



AR 2006

// Francotyp-Postalia Holding AG  
**ANNUAL REPORT 2006**

<b>FRANCOTYP-POSTALIA GROUP</b>	<b>2006</b>	<b>2005<sup>1)</sup></b>	<b>2004</b>	<b>2003</b>
<b>Adjusted figures<sup>2)</sup></b>				
<b>Revenues (Euro million)</b>	<b>143.1</b>	<b>137.3</b>	<b>128.2</b>	<b>122.8</b>
Increase in revenues (%)	4.2%	7.1%	4.4%	n/a
<b>Total output (Euro million)</b>	<b>155.7</b>	<b>142.4</b>	<b>130.6</b>	<b>124.3</b>
Increase in total output (%)	9.3%	9.0%	5.1%	n/a
<b>EBITDA (Euro million)</b>	<b>32.2</b>	<b>29.0</b>	<b>21.8</b>	<b>17.9</b>
in percentage of revenues	22.5%	21.1%	17.0%	14.6%
<b>EBIT (Euro million)</b>	<b>23.4</b>	<b>20.6</b>	<b>10.6</b>	<b>5.7</b>
in percentage of revenues	16.4%	15.0%	8.3%	4.6%
<b>Return on capital employed ROCE<sup>3)</sup> (%)</b>	<b>30.0%</b>	<b>26.7%</b>	<b>13.1%</b>	<b>6.7%</b>
<b>Figures in accordance with consolidated financial statements<sup>2)</sup></b>				
<b>Revenues (Euro million)</b>	<b>142.9</b>	<b>136.4</b>	<b>128.2</b>	<b>122.8</b>
Increase in revenues (%)	4.8%	6.4%	4.4%	n/a
_ Germany	58.3	60.0	54.1	48.9
_ Outside Germany	84.6	76.4	74.1	73.9
<b>EBITDA (Euro million)</b>	<b>32.0</b>	<b>21.9</b>	<b>21.8</b>	<b>17.9</b>
in percentage of revenues	22.4%	16.1%	17.0%	14.6%
<b>EBIT (Euro million)</b>	<b>7.0</b>	<b>-0.7</b>	<b>10.6</b>	<b>2.0</b>
in percentage of revenues	4.9%	-0.5%	8.3%	1.6%
<b>Net income for the year (Euro million)</b>	<b>-0.3</b>	<b>-0.7</b>	<b>7.3</b>	<b>-0.8</b>
in percentage of revenues	-0.2%	-0.5%	5.7%	-0.7%
<b>Investments<sup>4)</sup> (Euro million)</b>	<b>16.2</b>	<b>12.5</b>	<b>5.3</b>	<b>7.0</b>
<b>Cash flow from operating activities (Euro million)</b>	<b>20.3</b>	<b>n/a</b>	<b>27.7</b>	<b>22.0</b>
in percentage of revenues	14.2%	n/a	21.6%	17.9%
<b>Equity capital (Euro million)</b>	<b>14.7</b>	<b>4.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Shareholders' equity (Euro million)</b>	<b>60.9</b>	<b>3.3</b>	<b>0.6</b>	<b>0.6</b>
in percentage of balance sheet total	26.1%	2.2%	0.5%	0.5%
Return on equity (%)	-0.5%	-21.2%	1,216.7%	-133.3%
<b>Debt capital (Euro million)</b>	<b>172.5</b>	<b>145.2</b>	<b>115.6</b>	<b>124.3</b>
<b>Balance sheet total (Euro million)</b>	<b>233.4</b>	<b>148.5</b>	<b>116.2</b>	<b>124.9</b>
<b>Earnings per share (Euro)</b>	<b>-0.03</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Employees</b>	<b>939</b>	<b>889</b>	<b>876</b>	<b>855</b>

1) The figures are contained in the supplementary pro forma financial figures of the consolidated income statement of Francotyp-Postalia Holding GmbH, the current Francotyp Postalia Holding AG, for fiscal year 2005. These pro forma financial figures for the 2005 income statement reflect the operating activities for the whole of fiscal year 2005, while transaction-based effects such as interest rates only occur on depreciation entered at Group-level as well as tax effects since April 20, 2005. The pro forma supplementary financial figures used for comparing the consolidated income statement for fiscal year 2005 with respect to interest rates, transaction-based depreciation and taxes have no significance for the whole of 2005.

2) Adjusted by the follow-up costs of the initial consolidation of the FP Company in its current form which occurred in 2005.

3) ROCE: EBITA, adjusted in % of the average capital employed  
(= net working capital + fixed assets adjusted by capitalizations in connection with company acquisitions)

4) Not including payments for company acquisitions

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## Company Bodies //

### MANAGEMENT BOARD // HANS CHRISTIAN HIEMENZ,

born 1959, graduate in business studies, is a member of the Management Board responsible for controlling, finance and accounting, IT, personnel and legal affairs, investor relations.

### HARTMUT NEUMANN,

born 1961, graduate in business studies, is a member of the Management Board responsible for sales, marketing and business development.

### MANFRED SCHWARZE,

born 1957, graduate in industrial engineering, is a member of the Management Board responsible for research and development, intellectual property, production, logistics, purchasing and quality management.

### SUPERVISORY BOARD // DR. ROLF STOMBERG,

born 1940, Ph.D (Dr. rer-pol.), worked in the oil industry for approximately 30 years. Before his retirement he was Managing Director on the Board of Directors at British Petroleum Company plc and Chief Executive Officer at BP Oil International, the refinery and marketing division of BP.

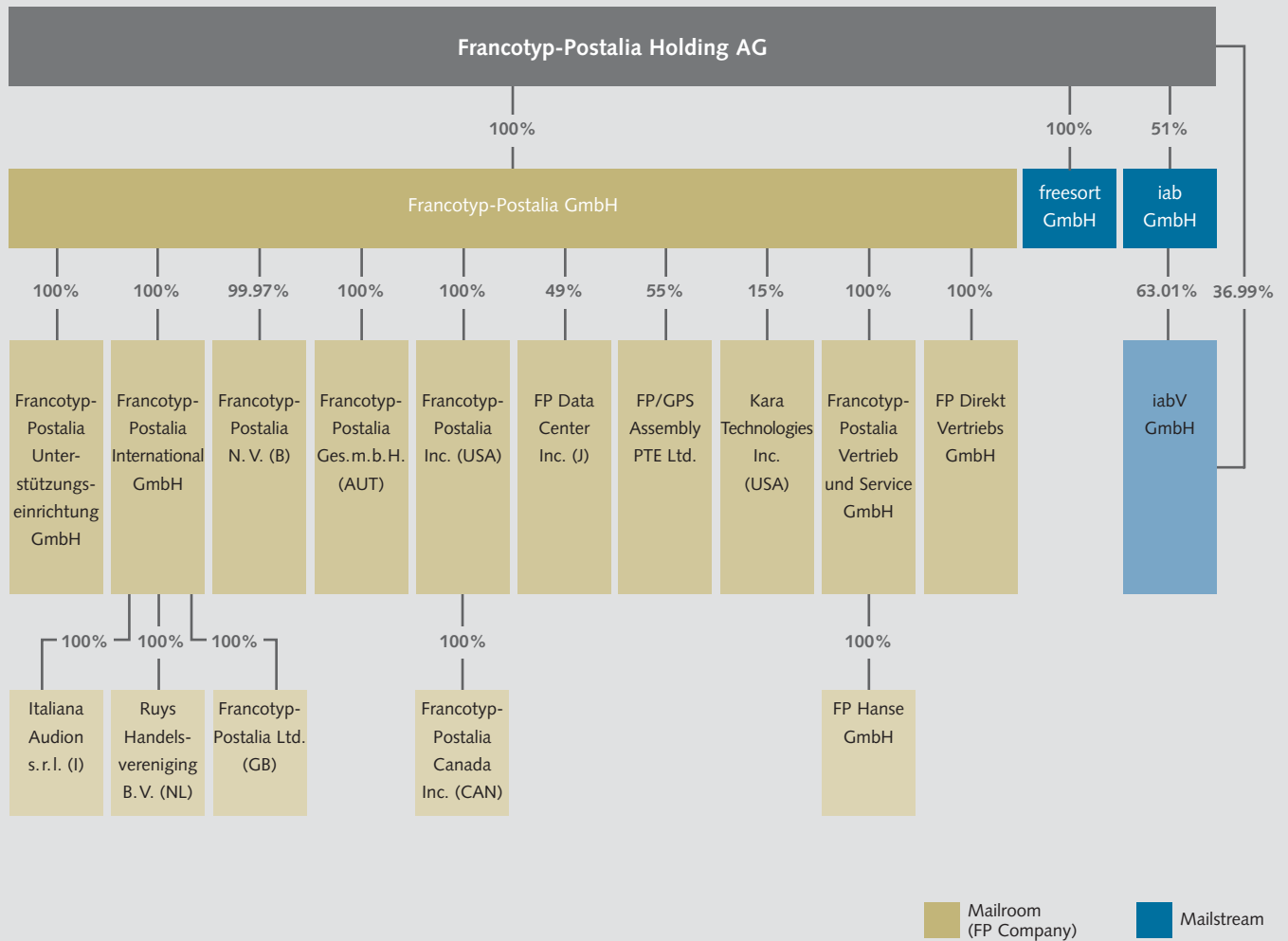
### CHRISTOPH WEISE,

born 1953, graduate in business studies, has worked for companies in the finance sector for over 20 years, including Citibank AG

### GEORGE MARTON,

born 1940, Master of Business Administration (MBA), worked for over 30 years in industrial companies as controller and manager. His final position was Chief Executive Officer at Böwe Bell + Howell.

# Group Structure



Mailroom (FP Company)
  Mailstream



# Mailroom

Francotyp-Postalia Holding AG combines the traditional business of sale or renting of franking machines and inserters in the business segment Mailroom. The after sales services include teleporto, the sale of consumables, the manufacture of printing plates and customer services.

## // Rigorous utilization of market potential

The rigorous utilization of the market potential for small and medium-sized electronic franking machines should ensure a sustained increase in the earning power of the company. Thanks to the capital inflow from the IPO, sales activity is being focused mainly on the US, Canadian, British and Dutch markets, as the market mechanisms in these countries permit a strong increase of the capital-intensive rental market. Approximately 248,277 (+3%) electronic franking machines from the FP Company are currently in use around the world, which ensures recurring revenues of 88.4 million euros (+12%).

## // The partner in the mailroom

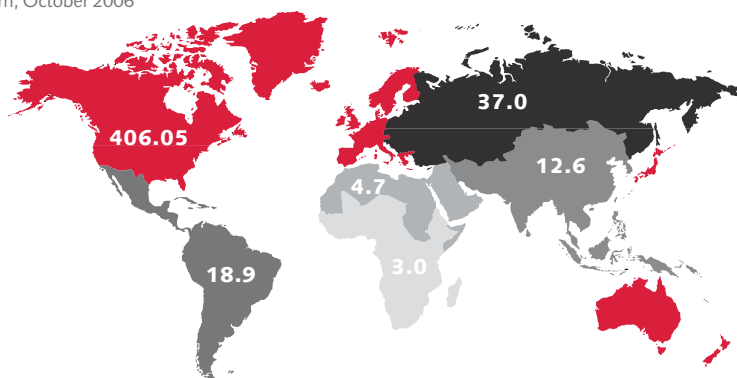
For over 80 years, Francotyp-Postalia GmbH (FP) has been pushing ahead, with its subsidiaries, the development of automated franking and with franking and inserting machines to support companies both large and small with the processing of their mail. Post offices only used machines with fixed values until 1923, when the Francotyp Model A was introduced freely adjustable values for the first time. The basic idea was thus born, to which Francotyp-Postalia GmbH has successfully remained true until today: the post office in the office, or as we say today, the partner in the mailroom.

The mail administrating centers accept the incoming mail in order to distribute it in the office, and collect the outgoing mail in order to prepare it for dispatch. Previously, the familiar prepaid cards had to be purchased separately at the post office as postage, but today's franking machines can do this electronically using Teleporto. Likewise, today's electronic franking systems can record the weight and also the format of the various correspondence and correctly allocate these, thanks to electronic updating, in the valid postage tables for the respective country. The electronics of the franking machine thus allow not only improved monitoring of postage costs but also save



## NUMBER OF LETTER-POST ITEMS POSTED PER CAPITA, 2005

Reference: UPU, Bern, October 2006



## Mailroom

the customer additional postage costs by means of rebates which the postal organizations in some countries grant for the use of electronic franking machines. In addition, franking machines offer the possibility of using individualized advertising printing plates for its own advertising purposes. Overall, customers value the more professional image of machine-franked mail. By using inserters and complementary products sold by FP, customers can also further optimize the processes involved with preparing the mail.

**// Certification and safety standards**

All machines must be certified by the respective national postal authority to ensure that the machines comply with technical specifications and standards. The same applies to accessories and consumables such as the ink used in the postage printers. Certifications can be withdrawn with transition periods when new standards are introduced or standards are changed. This generally leads to sales surges for franking machines. Currently, FP is operating worldwide over ten country-specific accounting servers which represent the link between the franking system used by the customer and the national postal organizations.

**// Increase in revenues in 2006 for franking machines and inserters**

In the reporting year, the number of franking machines sold or rented around the world increased by 9.5% to around 34,700 units. In the US market, a pure rental market, the uninterrupted growth trend continued with contracts for 10,256 units. In Canada, another major rental market, the number of new rental agreements signed more than trebled to 4,900 units. The reason for the surge is the abolition of the operating permit (decertification) for the hitherto rented machines. Likewise, the number of franking machines sold and rented in the Netherlands has doubled to around 3,800 units due to the decertification of franking machines which cannot support NetSet.

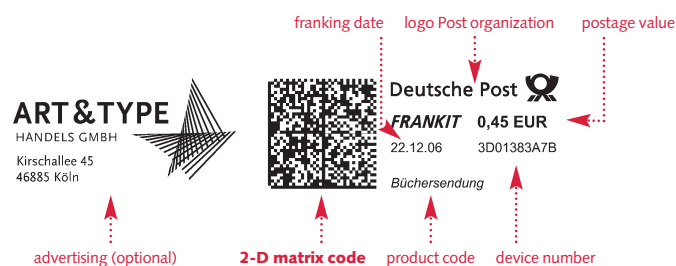
The sale of FP inserters has also recorded a positive movement: 1,800 units were sold worldwide which represents an increase of at least 21%. The main sales areas were Germany with 800 units (+33%), the USA with 330 units (+12%) and Great Britain with 140 inserters (+143%).



### // High technological standards and customer-oriented innovation

For the successful marketing of franking machines by Francotyp-Postalia, high technological standards and customer-oriented innovation are extremely important. Distributed over the individual fiscal years, the FP Company has averaged in the last few years research and development expenditures of 8% of total output. The projects concentrate on further developing existing franking systems and developing innovative franking systems for the future, as well as on developing suitable new country variations. Another focus of development is server systems. The development projects focus on increasing customer benefits and guaranteeing an improved safety performance, both of which are required by national postal organizations. Since 2006 all German companies of FP are successfully certified in accordance with DIN EN ISO 9001:2000.

### FRANKIT® imprint (IBIP = USA)



- FRANKIT® This new standard started in April 2004 in Germany (DPAG). The big difference to the former standard is visible in the new indicia with the 2-D barcode.
- The 2-D barcode content keyed information:
  - > postage value, franking date, product code
  - > actual item number, security key
  - > manufacturer code, model number, device number

# Mailstream

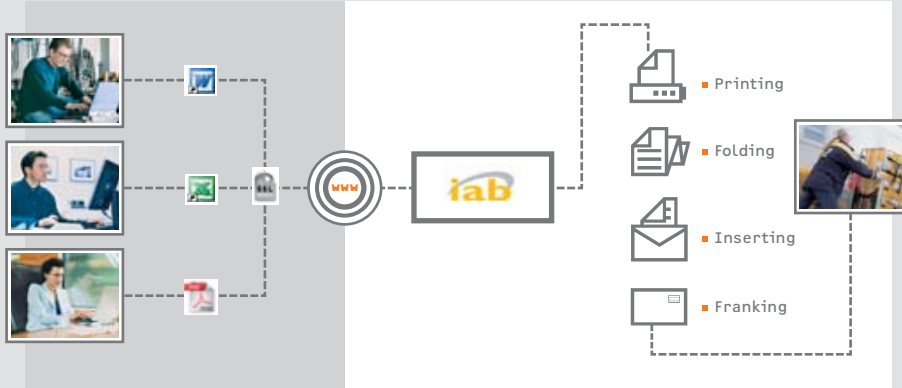
With the acquisition of iab – internet access GmbH (“iab”) and freesort GmbH (“freesort”), the FP Company has created the opportunity, as a supplement to the mailroom business area with its focus on low and medium mail volumes, to now also supply new services to companies and authorities with high mail volumes.

