external consultant at the end of 2017 and has since completed it successfully.

Expression of Thanks

ACT, the associated projects and measures and, above all, the ambitious targets for 2020 and 2023 will demand high commitment and dedication from each individual in the FP Group. Positive effects were already visible in fiscal year 2017 – FP is positively distinguishing itself from the competition in a difficult environment. The Supervisory Board therefore particularly wishes to thank the members of the Management Board, the managing directors of the subsidiaries, the divisional heads, the members of the works councils and all employees for their commitment and achievements in the fiscal year 2017. Thanks also go to our customers and partners, who have likewise made a major contribution to the success of our company. In addition, we would like to thank our shareholders for the confidence they show in the company.

The Supervisory Board
Francotyp-Postalia Holding AG



Klaus Röhrig
March 2018