## // iab – internet access GmbH

The current iab – internet access GmbH was founded in 1997 as a company for communication and digital technology. The same year saw the certification of Deutsche Post to develop and market services, software and solutions for postal communication. Documents are sent to iab (outsourcing) via a “virtual printer” in electronic form or letters are fed in electronically by various customers into the hybrid network and forwarded electronically (hybrid mail) by the iab clearing house in Berlin. In the iab production center or in the printing center at the customer’s premises, the letters are printed out, folded, enveloped, franked and handed over to the desired postal service.

The customers include numerous well-known companies from the fields of industry and commerce, associations, public institutions, clubs, cities, local authorities and municipalities. Typical types of letters are bulk mailings such as invoices, reminders, fines, mail delivery agreements, tax bills, social insurance bills and other documents. The customer can check on the production status at any time using the track & trace function. In view of the high safety standards and the requirement of customers for operational security, iab is certified in accordance with DIN EN ISO 9001:2000. In fiscal year 2006, iab GmbH with 36 employees realized around 3.6 million euros.

**PRINT & MAIL**  
**CENTRALIZED DISPATCH IN THE iab PRODUCTION CENTER**



AR2006





MAILSTREAM

# Mailstream

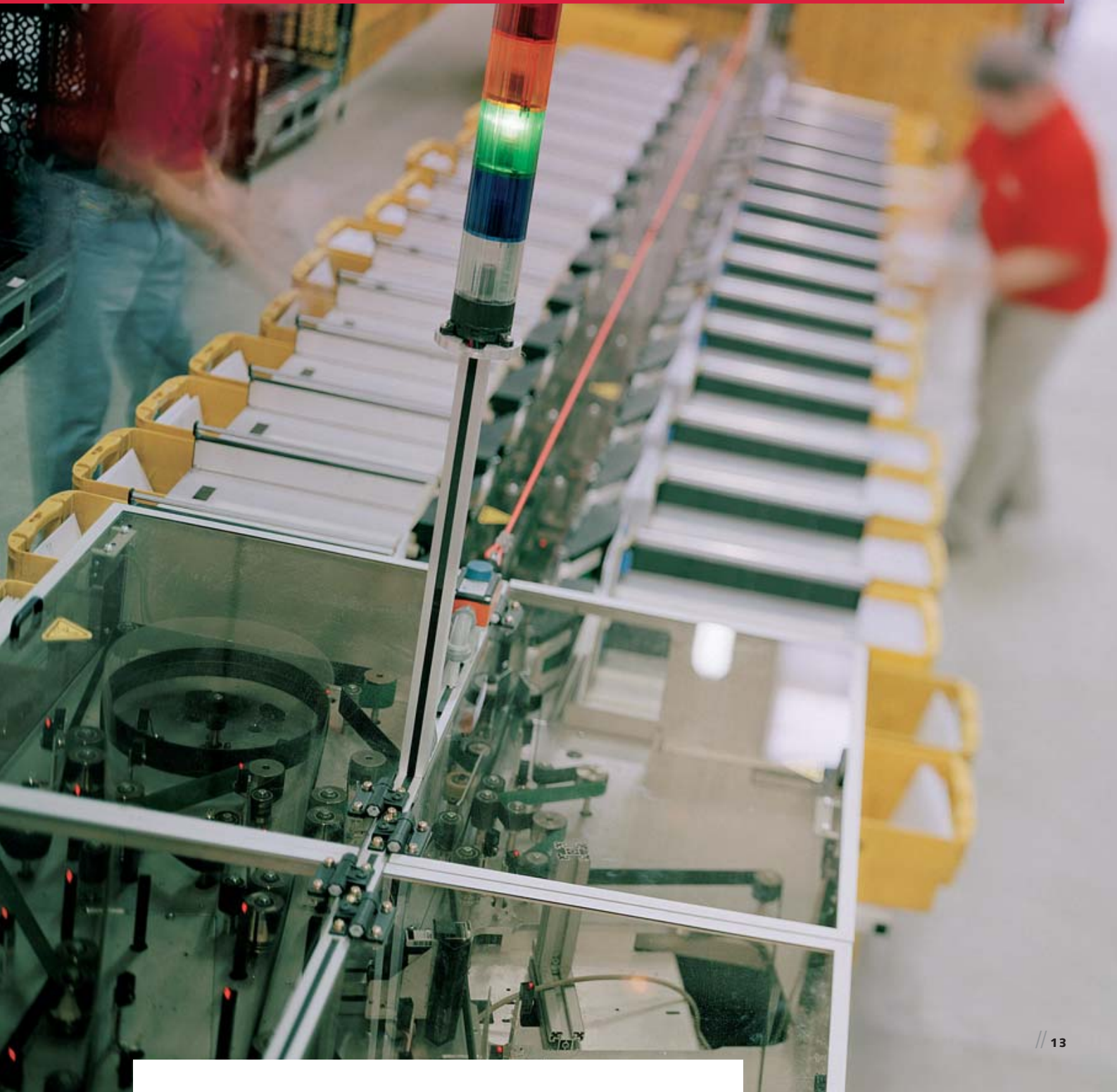
## // freesort GmbH

freesort GmbH was founded in March 2005 and started business operations in August 2005. As a service provider, freesort offers to sort and consolidate business mail: freesort collects the correspondence from its customers, sorts it at its offices according to zip code, consolidates the sorted letters into large packages for dispatch and delivers these to its mail center at Deutsche Post AG. For using this service, Deutsche Post AG allows the customers a rebate dependent on quantity, which currently ranges between 3% and 21% and which is regulated by the Federal Network Agency. For this, freesort charges a service fee. The backbone of the offer is freesort's network of offices, which currently numbers five and in the future will be expanded to ten, located in the commercial centers of the Federal Republic of Germany.

In fiscal year 2006, freesort with 67 employees, of which 46 are severely disabled, generated revenues of around 2.5 million euros. For its efforts to integrate severely disabled people into working life. In 2006, freesort received the "2006 Hessian Regional Award" for its exemplary efforts to offer employment and integration for severely disabled people.

## // Increasing amounts of outgoing mail processed

The fact that customers searching for service and looking to reduce their postage costs during the deregulation of the German markets for postal services embraced the offer of consolidation from freesort GmbH and the hybrid mail from iab is shown by the figures for processed outgoing mail. At freesort GmbH, the number of letters in the reporting year increased to 42 million items of mail due to an increasing number of customers. The number of items of mail processed in the reporting year by iab was 12.5 million, an increase of 19% due to new customers and increases in volume from existing customers.



## Letter to the Shareholders

Dear Shareholders,

Fiscal year 2006 was an exciting and eventful year for Francotyp-Postalia Holding AG. Prominent events included our IPO in November 2006 and the acquisition of our subsidiaries, iab – internet access GmbH in Berlin and freesort GmbH in Dusseldorf. The IPO was an important step forward in the development of our company and laid the cornerstone for our future growth targets. We have also already taken another huge step with the acquisition of iab and freesort.

Overall, we are looking at a successful 2006. Group sales increased by approximately 5% to 142.9 million euros, 37.2% of this amount being attributable to machine sales from the Mailroom business area and 62.8% to recurrent sales in the after sales business. In the reporting year, in the Mailroom business area the FP Company was successful in increasing the base of electronic FP franking machines installed world-wide by 3% to 248,277 units. Thus we achieved the expected growth target in full.

With the acquisition of interests in the consolidator, freesort GmbH and the hybrid mailer, internet access Berlin GmbH (iab), in November 2006, the *Mailroom* business area was supplemented by the *Mailstream* business area. The deregulation of the postal market for postal services in Germany gave the FP Company the rare opportunity to position itself on a new, developing market at a very early stage. We are now able to offer our customers a new, attractive range made up of a combination of both business areas from a single source.

For 2007, we plan to secure our market position on the German domestic market and to promote international business activities. We intend to further develop our market position in the countries identified as our key markets.

The participation of institutional and private investors at the IPO shows us the confidence that a wide investor group has in our business model and strategy as well as in our products and services. We are looking ahead optimistically because we recognize and take advantage of our opportunities.

In this first Annual Report for Francotyp-Postalia Holding AG, we would like to take the opportunity to express our thanks to everyone who has accompanied us thus far on our road to success, above all our employees.

The Management Board of Francotyp-Postalia Holding AG



NEUMANN



SCHWARZE



HIEMENZ



## Report of the Supervisory Board

Dear Shareholders,

2006 was an important year for Francotyp-Postalia Holding AG: On November 30, 2006, the holding that resulted from Group restructuring placed its shares on the Frankfurt Stock Exchange with a successful IPO. With the capital from the IPO, the company acquired iab – internet access GmbH and freesort GmbH Deutschland. In doing so, the company opened up an opportunity to enter a new and developing market. In the short period of time since then, the Supervisory Board of Francotyp-Postalia Holding AG has exercised the tasks incumbent upon it according to the law and the Articles of Association. The Management Board informed the Supervisory Board regularly, comprehensively and in a timely fashion, both verbally and in writing, of all aspects concerning business development relevant for the Group.

Particular topics that were discussed in depth during the reporting year:

- \_ the IPO of Francotyp-Postalia Holding AG,
- \_ the acquisition of iab – internet access GmbH and freesort GmbH Deutschland and
- \_ the joint venture FP/GPS Assembly Pte. Ltd., Singapore.

Implementation of the German Corporate Governance Code at Francotyp-Postalia Holding AG was the focus of our meeting on April 16, 2007. The Supervisory Board discussed the possibility for the company to comply with all aspects of the Code. For practical reasons, the Management Board and the Supervisory Board came to the decision not to comply with a few specific aspects of the Code. The declaration adopted by the Management Board and the Supervisory Board in accordance with Article 161 of the German Stock Corporation Act (AktG) can be found on the Francotyp-Postalia Holding AG website, [www.francotyp.com](http://www.francotyp.com), which is accessible at all times. Further details on implementation of the recommendations and suggestions of the German Corporate Governance Code can be found in our Corporate Governance Report in the 2006 Annual Report from page 18.

On August 11, 2006, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft Berlin was appointed as auditor for fiscal year 2006. The auditor examined the consolidated financial statements prepared by the Management Board, the consolidated management report and the annual financial statements for Francotyp-Postalia Holding AG, the management report and the report regarding links to related parties in accordance with Article 312 of the German Stock Corporation Act ("related parties report") and granted an unqualified audit certificate.

The members of the Supervisory Board were provided in good time with the annual financial statement documents and reports from the auditors. At the meeting on April 16, 2007, the auditor reported in detail on the important events after the audit and was available to provide additional information.

The Supervisory Board raised no objections to the consolidated annual financial statements, the annual financial statements, the management reports or the related parties report. It therefore approved on April 16, 2007 the result of the audit carried out by the auditor and approved the annual financial statements and consolidated annual financial statements prepared by the Management Board. The annual financial statements have therefore been formally adopted.

Birkenwerder, April 2007



DR. ROLF STOMBERG

Chairman of the Supervisory Board





# Corporate Governance and Remuneration Report

innovative  
Produkte für  
die Zukunft

Francotyp-Postalia Holding AG used its IPO as an opportunity to take a good look at the recommendations and proposals of the Corporate Governance Code ("Code"). The Code in its version dated June 12, 2006 summarizes important statutory regulations for the management and monitoring of listed companies as well as internationally and nationally recognized standards of responsible company management. Responsible and transparent company management geared towards sustained value creation and based around the interests of the shareholders is guaranteed by efficient structures and processes.

## // Participation of the Shareholders: Annual General Meeting

The Management Board of Francotyp-Postalia Holding AG feels committed to its shareholders and therefore provides them with timely and comprehensive information. Accordingly, the documents required by law for the Annual General Meeting are not only available and provided to shareholders at their request, they are also, in line with the Code, published on the company's website.

The shareholders exercise their rights of joint administration and control at the Annual General Meeting. They have the option of exercising their voting rights themselves or to authorize a representative – also a shareholder association – to exercise them on their behalf. In addition, it is made easier for the shareholders to exercise their rights personally by the provision of a proxy by Francotyp-Postalia Holding AG.

## // Management Board and Supervisory Board

As a German public company, Francotyp-Postalia Holding AG has the two-pronged management and monitoring structure customary in Germany with a Management Board and Supervisory Board. The Management Board, which comprises three members, takes responsibility for managing the company with the objective of sustainably increasing the value of the company. It is free from conflicts of interest and feels committed to the interests of the company completely and without exception. Due to the excellent cooperation within the Management Board, the latter has declined to elect a chairman.

In accordance with the company's Articles of Association, the Supervisory Board of Francotyp-Postalia Holding AG comprises three members to be appointed by the Annual General Meeting. All members have the extensive knowledge and experience necessary to fulfill their mandate. Due to the size of the company and the number of Supervisory Board members defined by the Articles of Association, no committees or bodies have

been formed. As long as the Supervisory Board comprises three people only, the Supervisory Board in its entirety performs the task of an audit committee. There have been no conflicts of interest among the Supervisory Board members.

#### **// Cooperation between Management Board and Supervisory Board**

The Management Board and Supervisory Board work closely together for the good of the company. The Management Board coordinates the strategic direction of the Group with the Supervisory Board and discusses with it its implementation in detail. It informs the Supervisory Board regularly, comprehensively and in timely fashion regarding the development of business, income, profitability as well as regarding relevant questions relating to risk provisioning and risk management. In addition, the Chairman of the Supervisory Board is informed immediately by the Management Board regarding important events which are of material significance for the assessment of the situation and for the development and management of the company.

In accordance with the Articles of Association of Francotyp-Postalia Holding AG, the Chairman and Deputy Chairman of the Supervisory Board are appointed from the ranks of the Supervisory Board. Based on this procedure, candidate proposals for the shareholders for appointment to Chairman and Deputy Chairman of the Supervisory Board cannot be made against the recommendation of clause 5.4.3.

For both the members of the Supervisory Board and members of the Management Board, Francotyp-Postalia Holding AG has concluded a D&O liability insurance policy without a retention.

#### **// Remuneration of Management Board Members and Supervisory Board Members**

The contracts of service concluded with the Management Board members contain both fixed and variable remuneration elements. Each of the Management Board members currently receives a fixed annual salary and a bonus dependent on performance. In addition, the Management Board members receive a company car as well as reimbursement of the employee's social insurance contributions up to the maximum amount. The company reimburses the Management Board members for accident insurance premiums with an amount of cover of up to 500,000 euros and allows individual Management Board members under specific conditions allowances for rent, travel expenses and private pension insurance premiums. In addition, the Management Board members are entitled to claim an occupational pension.

Each member of the Supervisory Board receives a fixed remuneration for each fiscal year payable in the last month of the fiscal year. The Chairman receives 2.5 times the fixed remuneration and his Deputy twice the fixed remuneration. Detailed information regarding the remuneration structure is contained on page 93 of this year's annual report.

### // Individualized Share Ownership and Directors' Dealings

In accordance with Article 15a of the Securities Trading Act, Supervisory Board members, Management Board members and members of the upper management of Francotyp-Postalia Holding AG are obliged to declare transactions in company shares and related financial instruments if the total amount of the transactions exceeds 5,000 euros in the calendar year. This notification requirement also applies to natural persons and legal entities who are closely connected with the aforementioned group of people. All transactions declared are published via Equity Story and on the website.

Members of the Supervisory Board and Management Board hold direct and indirect shares in the company as the following summary shows.

Shareholders	Sharholdings before Completion of the Offer		Sharholdings after Completion of the Offering (without exercise of the Greenshoe Option)		Shareholdings at Jan. 11, 2006 after Completion of the Offering and with exercise of the Greenshoe Option (Dec. 28, 2006) and after sharetransfer to Freelog Ltd.	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
FRW Coln GbR <sup>1)</sup>	103,050	0.86	62,689	0.43	51,506	0.35
Hans Christian Hiemenz	600,000	5.00	365,000	2.48	316,227	2.15
Hartmut Neumann	600,000	5.00	365,000	2.48	316,227	2.15
Manfred Schwarze	600,000	5.00	365,000	2.48	316,227	2.15
Christoph Weise	-	-	-	-	5,000	0.03

<sup>1)</sup> Supervisory Board member Mr. Christoph Weise holds an interest in the shareholder FRW Coln GbR and thus holds an economic interest in 17,907.51 shares held by Coln Gbr. Supervisory Board member Dr. Rolf Stomberg holds an economic interest in 7,576.26 shares held by Coln GbR.

All data are based on information provided by shareholders, which has not been verified by the company.

### // Transparency

Francotyp-Postalia Holding AG informs investors, analysts and the public in a timely manner and on an equal footing. Annual and interim reports, ad-hoc notifications in accordance with Article 15 of the Securities Trading Act, the financial calendar and all other relevant information are available in German and English on the internet.

With respect to the Investor Protection Improvement Act (AnSVG), Francotyp-Postalia Holding AG has appointed a compliance officer. The latter ensures that new statutory regulations are implemented and complied with. She also maintains an insider directory which contains everyone with access to insider information. The latter will be kept comprehensively informed of the resulting legal obligations.

#### **// Accounting**

In accordance with the recommendations of the Code, shareholders and third parties will be kept informed principally by means of the consolidated financial statements. Contrary to the recommendations of the Code, the consolidated financial statements will be prepared within 4 months of the end of the fiscal year due to the substantial consolidation work. Furthermore, the company will provide the required interim reports. The consolidated financial statements and interim reports will be prepared in accordance with the International Financial Reporting Standards (IFRS). The legally stipulated separate financial statements which are material for taxation purposes and the dividend payment, will be prepared in accordance with the regulations of the German Commercial Code.

A list of the relationship to shareholders, which are to be qualified as associated persons as defined by IAS 24 can be found in the consolidated financial statements on page 92 of this annual report.

#### **// Audit**

In accordance with the resolution of the 2006 Annual General Meeting, the Supervisory Board has mandated Deloitte & Touch GmbH Wirtschaftsprüfungsgesellschaft Berlin to audit the 2006 annual financial statements. The submitted declaration of independence was noted by the Supervisory Board.

The auditors and Supervisory Board have agreed that the Chairman of the Supervisory Board and/or audit committee will be immediately informed during the audit of any possible reasons for exclusion or commitment if these are not immediately eliminated.



# // Group management report

AR2006

## // GROUP MANAGEMENT REPORT for the fiscal year from January 1 to December 31, 2006

FRANCOTYP-POSTALIA HOLDING AG, BIRKENWERDER  
(FORMERLY FRANCOTYP-POSTALIA HOLDING GMBH, BIRKENWERDER)

### // Operating activities

Francotyp-Postalia Holding AG (FP Group) is the parent company of the Francotyp-Postalia Group (FP Company or FP). Operating activities of the FP Company are focused on the development, manufacture and distribution of franking machines as well as the distribution of inserters (mailroom).

FP specializes almost exclusively in customers with low and medium mailing volumes. An important part of FP's product business is the after sales business which consists primarily of the Teleporto business, the sale of consumables and the customer service, spare parts and customized slogans business.

The following table contains a summary of the most important companies of the FP Group. Stakes in all of the companies listed in the table are held either directly or indirectly by Francotyp-Postalia Holding AG.

COMPANY NAME	REGISTERED OFFICE OF THE COMPANY, COUNTRY	INTEREST IN %
Francotyp-Postalia GmbH	Birkenwerder, Germany	100
Francotyp-Postalia Vertrieb & Service GmbH	Birkenwerder, Germany	100
Francotyp-Postalia International GmbH	Birkenwerder, Germany	100
Ruys Handelsvereniging B. V.	The Hague, Netherlands	100
Francotyp-Postalia Ltd.	Dartford, UK	100
Francotyp-Postalia Inc.	Addison, USA	100
freesort GmbH	Dusseldorf, Germany	100
iab GmbH	Berlin, Germany	51

On January 16, 2006, together with GPS Procurement PTE Ltd. in Singapore, the FP Company formed the joint venture FP/GPS Assembly PTE Ltd. with an interest of 55%. The business operations of FP/GPS Assembly PTE Ltd. focus on the pre-assembly of specific assemblies for franking machine models.



In November 2006, FP Group acquired approximately 51% of the shares in iab – internet access GmbH (“iab”) and approximately 37% of the shares in iab-Verwaltungs- und Vertriebs GmbH based in Berlin. The remaining approximately 63% of shares in iab-Verwaltungs- und Vertriebs GmbH are held directly by iab.

In addition on November 10, 2006, by way of an option agreement dated August 7, 2006, FP Group exercised an option to acquire a 100% interest in freesort GmbH, Dusseldorf, from Freelog Limited, St. Julians/Malta.

Through its newly acquired subsidiaries, the FP Company now also offers its German customers sorting and consolidation services as well as outsourcing services and hybrid mail products (mailstream).

## // Business development

In 2006, FP Group generated revenue of 142.9 million euros. Of this amount, 37.2% was attributable to revenue from machine sales in the mailroom business segment and 62.8% to recurring revenue. The breakdown by percentage does not take into account currency exchange effects relating to a US dollar-denominated loan. In the mailstream business segment, freesort, the subsidiary operating in the mail processing field, as well as the interest in iab only contributed to the aforementioned revenue following their initial consolidation in November 2006. The two companies contributed revenue of 1.5 million euros.

### ■ MAILROOM

With a share of 45%, the FP Company is still the clear market leader in Germany in its market segment of franking machines (source: Deutsch Post AG post statistics, 2006). In 2006, the FP Company held a worldwide market share of 9%, with market share in Europe and the USA amounting to 18% and 4% respectively. The global market leader for franking machines is Pitney Bowes Inc., USA. FP GmbH signed an agreement with this company covering use of technical specifications for certain patents in return for payment. An additional key competitor is the French company Neopost.

As a whole, revenue from the sale of new franking machines fell by 9.4% from 42 million euros in 2005 (pro forma) to 38.1 million euros in 2006. The fall in revenue is primarily attributable to Germany. This development was partially offset by

revenue increases in other countries, although a stronger focus on the extension of the rental business was made. Revenue generated from the sale of inserters increased by 6% from 12.8 million euros in 2005 (pro forma) to 13.6 million euros in 2006.

In Germany, market development in the reporting year was characterized by increasing competitive pressure. Revenue in Germany fell from 60.0 million euros in 2005 (pro forma) to 58.3 million euros in 2006. The main reason for this development was the expiration of Deutsche Post AG's incentive program at the end of the first quarter of 2005 which provided special financial incentives to buyers of franking machines equipped with the newly introduced security technology ("Frankit"). As a result, a large number of older franking machines that did not meet the Frankit security standard were replaced by new franking machines, which led to an increase of the revenue from sales of machines in the first quarter of 2005. In the 2006 reporting year, the change of technology aimed at led to no additional market upturn, meaning that the level of the two previous years was not maintained as expected, but fell back to a normal level.

In contrast, in the USA and Canada revenue rose by 15.3% from 37.9 million euros in 2005 (pro forma) to 43.7 million euros in 2006. In the USA, revenue increased by 11.8% from 34.2 million euros to 38.2 million euros thanks to continued development of business. At the end of the year the market share was 4%. In addition, an increase in revenue from the services business in the USA due to changes by USPS to the postage tables had an effect on the business. In Canada, decertification of franking machines contributed to an increase in revenue. Business development in the USA was put under strain due to the loss of three large customers (national accounts). In order to gain new large customers in the future, new sales staff were employed for this segment. In addition, business processes will be optimized with regard to special requirements.

Revenue in Europe (without Germany) rose by 7.5% from 37.1 million euros in 2005 (pro forma) to 39.9 million euros in 2006. This development is attributable to the continuing decertification business and a change to postage costs in the Netherlands as well as a change to postage sizing also in accordance with letter dimensions, a change to postage costs and the continuing growth trend in the UK.

An important component of Francotyp-Postalia's product business is also after sales business. The main driver for this revenue stability is the installed base, i.e. the number of units installed on customer premises, which the company estimates to be 264,380 FP Company franking machines worldwide. It primarily consists of the Teleporto business (electronic loading of mail postage onto franking machines), the rental from franking machines, the sale of consumables and the customer service, spare parts and customized slogans business (imprinting of individual logos or writing beside the stamp).

Revenue generated from the rental of franking machines increased by 15.2% from 23.1 million euros in 2005 (pro forma) to 26.7 million euros in 2006. The company's stronger focus on the rental market led to an increase in rental revenue. Since the beginning of fiscal year 2006, the company has also expanded its rental operations in the Netherlands with new offerings. Revenue generated by Teleporto, services, customer service and consumables rose by 7.5% in comparison to 2005 (pro forma) from 57.4 million euros to a total of 61.7 million euros in 2006. 3.9 million euros of this increase was attributable to services and customer service. In particular, an increase of the installed base led to this change. Moreover, this increase in revenue is attributable to changes in the postage tables in the Netherlands, the UK and the USA.

In addition to the above-mentioned segments, in 2006, the FP Company also generated revenue from the sale of complementary products, such as letter openers and post office furniture, amounting to 1.6 million euros, which was 0.3 million euros less than in 2005 (pro forma). The FP/GPS joint venture only led to intercompany revenue in 2006.

#### ■ MAILSTREAM

In 2006, the business segment of the acquired companies, freesort and iab, contributed 1.5 million euros to revenue.

#### ■ CONSOLIDATED NET PROFIT FOR THE YEAR

Consolidated net profit for the year increased by 0.4 million euros from –0.7 million euros in 2005 (pro forma) to –0.3 million euros in 2006. The performance of the Group becomes clearer if the non-operating factors are deducted and adjusted EBIT, EBITDA and EBITA are considered. Adjusted EBITA increased by 13.2% from 20.6 million euros in 2005 (pro forma) to 23.4 million euros in 2006. Adjusted EBITDA contributed 32.2 million euros for 2006 and was therefore 10.9% above adjusted EBITDA in the same period of the previous year of 29.0 million euros. Adjusted EBIT corresponds to adjusted EBITA as all amortization forms part of the adjustment.

#### ■ EMPLOYEES

On average in 2006 the FP Group employed 939 staff worldwide. Thus the average number of employees increased by approximately 50, 30 of which are attributable to new companies such as FP/GPS, freesort and iab. Due to operating activities and the high research and development requirement, the FP Group has highly qualified employees. The FP Group has set itself the target of intensifying the measures for employee qualification. For years the entire FP Group has displayed low staff turnover. Due to the collective bargaining agreement of the German metal and electronics industry about the introduction of a uniform framework wage agreement, FP GmbH and FP Vertrieb und Service GmbH implemented the agreed restructuring of employee wage levels as of January 1, 2007. As part of the restructuring, changes are to be made to the agreed basic pay for employees. For this there is a temporary arrangement. In order to avoid a huge extra strain on operations due to the framework wage structure volumes following the introduction of the framework wage agreement, agreed wage increases were not paid out on a pro rata basis, but put into a so-called "framework wage adjustment fund".

#### ■ RESEARCH AND DEVELOPMENT

High technological standards are of significant importance for successful marketing of Francotyp-Postalia's franking machines. In recent years, Francotyp-Postalia has invested considerably in research and development, and in this way it has developed the necessary fundamental capabilities and built up a series of necessary core competencies. Distributed across the separate fiscal years, the FP Company, in recent years, has invested an average of approximately 8% of total output in research and development. Research and development is focused essentially on franking machines and related peripherals. With respect to franking machines, research and development encompasses on the one hand, all mechatronic components of a franking system, i.e. mechanics, electronics and control software, and on the other hand, the necessary

postal accounting servers for operation of franking systems in a network system. In all sectors the respective development tools are state-of-the-art, in the company's opinion.

The spring of 2006 saw the licensing for the Canadian market of franking machines and the accompanying infrastructure in accordance with the new standards from the Canadian postal organisation.

In addition, various country-specific variants of franking machines were licensed. Autumn saw the licensing of the B-segment franking machine, centormail, in Germany. The country-specific variant for the USA is expected to be licensed in April 2007. In this connection, substantially redeveloped peripheral devices for this range of equipment will be provided.

## // Markets and competition

### ■ MARKET DEVELOPMENTS AND TRENDS

The major market developments in the letter mail market relate to the development of the letter volume. As a whole, however, the total letter volumes in countries with developed postal markets such as the USA, Germany, the Netherlands and the UK has been relatively stable in recent years. In addition, there has also been an apparent shift within the different business mail segments. Thus, the volume of traditional business mail has declined, while the direct mail used for advertising purposes (Info-post) has increased substantially. There have also been several developments with regard to methods of franking. Thus, in addition to franking by stamps or franking machines, there are alternative franking methods. Among these are IT franking (electronic franking), as they are also performed and offered by iab, or also the software or internet-based franking methods such as "Stampit" in Germany and "Stamps.com" in the United States. IT franking is increasingly being used by customers with high mailing volumes and is replacing other franking methods used by such customers. Software and internet-based franking methods are targeted primarily at customers with low mailing volumes but have as yet replaced traditional franking methods only to a limited extent.

Because of the increasing liberalization of the postal markets in Europe, new business models have evolved in the mail dispatch market. In particular, in the liberalized markets, the importance of private carriers has increased, which have been able to gain market share from the traditional postal authorities. Because the letters delivered by the private carriers are not typically franked in the traditional sense, the increase in the volume of letters delivered by private carriers leads to a decline in the franked mail volumes. As a further consequence of the liberalization, the market for sorting and consolidation services for letters has developed in Germany. Since 2005, DPAG has granted postage discounts of between 3% and a maximum of 21% for a certain minimum number of letters pre-sorted by zip codes that are delivered to a mail center of DPAG. Accordingly, freesort offers mainly customers with high mail volumes pre-sorting services and delivery to a DPAG mail center.

Another trend is the increasing outsourcing of services in the mail dispatch market, because companies increasingly recognize cost savings potential in this area. The offer of outsourcing services is directed primarily at customers with high mail volumes. In this respect, mainly recurring communications, such as invoices and marketing mail are

transmitted by the customer electronically or via data media to specialized service providers such as iab, which print the mail in sorted form, centrally or near the recipient's location. Through further development of the software, it will also be possible to offer these services in the future for individual communications (individualized daily mail). Up to now, these developments almost exclusively affect the customer segment with high mail volumes (upper B and C segments – for explanation see "Market segments"), a market intentionally not served by Francotyp-Postalia.

## ■ PRODUCTS AND SERVICES

### FRANKING MACHINES

The FP Group offers franking machines for sale and, particularly in the United States and Canada, for rent.

#### Market segments

Every franking machine is designed in terms of its capacity to handle a certain daily volume of mail. The different mail volumes are divided basically into the A, B and C segments:

- \_ **The A segment** refers to customers with low mail volume of on average up to 200 letters per day. The entire A segment has experienced sustained growth throughout Germany and internationally during recent years and is the most important market for the FP Company's products.
- \_ **The B segment** refers to customers with medium mail volume of approximately 2,000 letters per day. The upper B segment in particular has experienced a slight decline in Germany as well as internationally in recent years. The FP Company only offers machines for the lower B segment.
- \_ **The C segment** refers to customers with very high mail volume averaging more than 2,000 letters per day. By far the most significant market and therefore the one that sets the tone for this segment is the United States. Worldwide, the C segment is shrinking significantly. The FP Company is not represented in the C segment.

### INSERTERS

The FP Company offers inserters as a complementary product under its trusted brand name. Because the FP Company essentially distributes its inserters through the same distribution channels as its franking machines, customers are provided with the benefit of a single point of contact, uniform or known procedures and a comprehensive customer service organization. The FP Company, therefore, is successful in the distribution of inserters particularly in countries in which it has a strong market position for franking machines.

### SORTING AND CONSOLIDATION SERVICES

Through its subsidiary, freesort, the FP Group is now represented in the areas of sorting and consolidation services. Consolidation service includes mail retrieval from the customer, sorting of all customer mail by postal code and delivery to the designated mail center of DPAG. freesort also undertakes sorting services for private carriers.

## OUTSOURCING/HYBRID MAIL

Through iab, the FP Group is now also able to offer outsourcing and hybrid mail services.

### Outsourcing

Outsourcing services include:

#### \_ Outsourcing services for recurring communications

The documents to be sent are digitally transferred from the customer to iab, which prints them in sorted form in its printing center, envelopes them, franks them and delivers them to the desired delivery service.

#### \_ Software solutions for individual communications

Individualized daily mail is transferred electronically to a printing center on the customer's premises where it is printed, enveloped and franked centrally and subsequently delivered into postal circulation. The printing and processing center can be set up on the customer's premises or at iab. This form of document processing is of particular interest to medium and large companies with a large number of individual employees or companies with a corresponding group structure.

### Hybrid mail

Different customers can feed letters into a hybrid network electronically. The clearing office can then forward them electronically to the connected hybrid network partners. In their printing centres in the vicinity of the recipient, these partners can in turn print out the letters, fold and insert the letters and feed them into the physical postal cycle. This product is currently in the construction phase.

## ■ COMPETITIVE STRENGTHS

The company believes that Francotyp-Postalia has the following competitive strengths:

### MARKET LEADERSHIP AND BRAND NAME RECOGNITION IN GERMANY

The FP Company is the market leader for franking machines in Germany and therefore benefits from strong name recognition of the "Francotyp-Postalia" brand. The company believes that this well-known brand name will considerably support the sale of other future products and services in Germany, especially the new range of sorting and consolidation services, outsourcing services and hybrid mail products.

### STABLE FRANKING MACHINE BUSINESS THROUGH FOCUS ON A GROWING MARKET SEGMENT

With respect to the franking machine business, the FP Company has concentrated on customers with low to medium postal volumes (A and lower B segment). In recent years, the German and international franking machine market has grown only in these segments. Francotyp-Postalia does not offer franking machines for customers with an average mailing volume of more than 2,000 letters per day and, therefore, is not affected by the decline in the installed base in that market segment. The company continues to believe that the negative effects on the franking machine market in the C segment caused by the observed increase in private delivery services, alternative franking methods (such as IT franking) and innovative mailing systems (such as hybrid mail) will continue to be limited essentially to the high mail volume franking machine market segment.

**GROWTH PROSPECTS THROUGH THE PROVISION  
OF NEW SERVICES IN GERMANY**

The FP Company benefits from a strong market position in Germany in the franking machine market. This position will be used for the expansion of business through the supply of sorting and consolidation services, outsourcing services and hybrid mail products. The new services offered by Francotyp-Postalia will be directed primarily at customers with high mail volumes. The FP Group therefore believes it is well positioned to be able to expand into this market segment, which has not been the focus of the company in the past, with new services and without adverse effects on the company's existing franking machine business.

**COMMAND OF KEY TECHNOLOGIES AND  
LICENSING PROCEDURES**

The various licensing requirements set by the national postal authorities demand a high level of technical licensing expertise requiring many years of experience, which only a few specialized companies possess. Moreover, the essential key technologies are protected by patents held by the current important providers of franking machines. Francotyp-Postalia is one of the few companies that have access to such key technologies by way of proprietary patents and licenses.

## // Net assets, financial position and results of operations

### ■ LIMITED COMPARABILITY OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Francotyp-Postalia AG & Co. KG for fiscal year 2004 with comparison figures for fiscal year 2003 are not comparable in every respect with the consolidated financial statements of Francotyp-Postalia Holding AG for fiscal years 2005 and 2006. Before 2005, Francotyp-Postalia AG & Co. KG was the parent company of the FP Company and controlled the operating business either directly or indirectly via its subsidiaries, which correspond largely to the business operated today by Francotyp-Postalia Holding AG through its directly or indirectly held subsidiaries. However, because the operating business under the former group parent Francotyp-Postalia AG & Co. KG in 2004 and 2003 is largely comparable with the operating business of the Francotyp-Postalia Group under the current group parent, Francotyp-Postalia Holding AG, the company believes that the respective financial statements can be used for the purpose of comparing operating activities.

The pro forma financial data in the consolidated income statement for the period from January 1, 2005 to December 31, 2005 are to be considered for an accurate economic and operational comparison, because the companies included in the FP Group's consolidated financial statements before the acquisition of the FP Company in April 2005 and the FP Group in its current form are largely identical, and include all key operating companies of the FP Group – in 2005 iab, freesort and FP/GPS were not part of the Holding. The business volume for the period from January 1, 2005 to April 19, 2005 was included in this pro forma financial data. The non-operational effects related to the acquisition of the FP Company in 2005 therefore only took effect as of April 2005. Accordingly, the pro forma financial data not relating to operating figures is only of very limited use for the purposes of comparison.

The results of operations of the acquired companies freesort and iab are included in the results of operations of the Holding from the date of acquisition (iab: November 8, 2006, freesort: November 10, 2006). The results of operations of the newly founded joint venture, FP/GPS, are included from the date of its foundation in 2006 (January 16, 2006).



## ■ RESULTS OF OPERATIONS

COMPARISON OF THE INCOME STATEMENTS FOR THE FISCAL YEARS ENDED  
DECEMBER 31, 2006 AND 2005 (PRO FORMA) IN ACCORDANCE WITH IFRS

The following table shows key information from the income statements of the Francotyp-Postalia Group for the fiscal years ended December 31, 2006 and 2005.

	2006 Jan. 1–Dec. 31	2005 Jan. 1–Dec. 31	Changes	2005 Jan. 1–Dec. 31	2004 Jan. 1–Dec. 31	2003 Jan. 1–Dec. 31
<b>Income statement disclosures</b> (in Euro million)		Pro forma				
<b>Revenue</b>	<b>142.9</b>	<b>136.4</b>	<b>6.5</b>	<b>91.0</b>	<b>128.2</b>	<b>122.8</b>
Changes in inventory	1.3	–1.7	3.0	0.2	1.1	0.2
Other own work capitalized	11.2	3.7	7.5	3.0	1.3	1.3
<b>Total output</b>	<b>155.5</b>	<b>138.4</b>	<b>17.1</b>	<b>94.2</b>	<b>130.6</b>	<b>124.3</b>
Other operating income	3.0	4.1	–1.1	3.9	1.8	3.4
Cost of materials	42.7	40.4	2.3	30.2	33.7	34.2
Personnel expenses	50.1	43.8	6.3	30.4	43.7	44.1
Depreciation and amortization	25.0	22.6	2.4	20.3	11.3	15.9
Other operating expenses	33.5	37.3	–3.8	26.8	32.8	31.0
<b>Operating results before special revenue and expenses</b>	<b>7.2</b>	<b>–1.6</b>	<b>8.8</b>	<b>–9.5</b>	<b>10.9</b>	<b>2.5</b>
Net interest income	–3.6	–2.3	–1.3	–2.7	–0.2	–0.8
Other financial result	–0.2	0.9	–1.1	0.9	–0.4	–0.5
Tax result	–3.7	2.3	–6.0	4.7	–3.0	–2.0
<b>Net profit/loss for the year</b>	<b>–0.3</b>	<b>–0.7</b>	<b>0.4</b>	<b>–6.6</b>	<b>7.3</b>	<b>–0.8</b>
<b>EBITA (adjusted)</b>	<b>23.4</b>	<b>20.6</b>	<b>2.8</b>		<b>10.6</b>	<b>5.7</b>
<b>EBITDA (adjusted)</b>	<b>32.2</b>	<b>29.0</b>	<b>3.2</b>		<b>21.8</b>	<b>17.9</b>

### REVENUE

Revenue rose by 4.8% from 136.4 million euros in 2005 (pro forma) to 142.9 million euros in 2006. When adjusted for the revenue-reducing exchange rate effect of the US dollar-denominated loan in connection with the US dollar credit tranche of the acquisition financing loan, revenue would have totaled 143.1 million euros in 2006 and 137.3 million euros in 2005 (pro forma).

### COST OF MATERIALS

The cost of materials rose by 5.7% from 40.4 million euros in 2005 (pro forma) to 42.7 million euros in 2006. This cost of materials stands in contrast with revenue and increased inventories of finished goods and work in progress and other own

work capitalized of 138.4 million euros in 2005 (pro forma) and 155.5 million euros in 2006. The elimination of interim profits in 2005 led to a one-time expense of 3.1 million euros. Furthermore, the total output was adjusted due to the revenue-reducing exchange rate effect of the US dollar of 0.9 million euros in 2005 and 0.2 million euros in 2006. The adjusted total output for fiscal year 2005 (pro forma) amounted to 142.4 million euros, which corresponds to a materials ratio of 28.4%. The comparable adjusted total output for fiscal year 2006 (pro forma) amounted to 155.7 million euros, which corresponds to a materials ratio of 27.4%. The relation of the cost of materials without related services to the adjusted total output was slightly higher in 2006 than in 2005 at 21.5% and 20.4% respectively.

#### **PERSONNEL EXPENSES**

Personnel expenses rose by 14.5% from 43.8 million euros in 2005 (pro forma) to 50.1 million euros in 2006. This increase was primarily the result for the three new companies included in the scope of consolidation and of hiring additional employees, most of which were hired for the start of the decertification program in Canada. The average number of employees in the FP Group rose by 5.6% from 889 in 2005 to 939 in 2006. As compared to 2005 (pro forma), the costs for pensions declined, amounting to 1.0 million euros in 2006 as compared to 1.3 million euros during the same period in the previous year. The personnel expenses ratio rose by 1.5% from 30.7% in 2005 (pro forma) to 32.2% in 2006, based on the adjusted total output of the FP Group.

#### **DEPRECIATION AND AMORTIZATION**

In fiscal year 2006, depreciation and amortization increased to 25.0 million euros, which was 10.9% higher than the previous year's level of 22.6 million euros (pro forma) for the same period. This increase was mostly due to the measurement of fixed assets and intangible assets as part of the acquisition of the FP Company in April 2005 and the recognition of assets not carried in the balance sheet up to that time, such as customer lists, which were only taken into account as from April 20 in 2005, but for the entire period in 2006. This evaluation of fixed assets and intangible assets resulted in increased depreciation/amortization of 11.8 million euros in 2005 and 14.4 million euros in 2006. Adjusted for the effects of the acquisition of the FP Group in April 2005, operational depreciation and amortization increased by 5.3% from 8.4 million euros in 2005 to 8.8 million euros in 2006.

#### **OTHER OPERATING EXPENSES**

Other operating expenses fell by 10.3% from 37.3 million euros in 2005 to 33.5 million euros in 2006. The change was largely due to additional transaction costs in 2005, particularly for consulting services amounting to 3.9 million euros in connection with the acquisition of the FP Company in April 2005. Adjusted for this effect, other operating expenses would have amounted to 33.5 million euros in fiscal year 2005. In addition, sales commissions declined in 2006 due to the decline in new sales, particularly of franking machines. The operating expense ratio (not including transaction costs) in relation to the adjusted total revenue of the FP Group of 142.4 million euros in 2005 declined from 23.5% in 2005 to 21.5% in 2006. The costs incurred from the IPO in 2006 were set off against equity less tax effects with no effect on net income.

**NET INTEREST INCOME; OTHER FINANCIAL RESULT**

Net interest income declined by –1.3 million euros from –2.3 million euros in 2005 (pro forma) to –3.6 million euros in 2006. The change is due primarily to the fact that interest and similar expenses in 2006 were incurred for the entire period, while in 2005 transaction-related interest expense was incurred only as of April 20, 2005. The other financial result for 2006 was –0.2 million euros, which was 1.1 million euros less than the corresponding amount of 0.9 million euros during the previous year, which was due primarily to fluctuations in the euro/US dollar exchange rate.

**TAX RESULT**

The tax result changed by –0.6 million euros, from a positive effect of 2.3 million euros in 2005 (pro forma) to a negative result of 3.7 million euros in 2006. Tax income in 2005 resulted essentially from tax losses that were offset by loss carry-forwards.

**CONSOLIDATED NET PROFIT/LOSS FOR THE YEAR**

Consolidated net profit for the year increased by 0.3 million euros from –0.7 million euros in 2005 (pro forma) to –0.4 million euros in 2006.

**ADJUSTED EBITA AND ADJUSTED EBITDA**

The adjusted operating result is calculated based on the consolidated income statement in accordance with IFRS with the aim of presenting the development of business operations for the fiscal years ended December 31, 2005 (pro forma) and December 31, 2006. To this end, EBITA and EBITDA are adjusted for non-operational factors affecting the consolidated income statement associated with the acquisition of the FP Company in April 2005.

The adjusted EBITA increased by 13.2% from 20.6 million euros in 2005 (pro forma) to 23.4 million euros in 2006. The revenue-reducing exchange rate effects of US dollar-denominated loans are required pursuant to IAS 39 to be set off against revenue in the amount of 0.2 million euros. For the calculation of the adjusted EBITA for the first nine months of fiscal year 2005, the effects of the purchase price allocation in connection with the acquisition of the FP Company must be excluded. In this connection, the fixed assets were entered at the values carried on the books of the subsidiaries that exceed the book values in the 2004 consolidated financial statements. The additional pro rata depreciation resulting from this valuation was 2.4 million euros in the first nine months of fiscal year 2005 and 1.5 million euros in the first nine months of fiscal year 2006. In connection with the acquisition of the FP Company by Francotyp-Postalia Holding AG in April 2005, asset step-ups were also undertaken. These valuations affect the intangible assets as well as the fixed assets and capitalized customer lists. The related depreciation is to be removed from the calculation as a non-operational effect. In addition, adjustments are required to be made to depreciation relating to the consideration for the non-compete obligation entered into by the seller of the FP Company. The depreciation of the revalued assets as well as of the consideration for the non-compete obligation totaled 11.8 million euros pro rata in 2005. The corresponding value for 2006 was 14.4 million euros. Additionally, in connection with the acquisition of the FP Company, inventory was valued at market value. The removal of the interim profits for 2005 led to a one-time expense of 3.1 million euros. Non-operational expenses include the non-capitalizable transactions in

the amount of 3.9 million euros; from this amount, the expenses assumed in the amount of 1.2 million euros are deducted according to the terms of the share purchase agreement resulting in net transaction costs of 2.7 million euros. Furthermore, depreciation/amortization in 2006 was adjusted by 0.2 million euros for depreciation/amortization of customer lists and development services in the course of the acquisition of freesort and iab.

Adjusted EBITDA contributed 32.2 million euros for 2006 and was therefore 10.9% above adjusted EBITDA in the same period of the previous year of 29.0 million euros. The difference between adjusted EBITA and adjusted EBITDA consisted only of the operational depreciation excluding the non-operational effects described above.

## ■ FINANCIAL POSITION

### SOURCES OF CAPITAL

#### DEVELOPMENT OF NET FINANCIAL LIABILITIES

(in Euro million)	2006	2005	2004	2003
Financial liabilities	74.3	76.0	25.0	36.3
Less cash and cash equivalents	-60.7	-19.4	-17.5	-15.7
Not including Teleporto funds	19.7	17.4	15.5	13.4
<b>Net financial liabilities</b>	<b>33.3</b>	<b>74.0</b>	<b>23.0</b>	<b>34.0</b>

In some of its subsidiaries, the FP Group manages customer funds that are earmarked for postage to be uploaded to franking machines. These funds are reported as cash and cash equivalents in the balance sheet, even though the FP Group cannot freely dispose of these funds. These funds are eliminated from the calculation of net financial liabilities. Cash and cash equivalents (not including Teleporto funds) amounted to 41.0 million euros as of December 31, 2006, 2.0 million euros as of December 31, 2005, 2.0 million euros as of December 31, 2004 and 2.3 million euros as of December 31, 2003. The changes are due to cash inflow from the IPO on the one hand and a reporting date effect on the other hand. They fall within the usual range of fluctuations. The financial liabilities presented in the table above include 72.0 million euros owed to BNP Paribas S.A., Frankfurt am Main.

#### LOAN AGREEMENTS, OPERATING LOAN AND SHAREHOLDER LOANS

Francotyp-Postalia GmbH as borrower and Francotyp-Postalia Holding AG as guarantor signed a loan agreement for 89.5 million euros with BNP Paribas S.A., Frankfurt am Main, on March 4, 2005. The loan agreement served in particular to finance the purchase of the FP Company, which was acquired effective of April 20, 2005 by Francotyp-Postalia Holding AG. 69.5 million euros of the total loan amount, which was in part utilized in US dollar, was for acquisition financing. The conditions of the loan agreement were changed with a modification agreement dated October 20, 2006 with regard to the IPO, for example. Firstly, the lending banks agreed to provide an additional loan for 16 million euros, which the company is permitted to use for the purpose of repaying the shareholder loans. In addition, the capital expenditure tranche was amended so that this can also be used in the future to finance

certain acquisitions of other companies. The company used 5.0 million euros of this tranche to finance the purchase price of the equity interest in iab. As part of the modification agreement, after performance of the IPO, the collateral provided under the original loan agreement, except standard market guarantees of certain key subsidiaries, was released by the banks. The loans utilized under the loan agreement, including the amounts drawn under the working capital facility, have to be repaid in full in accordance with a fixed repayment plan at the latest on the fifth anniversary of the stock exchange listing. The annual amounts to be repaid before such date each year are US dollar 2.8 million in 2007 and the sum of 1 million euros and US dollar 3.8 million in each subsequent year. Voluntary prepayments are permissible.

#### **DEVELOPMENT OF EQUITY**

By shareholder resolution of August 11, 2006, entered in the Commercial Register on September 8, 2006, the share capital was increased by 8,000,000 euros through conversion of reserves, from 4,000,000 euros to 12,000,000 euros.

By another shareholder resolution on August 11, 2006, entered in the Commercial Register on September 28, 2006, the company was transformed into a stock corporation (Aktiengesellschaft) under the name of "Francotyp-Postalia Holding AG". The share capital of Francotyp-Postalia Holding GmbH in the amount of 12,000,000 euros became the share capital of Francotyp-Postalia Holding AG and was divided into 12,000,000 ordinary bearer shares with no par value. By resolution of the Extraordinary General Meeting of November 14, 2006, the share capital was increased by up to 2,700,000 euros from 12,000,000 euros to up to 14,700,000 euros, through the issuance against cash contribution of up to 2,700,000 new ordinary bearer shares with no par value (no par value shares), each with a notional par value of 1.00 euro. In the capital increase resolution, the shareholders waived their subscription rights. The capital increase was entered in the Commercial Register on November 29, 2006. Following registration of the implementation of this capital increase, the company has a share capital of 14,700,000 euros, divided into 14,700,000 ordinary bearer shares with no par value (no par value shares). No privilege shares were issued.

#### **AUTHORIZED CAPITAL**

By resolution of October 16, 2006, the Annual General Meeting authorized the Management Board, with consent of the Supervisory Board, to increase the company's share capital on or prior to October 15, 2011, through the issuance of up to 6,000,000 new ordinary bearer shares with no par value against cash or in-kind contribution, in one or more transactions, by an aggregate amount of 6,000,000 euros (authorized capital). The new shares are essentially required to be offered to the shareholders. The Management Board, however, has been authorized, subject to the consent of the Supervisory Board, to exclude fractional amounts from the shareholders' subscription rights and, in addition, to exclude the subscription rights.

#### **CONTINGENT CAPITAL**

On October 16, 2006, the Annual General Meeting resolved to increase the share capital of the company by up to 6,000,000 euros by issuing new ordinary bearer shares with no par value, each such share with a notional par value of 1.00 euro per share (contingent capital).

## CONVERSION AND OPTION RIGHTS

By resolution of the Annual General Meeting of October 16, 2006, the Management Board was authorized, with the consent of the Supervisory Board, to issue option bonds and/or convertible bonds by October 15, 2011 (inclusive), once or more times, in a single amount or in partial amounts (such option bonds and convertible bonds are subsequently collectively also referred to as "partial debentures") in the total face amount of up to 200,000,000 euros with a term no longer than 30 years, and to grant the holders of option bonds option rights or, as the case may be, the holders of convertible bonds conversion rights, for the company's ordinary bearer shares with no par value with a notional par value in the total amount of up to 6,000,000 euros in accordance with the more detailed provisions of the debenture terms.

## ■ PRESENTATION OF THE CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statements for the fiscal years ended December 31, 2006 and December 31, 2005 are only comparable to a very limited extent. When the Francotyp-Postalia Group was acquired on April 19, 2005, a new group of companies was formed. For this reason, the cash flow statement for 2005 presents operations only as of April 20, 2005. In addition, the consolidated cash flow statement for 2005 reflects non-recurring effects from the acquisition of the Francotyp-Postalia Group in April 2005.

### CONSOLIDATED CASH FLOW STATEMENT

for the fiscal years ended December 31, 2006 and  
December 31, 2005.

	Jan. 1 – Dec. 31, 2006 Euro thousand	Jan. 1 – Dec. 31, 2005 Euro thousand
<b>1. Cash flows from operating activities</b>		
Cash flow from operating activities	20,284	10,617
<b>2. Cash flows from investing activities</b>		
Cash flow from investing activities	-25,629	-74,219
<b>3. Cash flows from financing activities</b>		
Cash flows from financing activities	46,550	82,202
<b>Cash and cash equivalents</b>		
Change in cash and cash equivalents	41,205	18,600
Change in cash and cash equivalents due to currency translation	158	739
Cash and cash equivalents at start of period	19,363	24
<b>Cash and cash equivalents at end of period*</b>	<b>60,726</b>	<b>19,363</b>

\* including restricted cash: 19,741 thousand euros (previous year 17,429 thousand euros).

### CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities in fiscal year 2006 was 20.3 million euros, which was greater than the amount for the same period of the previous year of 10.6 million euros. This increase was primarily due to the fact that operations were only included in the cash flow for the previous year period from April 20, 2005. Historically, however, liquidity has been particularly strong at the FP Company during the first months of a fiscal year because several contracts, particularly in the Netherlands, are billed periodically at the beginning of the calendar year. The cash flow from ongoing operating activities during the same period in 2005 was also impacted by transaction costs in connection with the acquisition of the Francotyp-Postalia Group in April 2005.

### CASH FLOW FROM INVESTING ACTIVITIES

The cash outflow from investing activities amounted to 25.6 million euros in 2006, compared to 74.2 million euros in 2005. Without taking into account the investment in the acquisition of the FP Company in April 2005 in the amount of 61.9 million euros, the cash flow from investing activities was -12.3 million euros in 2005 and without taking into account the investment in the acquisition of freesort and iab in 2006 in the amount of 9.7 million euros, cash flow from investing activities was 16.0 million euros in 2006. The difference from the cash flow from investing activities for 2006 is due primarily to investments in rented products contained in the investments in fixed assets by 2.9 million euros over the previous year level because rented franking machines were replaced with new franking machines in connection with a decertification program in Canada and elsewhere. In addition, the investments in intangible assets increased by 0.3 million euros from 0.8 million euros in 2005 to 1.1 million euros in 2006.

### CASH FLOW FROM FINANCING ACTIVITIES

Cash flow from financing activities decreased from 82.2 million euros in 2005 to 46.6 million euros in 2006.

The cash outflow from financing activities in 2005 resulted primarily from loan repayments to banks in the amount of 11.9 million euros, whereas in 2006 the cash outflow was influenced in particular by amortization payments in the amount of 16.2 million euros for the repayment of shareholder loans and 6.5 million euros for repayments to BNP S. A.

Moreover, in 2006 payments for expenses in connection with the IPO in the amount of 3.1 million euros were made.

The high cash inflow in 2005 was due to the fact that Francotyp-Postalia Holding AG took out loans in the amount of 69.5 million euros in April 2005 to finance the acquisition of the FP Company and additional loans were granted by shareholders in the amount of 13.9 million euros. Additionally, share capital increased by 4.0 million euros due to a registered capital increase and a payment to capital reserves in the amount of 6.7 million euros. In 2006, additional bank loans in the amount of 21.0 million euros were utilized to repay the shareholder loans and to finance the purchase price of iab.

In addition, the company accrued capital of 51.3 million euros from the IPO, less 3.1 million euros for payments in the course of the IPO.

Cash and cash equivalents increased by 41.4 million euros from 19.4 million euros in 2005 (pro forma) to 60.7 million euros in 2006.

## ■ NET ASSET SITUATION

### ASSETS

	Dec. 31, 2006 Euro thousand	Dec. 31, 2005 Euro thousand
<b>A. Current assets</b>		
I. Intangible assets	88,627	59,549
II. Fixed assets	23,327	21,084
III. Other assets	2,756	940
IV. Deferred tax claims	6,523	1,951
	<b>121,233</b>	<b>83,524</b>
<b>B. Noncurrent assets</b>		
I. Inventories	18,262	16,863
II. Trade receivables	20,313	16,901
IV. Cash and cash equivalents	60,726	19,363
V. Other assets	12,838	11,880
	<b>112,139</b>	<b>65,007</b>
	<b>233,372</b>	<b>148,531</b>

### CURRENT ASSETS

#### Intangible assets

Intangible assets increased by 48.8% from 59.5 million euros in 2005 to 88.6 million euros. The increase was primarily the result of the newly acquired customer lists, the newly acquired software and the goodwill of freesort and iab, as well as the capitalized development costs.

#### Fixed assets

Fixed assets increased by 10.6% from 21.1 million euros in 2005 to 23.3 million euros in 2006. The main reasons for the increase in fixed assets were the higher levels of investment in rental equipment, especially in Canada (decertification), and the inclusion of freesort and iab.

#### Other assets

Other assets increased from 0.9 million euros to 2.8 million euros; included in this figure is the increase of 1.7 million euros in receivables from finance leases.

### NONCURRENT ASSETS

#### Inventories

Inventories increased by 8.3% in 2006 to 18.3 million euros compared with 16.9 million euros in 2005. Inventories in relation to the adjusted total output decreased from 12.1% in 2005 to 11.7% in 2006.

#### Trade receivables

Trade receivables increased by 20.2% from 16.9 million euros in 2005 to 20.3 million euros. 1.9 million euros of this increase is accounted for by the inclusion of freesort and iab in the group of consolidated companies.



**Cash and cash equivalents**

Cash and cash equivalents increased by 213.6% from 19.4 million euros in 2005 to 60.7 million euros. The main reason for this increase is the inflows from share issues. Bank balances of 19,741 thousand euros (previous year: 17,429 thousand euros) were subject to limited availability.

**Other assets**

Other assets increased by 8.1% from 11.9 million euros in 2005 to 12.8 million euros. 1.0 million euros of this increase is accounted for by higher tax claims.

**LIABILITIES**

	Dec. 31, 2006 Euro thousand	Dec. 31, 2005 Euro thousand
<b>A. Current liabilities</b>		
I. Pensions provisions and similar obligations	11,901	11,395
II. Other provisions	2,321	2,621
III. Financial liabilities	68,601	71,425
IV. Other liabilities	227	184
V. Deferred tax liabilities	10,377	3,711
	<b>93,427</b>	<b>89,336</b>
<b>B. Noncurrent liabilities</b>		
I. Current income tax liabilities	1,169	849
II. Other provisions	11,249	9,497
III. Financial debt	5,671	4,544
IV. Trade payables	7,204	3,735
V. Other liabilities	53,767	37,300
	<b>79,060</b>	<b>55,925</b>
	<b>172,487</b>	<b>145,261</b>

**CURRENT AND NON-CURRENT LIABILITIES****Pension provisions and similar obligations**

Pension provisions and similar obligations increased by 4.4% from 11.4 million euros in 2005 to 11.9 million euros.

**Other provisions**

Other provisions increased by 12.0% from 12.1 million euros (of which 2.6 million euros noncurrent and 9.5 million euros current) to 13.6 million euros (of which 2.3 million euros noncurrent and 11.2 million euros current). Of this increase, 1.3 million euros was accounted for by personnel-related provisions and 0.8 million euros by provisions for outstanding invoices. On the other hand, provisions for warranties decreased by 1.0 million euros.

**Other liabilities**

Other liabilities increased by 44.0% from 37.5 million euros in 2005 (of which 0.2 million euros noncurrent and 37.3 million euros current) to 54.0 million euros in 2006 (of which 0.2 million euros noncurrent and 53.8 million euros current). From the

difference of 16.5 million euros, 16.8 million euros are the result of debts from company acquisitions (iab and freesort). The liabilities from Teleporto also contained in Other liabilities amounted to 19.7 million euros in 2006 (previous year: 17.4 million euros).

#### **Financial liabilities**

Financial liabilities decreased by 2.2% from 76.0 million euros in 2005 (of which 71.4 million euros noncurrent and 4.5 million euros current) to 74.3 million euros in 2006 (of which 68.6 million euros and 5.7 million euros current) (see also "Loan agreements, operating loan and shareholder loans").

#### **Deferred tax liabilities**

Deferred tax liabilities increased from 3.7 million euros to 10.4 million euros.

#### **Trade payables**

Trade payables increased by 92.9% from 3.7 million euros in 2005 to 7.2 million euros. Of this increase, 1.2 million euros is accounted for by the inclusion of iab and freesort in the group of consolidated companies.

#### **Income tax liabilities**

Income tax liabilities increased by 0.3 million euros from 0.8 million euros in 2005 to 1.2 million euros.

## // Risk report

Risk management is an integral part of all decisions and company processes. In terms of its content, degree of detail and frequency, internal reporting is designed to detect risks at an early stage. Francotyp-Postalia is always exposed to certain risks, which also apply to its explicitly mentioned competitive strengths, if these cannot be maintained. These risks can have fundamental detrimental repercussions for business activity as well as for the financial condition and results of operations of Francotyp-Postalia.

### ■ MARKET RISKS

The liberalization of the postal market in Europe can decrease the need for franking machines in those cases when postal service providers, which send their post prepaid, gain market share. Furthermore, the liberalization of the postal market can result in lower consolidation rebates being granted in Germany or being dispensed with completely. However, changes must be approved by the regulatory authorities.

### ■ RISKS CONNECTED WITH BUSINESS OPERATIONS

The FP Company sells consumables for franking machines, e.g. ink ribbon cassettes and ink cartridges and in this way generates a substantial proportion of its recurring revenue. Customers could use consumables manufactured and sold by competitors for the machines manufactured by the FP Company. In the event that large numbers of customers acquire consumables sold by third parties, revenue in the after sales business, which includes revenue from the sale of consumables, could decline. Furthermore, the FP Company obtains important materials, preliminary products and other products from either one or a small number of suppliers, which means dependency on single-source key suppliers and distributors in some countries. It cannot be ruled out that in future the respective suppliers do not renew the agreements currently in

force, or can no longer supply the materials and/or products under acceptable conditions, i.e. they are supplied late, or cannot supply them at all. New suppliers would have to be found at short notice, with it not being assured that the respective products will be supplied in the required quantity and quality at an appropriate price. There is also the possible risk of costly and protracted patent disputes, both inside and outside Germany, and the non-renewal of important license agreements.

### ■ FINANCIAL AND TAX RISKS

In terms of the responsible financial and national insurance authorities, additional claims may be determined for the FP Group, especially against the background of restructuring and transfers of assets. It could also emerge from this that insufficient provisions were formed or that tax loss carryforwards cannot be utilized.

As part of its business activity, the FP Group is exposed to certain financial risks, which include currency fluctuations, risks associated with interest rate changes and debt defaults. The Group's primary risk management system takes into account the unpredictability of the financial markets and is designed to minimize negative repercussions for the results of operations for the Group. To achieve this goal, the Group uses certain financial instruments. These are generally used to safeguard existing fundamental business or planned transactions. The FP Group uses two interest rate swaps and/or interest rate caps to safeguard itself against a variable interest rate on financial loans. In addition, the future cash flows are hedged in US dollars by using these to settle a loan payable on April 20, 2005, which was also in US dollars.

The frame of action, responsibilities, financial reporting and control mechanisms for financial instruments are all determined by regulations within the Group. These include separating the functions between recording and checking the financial instruments. The currency, interest rate change, and liquidity risks of the FP Group are controlled centrally.

### INTEREST RATE RISK

Due to the regulations of the main loan agreement concluded with the financing bank, the Group safeguards approximately 70% of the existing loan value resulting from this agreement against interest rate risks.

As at June 30, 2006, the remaining volumes were also safeguarded by means of two cap transactions in the form of maximum rate agreements. The reference amounts are in the amounts of 7,744,000 euros and 12,000,000 euros, and each have a maximum interest rate of 3.50% p.a. and a base interest rate in the amount of the 6-month EURIBOR. The amount of the premiums is a total of 335,000 euros. There is no direct interest rate change risk for the term of the hedging transactions (4 and 5 years respectively).

The first interest rate swap transaction in US dollars was concluded on May 19, 2005, with a nominal amount of US dollar 34,789,000 and a term concluding on June 30, 2010. As part of the interest rate swap transaction, the Group swaps variable 6-month LIBOR interest rate payments for a fixed interest rate of 4.29% p.a. The second interest rate swap transaction in US dollars was concluded on May 19, 2005, with a nominal amount of US dollar 16,318,000 and a term concluding on September 30, 2010, in which the Group swaps variable 6-month LIBOR interest rate payments for a fixed interest rate of 4.46% p.a. The market interest rates of these instruments were determined using the contracting parties' quoted prices on the balance sheet date.

#### **DEFAULT RISK**

The balance sheet amount of the financial assets indicates the maximum default risk, regardless of existing securities, in the event that contracting parties cannot fulfill their contractual payment obligations. For all trade relationships on which the original financial instruments are based, it is the case that to minimize the default risk, depending on the type and extent of the respective relationship, securities are requested, credit information/references are obtained and historical data from the previous business relationship, especially the payment history, are utilized to avoid payment defaults. In addition to the use of loan insurance for trade receivables, the identifiable default risk of individual receivables and the Group's general credit risk is safeguarded by appropriate specific valuation allowances.

#### **LIQUIDITY RISK**

The group counteracts the liquidity risk with a liquidity outlook for the entire group based on a fixed planning horizon and available, non-utilized credit lines.

The volume of our business activity is generally linked to the overall economic situation of the individual countries and their commercial relationships. At the present time, we do not see any substantial overall economic risks for the group. In the past fiscal year, no risks were identified for the group which individually or taken as a whole could have a substantial impact on the existence of the company, nor are there likely to be any in the foreseeable future.

### **// Environmental report**

In the past, the FP Group has, in its own estimation, taken adequate precautions to ensure compliance with environmental legislation, to ensure systems are adequately equipped in accordance with the current state-of-the-art, and also to ensure compliance with environmental requirements in the future.

## // Company bodies and shareholder structure

### ■ REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The service contracts concluded with the members of the Management Board provide for both fixed and variable remuneration. Each member of the Management Board currently receives a fixed annual salary and a performance-related bonus. In addition, the members of the Management Board receive a company car and maximum reimbursement for the employee's share of social security contributions. The company reimburses the members of the Management Board for contributions to an accident insurance policy with cover of up to 500,000 euros and grants individual members of the Management Board, under certain conditions, allowances for rental payments, travel expenses and private pension fund contributions. In addition, the members of the Management Board are entitled to a company pension.

Each member of the Supervisory Board receives for each fiscal year a fixed remuneration payable in the last month of the fiscal year. The Chairman receives 2.5 times this remuneration and his deputy twice this remuneration.

Detailed information regarding the remuneration structure is contained in the notes to the consolidated financial statements.

### ■ AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The resolutions at the Annual General Meeting are passed with a simple majority of the votes cast and, unless the law requires a capital majority in addition to the simple majority, the simple majority of the equity capital represented at the passing of the resolution, unless the law or the articles of association expressly require a larger majority. Abstentions are regarded as votes not cast.

### ■ APPOINTMENT OF MEMBERS OF THE MANAGEMENT BOARD

The Supervisory Board stipulates the number of members of the Management Board, as well as their appointment and revocation of their appointment.

### ■ DIRECT AND INDIRECT PARTICIPATION

(in accordance with Section 315 of the German Commercial Code, if in excess of 10%)

Shareholders	Shareholdings before Completion of the Offer		Shareholdings after Completion of the Offering (without exercise of the Greenshoe Option)		Shareholdings at Jan. 18, 2006 after Completion of the Offering and with exercise of the Greenshoe Option (Dec. 28, 2006) and after sharetransfer to Freelog Ltd.	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Quadriga Capital Private Equity Fund II L.P.	6,717,150	55.98	4,086,266	27.80	3,357,321	22.84
Quadriga Capital Limited	1,607,250	13.39	977,744	6.65	803,326	5.46

## // Strategy and outlook

The Management Board pursues a value-oriented corporate strategy. Sustained protection and enhancement of the company value means increasing profitability, expanding market activities in the areas of mailroom and mailstream, and optimizing the product portfolio by means of selective product management and new developments for franking machines as well as continuous improvement of company processes.

In 2006, the FP Group recorded sales growth of around 5% and thus conformed to expectations from 2005. We believe that comparable growth in the mailroom area can be maintained.

The future development of the FP Company will be molded by its strategic direction and other specific topics in the next two years. With respect to its traditional franking machine business, the FP Company is focusing in strategic terms on the lower and middle market segments and on selected regional markets, which in the opinion of the company offer increased sales potential. As part of this, the FP Company wants to safeguard its current market position in the area of franking machines in Germany and Austria and to achieve lasting expansion in the other key Western European markets.

The progression of the decertification phase in Canada has been very positive. Building on this, we are now focussing on acquiring new customers. The expectations of the US market in terms of the growth of the installed base were not completely fulfilled.

Another strategic objective is the expansion of the after sales business in order to foster existing customer retention and benefit from the attractive margins in this area. This positive market assessment is supported by decertification activities of the postal companies. In 2006, these have already resulted in a significant increase in sales in the Canadian market in this area. This is an effect which is expected to continue until mid 2007. Pending for 2007 is further decertification in the Dutch market and in the USA in 2008. This means substantial support for the acquisition of new customers and the updating of the existing machinery portfolio and thus customer retention.

The company plans to participate in the growth of these new markets with its portfolio of sorting and consolidation services, outsourcing services and hybrid mail products in Germany. While Francotyp-Postalia has concentrated in the past exclusively on its range of products and services for the mailroom, hybrid mail, outsourcing and sorting and consolidation are concerned with the management of the mailstream. In this way the FP Group has opened up new customer groups, as these services are enlisted primarily by customers with high volumes of mail. This allows Francotyp-Postalia to position itself in the upper B and C segments with new services, which in this segment – in contrast to the corresponding hardware products (franking machines) – offer attractive growth potential. The company regards its current customers as potential target customers for the consolidation business, which post a corresponding volume of mail every day and are located in towns with over 50,000 inhabitants. In terms of the sorting and consolidation business, Francotyp-Postalia is aiming for a significant share of the still embryonic sorting and consolidation market in Germany. By August 2008, its current market position should be expanded by at least six additional sorting centers in various major German cities.

To expand the business with outsourcing services and hybrid mail products, the company intends in the medium term to create an extensive range of services across Germany and to use for this the locations of the sorting and consolidation business as well as locations for networked printing. In addition, the company is examining the possibility of expanding its range of services to outside Germany. Overall, the FP Group expects an upturn due to the liberalization in 2008.

## // Declaration of the Management Board

The Management Board of Francotyp-Postalia Holding AG is responsible for the preparation, completeness and accuracy of the consolidated financial statements and of the consolidated management report as well as for the other information in the annual report. The International Financial Reporting Standards (IFRS) were observed in the preparation of the consolidated financial statements and, if necessary, appropriate estimates were made. The consolidated management report contains an analysis of the financial condition and results of operations of the Group as well as further details required in accordance with the German Commercial Code, including a description of the material opportunities and risks.

In order to secure the reliability of the data, for both the preparation of the consolidated financial statements, including the consolidated management report, and the internal reporting, there is an effective internal management and control system. The Management Board is thus in a position to detect risks at an early stage and to institute countermeasures.

BIRKENWERDER, MARCH 26, 2007

Management Board of Francotyp-Postalia Holding AG

HANS CHRISTIAN HIEMENZ

HARTMUT NEUMANN

MANFRED SCHWARZE





# // Consolidated accounts

AR2006

## // Consolidated balance sheet

DATED DECEMBER 31, 2006

FRANCOTYP-POSTALIA HOLDING AG, BIRKENWERDER

(FORMERLY FRANCOTYP-POSTALIA HOLDING GMBH, BIRKENWERDER)

<b>ASSETS</b> (Euro thousand)	Notes	Dec. 31, 2006	Dec. 31, 2005
<b>A. LONG-TERM ASSETS</b>			
<b>I. Intangible assets</b>	(9)		
1. Intangible assets including customer lists		61,927	54,820
2. Goodwill		26,034	0
3. Development projects in progress and advance payments		666	4,729
		<b>88,627</b>	<b>59,549</b>
<b>II. Property, plant and equipment</b>	(9)		
1. Fixed assets land, land rights and buildings		24	14
2. Technical equipment and machinery		1,580	837
3. Other equipment, operating and office equipment		7,673	8,487
4. Leased products		11,430	10,883
5. Advance payments and assets under construction		672	197
6. Assets under finance leasing		1,948	666
		<b>23,327</b>	<b>21,084</b>
<b>III. Other assets</b>			
1. Participations		206	183
2. Non-internal loans		23	2
3. Finance leasing receivables	(10)	2,375	720
4. Other long-term assets		152	35
		<b>2,756</b>	<b>940</b>
<b>IV. Deferred tax assets</b>		<b>6,523</b>	<b>1,951</b>
		<b>121,233</b>	<b>83,524</b>
<b>B. SHORT-TERM ASSETS</b>			
<b>I. Inventories</b>	(11)		
1. Raw materials and supplies		7,428	7,283
2. Work/services in progress		1,668	1,847
3. Finished products and goods		9,062	7,650
4. Advance payments		104	83
		<b>18,262</b>	<b>16,863</b>
<b>II. Trade receivables</b>	(12)	<b>20,313</b>	<b>16,901</b>
<b>IV. Cash and cash equivalents</b>	(14)	<b>60,726</b>	<b>19,363</b>
<b>V. Other assets</b>			
1. Finance leasing receivables	(10)	919	2,754
2. Receivables from related parties		0	95
3. Derivative financial instruments	(22)	897	558
4. Other short-term assets	(13)	11,022	8,473
		<b>12,838</b>	<b>11,880</b>
		<b>112,139</b>	<b>65,007</b>
		<b>233,372</b>	<b>148,531</b>



## // Consolidated income statement

FOR THE PERIOD JANUARY 1 THROUGH DECEMBER 31, 2006

FRANCOTYP-POSTALIA HOLDING AG, BIRKENWERDER

(FORMERLY FRANCOTYP-POSTALIA HOLDING GMBH, BIRKENWERDER)

	Notes	Jan. 1–Dec. 31, 2006	Jan. 1–Dec. 31, 2005	Adjustments pro-forma	Pro-forma Jan. 1–Dec. 31, 2005
		Euro thousand	Euro thousand	Euro thousand	Euro thousand
1. Revenues	(1)	142,930	91,024	45,351	136,375
2. Changes in inventory		1,338	156	–1,904	–1,748
		<b>144,268</b>	<b>91,180</b>		<b>134,627</b>
3. Other own work capitalized	(2)	11,220	2,982	756	3,738
<b>TOTAL OUTPUT*</b>		<b>155,488</b>	<b>94,162</b>		<b>138,365</b>
4. Other operating income	(3)	2,958	3,926	146	4,072
5. Cost of materials	(4)	42,693	30,205	–10,201	40,406
<b>GROSS INCOME*</b>		<b>115,753</b>	<b>67,883</b>		<b>102,031</b>
6. Personnel expenses	(5)	50,099	30,424	–13,333	43,757
7. Depreciation and amortization		25,007	20,254	–2,304	22,558
8. Other operating expenses	(6)	33,468	26,751	–10,559	37,310
<b>OPERATING RESULT*</b>		<b>7,179</b>	<b>–9,546</b>		<b>–1,594</b>
9. Net interest income	(7)	–3,629	–2,672	383	–2,289
10. Other financial results	(7)	–164	912		912
<b>FINANCIAL RESULT*</b>		<b>3,793</b>	<b>–1,760</b>		<b>–1,377</b>
<b>EARNINGS BEFORE TAXES*</b>		<b>3,386</b>	<b>–11,306</b>		<b>–2,971</b>
11. Tax result	(8)	–3,718	4,667	–2,355	2,312
12. Consolidated net loss for the year		–332	–6,639		–659
13. Minority interests		40	0		0
14. Consolidated net profit/loss for the year after minority interests		<b>–372</b>	<b>–6,639</b>		<b>–659</b>
<b>EARNINGS per share:</b>	(24)	<b>Euro –0.03</b>			

\* Notwithstanding what is posted in the audited consolidated financial statements, sub-total are also shown.

	<b>Q4**</b> Jan. 1–Dec. 31, 2006	<b>Q4**</b> Jan. 1–Dec. 31, 2005
	Euro thousand	Euro thousand
1. Revenues	35,838	31,885
2. Changes in inventory	–976	–3,508
	<b>34,862</b>	<b>28,377</b>
3. Other own work capitalized	4,036	–1,692
<b>TOTAL OUTPUT*</b>	<b>38,898</b>	<b>26,685</b>
4. Other operating income	1,178	1,898
5. Cost of materials	10,670	7,897
<b>GROSS INCOME*</b>	<b>29,406</b>	<b>20,686</b>
6. Personnel expenses	13,100	8,851
7. Depreciation and amortization	6,923	7,131
8. Other operating expenses	8,523	8,360
<b>OPERATING RESULT*</b>	<b>860</b>	<b>–3,656</b>
9. Net interest income	–687	–804
10. Other financial results	–655	313
<b>FINANCIAL RESULT*</b>	<b>–1,342</b>	<b>–4,147</b>
<b>EARNINGS BEFORE TAXES*</b>	<b>–482</b>	<b>–4,652</b>
11. Tax result	–1,274	1,018
12. Consolidated net loss for the year	–1,756	–3,129
13. Minority interests	35	0
14. Consolidated net profit/loss for the year after minority interests	<b>–1,791</b>	<b>–3,129</b>
<b>EARNINGS per share:</b>	<b>Euro</b> <b>–0.15</b>	

\* Notwithstanding what is posted in the audited consolidated financial statements, sub-total are also shown.

\*\* The quarterly values shown do not form part of the audited consolidated financial statements.

## // Statement of change in equity

FOR THE PERIOD JANUARY 1 THROUGH DECEMBER 31, 2006

FRANCOTYP-POSTALIA HOLDING AG, BIRKENWERDER

(FORMERLY FRANCOTYP-POSTALIA HOLDING GMBH, BIRKENWERDER)

	Subscribed capital	Capital reserves	Net profit	Total other shareholders' equity	Minority interests	Total
	Euro thousand	Euro thousand	Euro thousand	Euro thousand	Euro thousand	Euro thousand
<b>Balance on January 1, 2005</b>	<b>25</b>	<b>0</b>	<b>-3</b>	<b>0</b>	<b>0</b>	<b>22</b>
Capital increase	3,975	6,700	0	0	0	10,675
Currency translation differences	0	0	0	2,235	0	2,235
Natural hedges	0	0	0	-3,373	0	-3,373
Derivatives	0	0	0	350	0	350
Result Jan. 1–Dec. 31, 2005	0	0	-6,639	0	0	-6,639
<b>Balance on December 31, 2005</b>	<b>4,000</b>	<b>6,700</b>	<b>-6,642</b>	<b>-788</b>	<b>0</b>	<b>3,270</b>
<b>Balance on January 1, 2006</b>	<b>4,000</b>	<b>6,700</b>	<b>-6,642</b>	<b>-788</b>	<b>0</b>	<b>3,270</b>
Capital increases:						
From company funds	8,000	-6,700	-1,300	0	0	0
From initial public offering (see Notes no (15))	2,700	48,600	0	0	0	51,300
Expenses public offering (see Notes no (15))	0	-2,832	0	0	0	-2,832
Currency translation differences	0	0	0	-1,519	0	-1,519
Changes in consolidated companies (see Notes no (15))	0	0	0	0	7,314	7,314
Natural hedges (see Notes no (22))	0	0	0	3,697	0	3,697
Derivatives	0	0	0	-13	0	-13
Result Jan. 1–Dec. 31, 2006	0	0	-372	0	40	-332
<b>Balance on December 31, 2006</b>	<b>14,700</b>	<b>45,768</b>	<b>-8,314</b>	<b>1,377</b>	<b>7,354</b>	<b>60,885</b>

## // Consolidated cash flow statement

FOR THE PERIOD JANUARY 1 THROUGH DECEMBER 31, 2006

FRANCOTYP-POSTALIA HOLDING AG, BIRKENWERDER

(FORMERLY FRANCOTYP-POSTALIA HOLDING GMBH, BIRKENWERDER)

	Notes	Jan. 1– Dec. 31, 2006	Jan. 1– Dec. 31, 2005
		Euro thousand	Euro thousand
<b>1. Cash flows from operating activities</b>			
Net profit for the period		-332	-6,639
Depreciation fixed assets	(9)	25,007	20,254
Increase (+)/decrease (-) in accruals and deferred taxes	(16–18)	3,321	-4,222
Losses on the disposal of fixed assets	(2) (9)	807	939
Increase (-)/decrease (+) in inventories, trade receivables and other assets not attributable to investment or financing activities	(10–13)	-9,434	-1,760
Increase (+)/decrease (-) in trade payables and other liabilities not attributable to investment or financing activities	(19)	1,824	471
Other non-cash expenses and income		-909	1,574
<i>Cash flow from operating activities</i>		20,284	10,617
<b>2. Cash flows from investing activities</b>			
Capitalization of development costs	(9)	-4,462	-5,800
Cash received from disposals of fixed assets	(2)	244	204
Cash paid for investments in intangible assets	(9)	-1,125	-839
Cash paid for investments in fixed assets	(9)	-10,611	-5,884
Cash paid for corporate acquisitions	(23)	-9,675	-61,900
<i>Cash flow from investing activities</i>		-25,629	-74,219
<b>3. Cash flows from financing activities</b>			
Cash received from equity financing proceeds	(15)	51,300	10,675
Cash paid associated with IPO	(15)	-3,093	0
Cash received from taking out shareholder loans	(15)	0	13,925
Cash paid from the repayment of shareholder loans	(15)	-16,202	0
Cash received from the taking out bank loans	(19)	21,000	69,500
Cash paid from the repayment of bank loans	(19)	-6,455	-11,898
<i>Cash flow from financing activities</i>		46,550	82,202
<b>Cash and cash equivalents</b>			
Change in cash and cash equivalents		41,205	18,600
Change in cash and cash equivalents due to currency translation		158	739
Cash and cash equivalents at start of period		19,363	24
Cash and cash equivalents at end of period*	(14)	60,726	19,363

\* Including restricted cash of 19,741 thousand euros (year prior 17,429 thousand euros).

**// Change in intangible assets and fixed assets**

DATED DECEMBER 31, 2006 (IN EURO THOUSAND)

FRANCOTYP-POSTALIA HOLDING AG, BIRKENWERDER

(FORMERLY FRANCOTYP-POSTALIA HOLDING GMBH, BIRKENWERDER)

**COST BASIS**

	Carry- forward amt. Jan. 1, 2006	Additions acquisition	Currency differences	Additions	Disposals	Reclassifi- cations	Balance Dec. 31, 2006
<b>INTANGIBLE ASSETS</b>							
1. Intangible assets including customer lists	84,306	14,049	-456	4,940	5,563	4,700	101,976
2. Goodwill	0	26,034	0	0	0	0	26,034
3. Development projects in progress and advance payments	4,729	0	0	647	0	-4,710	666
<b>Total</b>	<b>89,035</b>	<b>40,083</b>	<b>-456</b>	<b>5,587</b>	<b>5,563</b>	<b>-10</b>	<b>128,676</b>
<b>FIXED ASSETS</b>							
4. Minimum lease payments for land, land rights and buildings	137	6	1	6	1	0	149
5. Technical equipment and machinery	3,103	1,526	-15	323	504	0	4,433
6. Other equipment, operating and office equipment	42,889	904	-188	2,278	13,537	253	32,599
7. Leased products	65,742	0	-6,677	6,772	3,172	0	62,665
8. Advance payments and assets under construction	197	0	0	722	4	-243	672
9. Assets under finance lease	1,300	1,201	0	510	0	0	3,011
<b>Total</b>	<b>113,368</b>	<b>3,637</b>	<b>-6,879</b>	<b>10,611</b>	<b>17,218</b>	<b>10</b>	<b>103,529</b>
<b>ASSETS</b>							
<b>Total</b>	<b>202,403</b>	<b>43,720</b>	<b>-7,335</b>	<b>16,198</b>	<b>22,781</b>	<b>0</b>	<b>232,205</b>



DEPRECIATION/AMORTISATION						BOOK VALUES	
Carry-forward amt. Jan. 1, 2006	Additions acquisition	Currency differences	Additions	Disposals	Balance Dec. 31, 2006	Dec. 31, 2006	Jan. 1, 2006
29,486	79	-273	16,092	5,335	40,049	61,927	54,820
0	0	0	0	0	0	26,034	0
0	0	0	0	0	0	666	4,729
<b>29,486</b>	<b>79</b>	<b>-273</b>	<b>16,092</b>	<b>5,335</b>	<b>40,049</b>	<b>88,627</b>	<b>59,549</b>
123	1	1	1	1	125	24	14
2,266	746	-14	188	333	2,853	1,580	837
34,402	382	-132	3,198	12,924	24,926	7,673	8,487
54,859	0	-5,657	5,170	3,137	51,235	11,430	10,883
0	0	0	0	0	0	672	197
634	71	0	358	0	1,063	1,948	666
<b>92,284</b>	<b>1,200</b>	<b>-5,802</b>	<b>8,915</b>	<b>16,395</b>	<b>80,202</b>	<b>23,327</b>	<b>21,084</b>
<b>121,770</b>	<b>1,279</b>	<b>-6,075</b>	<b>25,007</b>	<b>21,730</b>	<b>120,251</b>	<b>111,954</b>	<b>80,633</b>

## // NOTES to the consolidated financial statements for the fiscal year January 1 through December 31, 2006

FRANCOTYP-POSTALIA HOLDING AG, BIRKENWERDER  
(FORMERLY FRANCOTYP-POSTALIA HOLDING GMBH, BIRKENWERDER)

### I. INTRODUCTION

#### // General information

Francotyp-Postalia Holding AG, Birkenwerder, (hereinafter also referred to as "FP Group") is organized as a stock corporation. The headquarters of the corporation are located in Birkenwerder at Triftweg 21-26. FP Group consolidated financial statements for the fiscal year ended December 31, 2006 include FP Group and its subsidiaries (hereinafter also referred to as the FP Company).

Francotyp-Postalia has an eighty-year history as an organization operating internationally in the field of outgoing mail processing. The corporation operates a traditional product business involving primarily the development, production and distribution of postage meters and inserters in combination with after-sales business. The subsidiary freesort and majority stake in iab, both acquired last November, now give the Francotyp-Postalia Group the capability to offer customers in Germany sorting and consolidation services and hybrid mail products.

The Management Board approved last year's consolidated financial statements for release on May 10, 2006 in accordance with IAS 10.17.

#### // Declaration of conformity

FP Group produced its consolidated financial statements dated December 31, 2006 in accordance with the International Financial Reporting Standards (IFRS) and relevant interpretations released by the International Financial Reporting Interpretations Committee (IFRIC) effective as of the statement date. All mandatory directives issued by the International Accounting Standards Board (IASB) were observed.

The consolidated financial statements provide a true and fair view with respect to company net assets, finances and earnings. The conditions pursuant to Section 315a (3), HGB (German Commercial Code) have been met for exemption from the requirement of producing consolidated financial statements applying German accounting rules.

#### // Accounting standards

The FP Group December 31, 2006 consolidated financial statements were produced in accordance with International Financial Reporting Standards (IFRS) and the relevant interpretations released by the International Financial Reporting Interpretations Committee (IFRIC).

The requirements pursuant to standards effective through December 31, 2006 have been fulfilled without exception, thus conveying a true and fair view of the net assets, finances and earnings of the company.

The consolidated financial statements are produced in euro. All amounts are quoted in thousands of euros unless specified otherwise to afford better clarity and comparability. Minor differences may result from rounding of figures for individual positions and percentages. The consolidated balance sheet is structured using IAS 1 based on the principle of maturity. Balance sheet items are classified as short-term or long-term assets or liabilities. Assets and liabilities are classified as short-term if they are expected to mature or be sold as part of ordinary business operations in less than one year's time. Accordingly, assets and liabilities expected to mature or be sold as part of ordinary business operations in more than one year's time are classified as long-term. The cost of production method was applied in production of the income statement.

### **// Company foundation, fiscal year, change of legal organizational status and public offering**

Francotyp-Postalia was established in April 2005 in its present form through organizational restructuring following the acquisition of Francotyp-Postalia Group. Prior to April 20, 2005 the former Francotyp-Postalia AG and Co. KG, predecessor organization to Francotyp-Postalia GmbH, was the Group parent company. Today the Francotyp-Postalia Group is consolidated under the parent company Francotyp-Postalia Holding AG.

Due to the establishment of the corporation on April 20, 2005, the previous year's income statement only reflect income and expenses of the Group subsidiaries for the period from April 20 through December 31, 2005. As the income statements for 2006 and 2005 offer only limited comparability, a pro-forma column was added for the previous year's income statement depicting business results for the entire calendar year 2005. Data pertaining to the acquisition on April 20, 2005 are included as of that date and have not been adjusted.

All Group companies have used the calendar year as fiscal year since January 1, 2006.

The company was officially converted to a stock corporation, FP Group, on September 28, 2006 upon entry into the Commercial Registry maintained by the Local Court of Neuruppin under file number HRB 7549 pursuant to an August 11, 2006 shareholder resolution.

FP Holding AG shares were listed on the Prime Standard segment of the Frankfurt Stock Exchange on November 20, 2006, involving additional post-listing requirements. The shares began trading on November 30, 2006 under WKN identifier FPH900.

This initial public offering was for 8,375,465 shares priced at 19.00 euros, leading to total proceeds of approximately 159.1 million euros, representing 57% of the share capital of Francotyp-Postalia Holding AG. Sale of 2,700,000 shares offered on November 14, 2006 approved in an Extraordinary General Meeting generated gross proceeds for the company of 51.3 million euros in cash. In the capital increase resolution, the shareholders waived their subscription rights. Expenses in connection with the public offering totalled 4,519,000 euros, with 3,093,000 euros affecting payments in 2006. Of this amount, 2,832,000 euros was charged against capital reserves instead of earnings in the consolidated financial statements recognising deferred taxes of 1,687,000 euros.

### // Scope of consolidation

The FP Group consolidated financial statements include all companies whose financial and business policies could potentially be influenced in such manner that their operations benefit FP Company companies (subsidiaries).

Subsidiaries are incorporated into the consolidated financial statements from the date upon which FP Group acquires potential control. These companies are deconsolidated when such potential no longer exists.

The 2006 consolidated financial statements encompass 8 domestic and 8 international subsidiaries in addition to FP Group (see table below).

There is also a 49% equity stake in FP Data Center Inc., Japan, carried at cost on the consolidated financial statements. This concerns a Teleporto data center without its own staff. At-equity accounting was not performed in view of lacking material significance.

The 0.03% minority stake of Francotyp-Postalia N.V., Zaventem/Belgium with a carrying amount of 75.55 euros was not shown on the balance sheet due to reporting in thousand euros respectively the negligibility.

#### December 31, 2006

SEQ. NO.	COMPANY NAME AND HEADQUARTERS	SHAREHOLDING %
1	Francotyp-Postalia Holding AG, Birkenwerder, Germany	
2	Francotyp-Postalia GmbH, Birkenwerder, Germany	100.00
3	freesort GmbH, Düsseldorf, Germany	100.00
4	iab – internet access GmbH, Berlin, Germany	51.01
5	iab-Verwaltungs- und Vertriebs GmbH, Berlin, Germany 36.99% held by no. 1 63.01% held by no. 4	100.00
6	FP Direkt Vertriebs GmbH, Birkenwerder, Germany	100.00
7	Francotyp-Postalia Vertrieb und Service GmbH, Birkenwerder, Germany	100.00
8	FP International GmbH, Birkenwerder, Germany	100.00
9	FP Hanse GmbH, Bremen, Germany	100.00
10	Francotyp-Postalia N. V., Zaventem, Belgium	99.97
11	Francotyp-Postalia (Österreich) Ges. m. b. H., Vienna, Austria	100.00
12	Ruys Handelsvereniging B. V., Den Haag, Netherlands	100.00
13	Italiana Audion s. r. l., Milan, Italy	100.00
14	Francotyp-Postalia Ltd., Dartford, UK	100.00
15	Francotyp-Postalia Inc., Lisle, Illinois, USA	100.00
16	Francotyp-Postalia Canada Inc., Markham, Canada	100.00
17	FP/GPS Assembly PTE Ltd., Singapore	55.00

### **// Changes and additions to the Group of consolidated companies**

FPGPS Assembly Pte. Ltd, Singapore ("FP/GPS"), established January 16, 2006, was included in the consolidated financial statements for the first time this reporting period. Francotyp-Postalia GmbH holds a 55% stake in this newly founded firm. The company fulfilled its obligation to pay in SGD 55 thousand in cash. FP/GPS Assembly Pte. Ltd, Singapore posted revenues of SGD 2,147 thousand for fiscal year 2006, a positive operating result of SGD 4 thousand, and is now to be included in the Group of consolidated companies going forward.

FP Group acquired a 51.01% stake in iab Internet Access GmbH ("iab") on November 8, 2006 and a 36.99% stake in iab-Verwaltungs- und Vertriebs GmbH (abbr. "iabV"), both headquartered in Berlin. iab directly holds the remaining 63.01% of equity in iab-Verwaltungs- und Vertriebs GmbH. The company also has long-term preemptory purchase rights for the other 48.99% of iab shares through December 31, 2017. The sale price was set at 5,000 thousand euros, increasing by 2,500 thousand euros if iab and iabv together should achieve certain revenue or other targets specified in the iab share purchase agreement in one of the fiscal years 2006 through 2008. As of the consolidated financial statement date, the FP Group Management Board believes these quantitative targets were obtained in 2006.

The initial consolidation of iab and iabv thus reflected a sale price of 7,500 thousand euros.

Ancillary acquisition costs totaled 123 thousand euros. The companies are fully incorporated into the consolidated financial statements. Minority interests in the equity and earnings of iab are shown on the balance sheet under equity and on the income statement respectively.

FP Group also acquired an option to purchase all shares of freesort GmbH (abbr. "freesort") headquartered in Düsseldorf, from Freelog Limited, St. Julians/Malta in a deal dated August 7, 2006 and subsequently exercised on November 10, 2006. The sale price was set at a maximum 10% of the net proceeds to existing shareholders less 10% of the sale price specified in the iab share purchase agreement, subject to obtainment of earn-out targets. The net financial debt of FP (excluding freesort) and of freesort also flowed into calculation of the sales price, which ultimately came to 19,550 thousand euros. Other acquisition-related expenses accrued in the amount of 117 thousand euros. This subsidiary is fully consolidated in the consolidated financial statements.

The acquisition of freesort and a 51% stake in iab in November 2006 serve to expand FP's traditional franking machine and inserter businesses, adding sorting, consolidation and outsourcing services as well as hybrid mail products.

Neither of the companies acquired carried contingent liabilities as of the acquisition or statement dates.

Consolidated revenues per IFRS 3.70a would total 147,126 thousand euros. Computation in accordance with IFRS 3.70b effectively cannot be performed.

The two acquisitions negatively impacted Group earnings for 2006 by the total amount of 292 thousand euros, representing a net loss of 443 thousand euros for freesort and net profits for iab and FP/GPS of 272 thousand euros and 34 thousand euros respectively. After deferred taxes in connection with the depreciation of customer lists and soft-

were purchased, freesort contributed 56 thousand euros and iab 193 thousand euros to Group earnings. iab earnings in the amount of 94 thousand euros were imputable to minority interests.

### // Principles of consolidation

Capital consolidation was carried out uniformly in accordance with the purchase method. In accordance with this method, for first-time consolidation as part of a revaluation of the fair value, all undisclosed reserves and undisclosed encumbrances acquired by the company are disclosed and all identifiable intangible assets are reported separately. The purchase costs of the participations are then offset against the newly evaluated equity. Amounts in excess of this are capitalized as goodwill.

During the initial consolidation of iab and freesort carried out on 8 and 10 November respectively, the assets and debts taken over were re-evaluated in accordance with IFRS 3.36 et seq.

Receivables, liabilities and/or provisions between consolidated companies are offset, as well as Group-internal revenue and other income/expenses. Intercompany profits involving Group-internal receivable/payables – representing material amounts – are adjusted and charged to/against earnings. Deferred taxes are charged against income recognized through consolidation at the average income tax rate for the Group company recognizing said income.

See the section “Accounting standards” for additional information concerning accounting rules applied.

### // Currency translation

The accounting currency of the FP Company is euros.

Foreign currency transaction data reported on the single-entity financial statements of FP Group and its subsidiaries is converted at the applicable exchange rate as of the relevant transaction date. Foreign currency balances are carried at the applicable exchange rate as of the statement date. Translation differences are recognized as/charged against income reported under financial result on the income statement of the respective Group company concerned.

Foreign companies belonging to the FP Company represent independent units which produce their own individual financial statements based on the applicable local currency. IAS 21 is applied with regard to the currency translation of financial statement figures.

In the consolidated financial statements, long-term assets and liabilities, but not equity, are converted into euro-denominated amounts as of the statement date. The equity of subsidiaries using non-euro accounting currencies is converted using the applicable store called exchange rates. Effects resulting from the currency translation of equity are shown under currency translation reserves. Items on the income statement are converted using weighted monthly average exchange rates. Differences in amounts resulting from currency translation at different rates for the balance sheet and income statement are taken directly to equity.

The exchange rates listed below have been applied for currency translation:

1 EURO =	STATEMENT DATE		AVERAGE EXCHANGE RATE	
	Dec. 31, 2006	Dec. 31, 2005	2006	2005
US dollar (USD)	1.3203	1.1834	1.2562	1.23979
British pound (GBP)	0.6743	0.6870	0.6820	0.68324
Canadian dollar (CAD)	1.5399	1.3769	1.4250	1.50139
Singapore dollar (SGD)	2.0260	1.9730	1.9956	n/a

### // Accounting policies

In producing the annual financial statements, the Management Board assumed the continuation of all companies incorporated within the consolidated financial statements as going concerns.

**Revenue** and **other operating income** are recognized upon the rendering of services or delivery of goods/products, i.e. upon transfer of benefits and risks associated therewith to the buyer. Revenue is reported net of any discounts, allowances, customer bonuses or rebates. **Interest** is recognized as expense or income as accruing.

**Goodwill** carried represents the historical cost of the acquisitions freesort and iab in excess of the fair value of the equity stake held by the Group in the net assets of these acquired firms as of the transaction date. The carrying value of goodwill is subject to annual impairment testing involving a present value determination of earnings based on five-year projections provided by Management.

**Intangible assets purchased** are carried at historical cost factoring in ancillary costs and cost reductions and depreciated using the straight-line method over a useful life of five to six years. Customer lists, capitalized development costs and the SAP system capitalized the previous year are written down over a five-year period.

**Customer lists** were revalued at 38,703 thousand euros in connection with the organization of the Group on April 20, 2005. Customer lists for freesort and iab were valued at 2,670 thousand euros and 1,421 respectively, forming part of the sale price. As of December 31, 2006, customer lists represent a total carrying amount of 29,538 thousand euros.

Customer lists are valued using an income-based method based on discounted income streams generated by the customer lists. Cost of sales was deducted from the projected additional income to be generated through the use of these customer lists.

**Software** acquired in connection with the freesort and iab acquisitions was valued at 600 thousand euros and 9,238 thousand euros respectively as of the initial consolidation date for these companies. The capitalization of income method was also applied in this case. As of the December 31, 2006 statement date, the residual carrying amounts for this software were 583 thousand euros and 8,964 thousand euros respectively.

**Development costs** for internally generated intangible assets were capitalized at cost to the extent the manufacture of such products is likely to be of a commercial utility to the FP Company, is technically feasible and such cost can be reliably determined. Development costs represent any expenses incurred in direct relation to the development process. If the conditions for capitalization have not been met, expenses are charged against income in the year accrued. Capitalized development costs are depreciated on a straight-line basis as of the start of commercial manufacture of the products concerned over their projected useful life, up to a maximum five years. Research costs are expensed in the period they occur in line with IAS 38.

Research and development costs accrued in fiscal year 2006 totaling 12,004 thousand euros, of which 4,462 thousand euros was capitalized and 7,542 thousand euros expensed.

In the consolidated income statement for the year prior, development expenses corresponding to capitalized development costs were not shown as **own work capitalized**, but rather broken down by expense type, e.g. personnel, materials and other operating expenses. In contrast, development expenses are shown as own work capitalized (gross) in the consolidated income statement for fiscal year 2006 under additions to Long-term assets.

**Fixed assets** are carried at cost less scheduled useful-life depreciation. Historical cost represents acquisition cost plus ancillary and subsequent acquisition costs. Price reductions affecting acquisition cost are reflected in the carrying value. The production cost of internally generated fixed assets (rented/leased postage meters and accessories) includes all direct and overhead costs accruing in connection with the production process. Financing costs for the period of production are not factored in. Maintenance and repair costs for fixed assets are expensed. Property, plant and equipment with limited useful lives are regularly depreciated using the straight-line method.

Scheduled depreciation generally involves the following useful life periods:

FIXED ASSETS	USEFUL LIFE
Buildings	max 40 years
Technical equipment and machinery	max 15 years
Operating and office equipment	max 10 years
Leased products	max 5 years
Assets under finance lease	max 5 years



An impairment of intangible assets and fixed assets is recognizable pursuant to IAS 36 when the recoverable amount, i.e. the higher of value in use of the asset concerned and net sale proceeds, has fallen below the carrying value. If the recoverable amount cannot be estimated for a specific asset, the recoverable amount of the cash flow generating unit is estimated to which the asset belongs. Recoverable amount and carrying value are then compared for the cash flow generating unit. Impaired assets may be written up again in value should the circumstances no longer apply for which impairment was recognized.

**Investments** are carried at cost. Low or non-interest bearing **loans** are carried at present value, other loans at nominal value.

**Inventories** are valued on the statement date at the lower of cost or net realizable value. The cost of raw materials and supplies and goods reflects acquisition cost plus ancillary and subsequent acquisition costs less price reductions. The cost of finished goods and work in progress reflects production process overhead in addition to direct costs and appropriate depreciation of production equipment assuming normal capacity utilization. Financing costs for the period of production are not factored in. The net realizable value represents estimated sales proceeds obtainable under normal business conditions less production costs still necessary and transaction costs. Depreciation of inventory assets recorded for the fiscal year is shown under cost of materials.

**Financial assets** are organized into the following categories:

- \_ Financial assets at fair value impacting earnings
- \_ Loans and receivables
- \_ Financial assets available for sale.

Classification is according to the purpose for which the financial assets were acquired. Management determines the classification of financial assets upon initial recognition and reviews this for every reporting date.

Assets in the first and last categories mentioned above are carried at fair value. Other assets are carried at amortized cost.

**Receivables and other assets** are adjusted in value accordingly to reflect all known, specific risks. Individual accounts receivable are written down given objective indications that the amounts receivable may not be collectible in full. Write-down amounts are determined as the difference between the carrying value of the receivable account and the present value of estimated future cash flows from the account. Write-downs are charged against income.

**Cash and cash equivalents** includes all liquid funds such as cash on hand, checks and bank balances.

Additional capital paid in by shareholders is allocated to **capital reserves**. Expenses accruing in direct connection with the FP Holding AG initial public offering were deducted from capital reserves in line with IAS 32.35.

**Accruals for pensions** are created using the projected unit credit method on the basis of actuarial data in line with IAS 19. This method factors in projected future increases in pensions and salaries based on careful analysis of the relevant factors in addition to pensions and pension claims existing as of the statement date. Only accruals for pensions exceeding or falling below the amount of pension obligations by 10% are recognized as income or expenses. Such amounts are distributed over the projected average remaining years of service of company personnel. Accrued interest expenses on pension obligations are reported under interest expense. A rate of 4.6% was applied to almost all obligations at fiscal yearend 2006.

Multi-employer pension plans for which there is insufficient information available to perform regular defined benefit plan accounting are accounted for in similar fashion as defined contribution plans in line with IAS 19.

**Other accruals** are created for uncertain obligations to third parties, the incurrence of which will likely result in a charge against assets and the necessary amount of which can be reliably estimated. These are carried at the projected fulfillment amount in view of all identifiable risks pertaining thereto. Long-term provisions are carried at present value.

Multiple similar obligations are grouped together to determine the probability of assets being affected. Provision liabilities are recognized even if the probability of assets being affected is low with regard to any specific obligation comprising such a group.

Severance benefits may be payable upon employees terminating the employment relationship, being let go prior to reaching retirement age, or voluntarily ending service by accepting a severance offer. The Group recognizes severance benefits to which it is demonstrably obligated in connection with the termination, voluntary or otherwise, of current employees on the terms of specific, formalized and irrevocable agreements. Italiana Audion creates provisions for severance payments due upon the departure of employees.

The Group creates provisions for profit sharing and bonuses payable under contract or constructively payable on the basis of past business practices.

Provisions for service anniversary bonuses are created applying the mandatory projected unit credit method for additional obligations accruing annually, taking account of projected trends.

**Liabilities** are carried at amortized cost. Finance leasing liabilities are shown at the present value of lease payments.

**Deferred taxes** are measured and accounted for in line with IAS 12 using the liability method based on the tax rate applicable at the time of realization. According to this method, deferred taxes are to be recognized for any temporary differences between valuations for tax purposes and their corresponding values reported in the consolidated financial statements.

Deferred tax receivables are recognized for any taxable income to which temporary differences will probably apply. Deferred tax assets were recognized for usable tax loss carryforwards likely to be realized in the future. Deferred tax assets offset deferred tax liabilities whenever the tax creditor is identical and the dates match.

### // Accounting for lease contracts with Francotyp-Postalia as lessor

IAS 17 defines a lease contract as an agreement by which the lessor conveys to the lessee the right to use a specific asset for a specific period of time in return for a single payment or multiple payments.

The renting/leasing of postage meters by German FP companies as lessor qualifies as **finance leasing**. IAS 17 requires that tangible assets rented/leased under contract are not to be carried as fixed assets if the conditions are met to constitute finance leasing, i.e. that material risks and opportunities associated with use of such assets be transferred to the lessee. With finance leasing, a receivable is recognized in the amount of the present values of lease payments upon signing of the contract. Lease payments are broken down into principal and interest portions. The principal portion reduces the amount of receivables without affecting income, while the interest portion is recognized as income.

Finance leasing by German FP companies concerns postage meters and inserters leased to customers. These are standardized contracts involving full amortization exclusively. Both new and used machines are leased under finance leasing contracts.

Leasing of postage meters by other FP companies is classified as **operating leasing**, as these contracts provide that economic ownership is retained. Leased machines are thus carried as Long-term assets.

### // Accounting for lease contracts with Francotyp-Postalia as lessee

Sale and lease-back contracts to FP Ges. m. b. H., Vienna/Austria as lessee also qualify as **finance leasing**. As FP GmbH, Vienna/Austria has effective economic ownership of the leased items, these are shown as assets under finance lease under Long-term assets. A noncurrent liability is simultaneously recognized.

**Operating leases** have been concluded for leased real estate, vehicles and office equipment. The contracts have durations shorter than 75% of the useful commercial life of the leased items, some of which involve extension options and price adjustment clauses. These lease contracts are treated as normal rental contracts.

### // Hedging policy and risk management

The FP Company is exposed to a number of financial risks through its business operations including currency fluctuations, interest rate changes and default. The main Group risk management system takes account of the unpredictability of financial markets, being designed to minimize any negative impact on Group earnings. The Group utilizes certain financial instruments to achieve this result, typically to hedge existing or planned transactions.

Internal corporate policies outline the scope of activity, responsibilities, reporting and control mechanisms involved with regard to financial instruments. These include the functional separation of accounting and monitoring. Currency, interest rate and liquidity risks affecting the FP Company are managed centrally.

**\_ 1. CURRENCY RISK**

Currency risks arising from expected future income denominated in US dollars are hedged by virtue of being appropriated to retire a US dollar-denominated loan taken out April 20, 2005.

**\_ 2. INTEREST RATE RISK**

The Group has hedged approximately 70% of outstanding loan balances against interest rate risks under the primary borrowing agreement concluded with its financing banks, in accordance with agreement provisions.

The first interest rate swap transaction in USD with a nominal amount of USD 34,789 thousand was conducted on May 19, 2005, expiring June 30, 2010. The Group effected this interest rate swap transaction to exchange payments at variable 6-month Libor interest for a fixed 4.29% annual rate. The second interest rate swap transaction in USD with a nominal amount of USD 16,318 thousand was effected on May 19, 2005, expiring September 30, 2010, in which the Group swapped payments at variable 6-month Libor interest for a fixed 4.46% annual interest rate. The market values of these instruments are determined on the basis of the counterparty prices quoted on the statement date.

On June 30, 2006 the remaining balances were hedged through two cap transactions limiting the maximum interest rate on the amounts 7,744 thousand euros and 12,000 thousand euros to 3.50% p.a. and the 6-month EURIBOR respectively. Premiums totaled 335 thousand euros. There is no direct interest rate risk prior to expiration of these hedging transactions (4 and 5 years).

**\_ 3. DEFAULT RISK**

The maximum default risk in the event a counterparty should be unable to meet payment obligations is limited to the value of the relevant financial assets irrespective of any hedging. Credit information/references or historical business data must be obtained, particularly concerning payment history, to minimize default risks in connection with primary financial instruments and to determine the type and amount of hedging required. In addition to obtaining credit insurance on accounts receivable, individual receivables are written down for any identifiable default risk in order to manage overall Group credit risk.

**\_ 4. LIQUIDITY RISK**

The Group addresses liquidity risk through projections based on specific planning horizons performed for the entire Group and for specific, existing credit lines.

**\_ 5. VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments are carried at fair value. The effective portion of gains/losses resulting from changes in the fair value of derivatives for hedging US dollar cash flows constituting qualified hedges are taken to equity.

Change in fair value of derivatives not qualifying for hedge accounting are taken directly to income on the income statement.

**// Management estimates and assessments**

In producing the consolidated financial statements, it is necessary to make a number of assumptions and estimates with respect to amounts reported for assets, liabilities, income and expenses for the period under review. Assumptions and estimates primarily concern the valuation of intangible assets, the uniform application of useful lives of fixed assets Group-wide, the valuation of finance leasing receivables, the collectibility of receivables and the creating of and accounting for provisions. The premises underlying assumptions and estimates reflect the state of current information and awareness at the time of production of the consolidated financial statements, in particular as regards projected future business results and the global economic and industry outlook characterized as realistic. Actual figures may vary from original projections due to circumstances beyond the control of Management. Such underlying premises are revised and carrying values of assets and liabilities adjusted as necessary whenever actual developments are out of line with expectations.

As of the consolidated financial statement date, the assumptions and estimates made appeared valid, indicating that no material revision of the carrying values of assets and liabilities shown on the consolidated financial statements will likely be necessary in the subsequent fiscal year.

## II. SEGMENT REPORTING

### SEGMENT DATA BY REGION

Euro thousand	A	B	C	OTHER REGIONS	TOTAL
	GERMANY	US/CANADA	EUROPE (EX- GERMANY)		
<b>Revenue</b>					
_ with external parties	58,331	43,706	39,900	993	142,930
_ intercompany revenue	23,199	19,287	17,110	1,778	61,374
<b>Operating result</b>	9,813	7,216	4,724	1	21,754
_ including depreciation of	9,947	6,246	1,140	0	17,333
_ including additions to accruals	5,942	1,583	2,310	0	9,835
<b>Assets</b>	319,607	40,348	21,919	1,861	383,735
<b>Investments</b>	13,258	11,679	2,368	9	27,314
<b>Liabilities</b>	5,617	1,954	802	140	8,513

**RECONCILIATIONS**

<b>REVENUE</b>	
Revenue for segments A–C	201,533
Other revenue	2,771
	<u>204,304</u>

Less inter-segment revenue	61,374
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<b>Revenue per statement</b>	<b>142,930</b>
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<b>OPERATING RESULT</b>	
Operating results for segments A–C	21,753
Other operating results	1
	<u>21,754</u>

Less inter-segment operating result	14,575
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Group operating result	7,179
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Net interest income	–3,629
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Other financial result	–164
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Tax result	–3,718
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<b>Consolidated net loss for the year per statement</b>	<b>–332</b>
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<b>ASSETS</b>	
Assets for segments A–C	381,874
Other assets	1,861
	<u>383,735</u>

Effect on consolidated level	–180,056
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<b>Assets per statement</b>	<b>203,679</b>
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<b>INVESTMENTS</b>	
Investments for segments A–C	27,305
Other investments	9
	<u>27,314</u>

Effect on consolidated level	31,325
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<b>Investments per statement</b>	<b>58,639</b>
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<b>DEPRECIATION AND AMORTIZATION</b>	
Depreciation and amortization for segments A–C	17,333
Other write-downs	0
	<u>17,333</u>

Effect on consolidated level	7,674
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<b>Depreciation and amortization per statement</b>	<b>25,007</b>
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<b>ADDITIONS TO PROVISIONS</b>	
Additions to provisions for segments A–C	9,835
Other additions to provisions	0
	<u>9,835</u>

Effect on consolidated level	0
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<b>Additions to provisions per statement</b>	<b>9,835</b>
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<b>LIABILITIES</b>	
Liabilities for segments A–C	8,373
Other liabilities	140
	<u>8,513</u>

Effect on consolidated level	0
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<b>Liabilities per statement</b>	<b>8,513</b>
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### BUSINESS SEGMENTS

The FP Company has now begun reporting events broken down into secondary segments (Mailroom and Mailstream). These segments are discussed in the Management Report.

The Group views this manner of presentation as meaningful because the two business segments are able to operate independently.

Further breakdown into Mailroom product sub-segments does not appear productive however, as individual product types (postage meters, Teleporto, etc.) are highly interdependent.

The companies operating in the Mailstream segment were only consolidated into the FP Company in November 2006, which accounts for their low percentage of earnings reportable for 2006. The Group anticipates the Mailstream segment to contribute substantially to overall earnings going forward.

The table below presents financial data for the respective segments:

Euro thousand	A	B	C	
	GERMANY	US/CANADA	EUROPE (EX-GERMANY)	OTHER REGIONS
<b>Mailroom</b>				
(a) Revenue	80,053	62,993	57,010	2,771
(b) Assets	313,405	40,348	21,919	1,861
(c) Investments	12,058	11,679	2,368	9
<b>Mailstream</b>				
(a) Revenue	1,477	0	0	0
(b) Assets	6,202	0	0	0
(c) Investments	1,199	0	0	0

Transfer prices applied in accounting for Group-internal sales are based on market rates.



### III. NOTES ON THE CONSOLIDATED PROFIT AND LOSS STATEMENT

#### (1) REVENUE

Group revenue breaks down as follows:

	EXTERNAL REVENUE		INTERCOMPANY REVENUE		TOTAL REVENUE	
	2006	Apr. 20– Dec. 31, 2005	2006	Apr. 20– Dec. 31, 2005	2006	Apr. 20– Dec. 31, 2005
<b>Euro thousand</b>						
Germany	58,331	40,051	23,199	17,970	81,530	58,021
US and Canada	43,706	25,304	19,287	9,168	62,993	34,472
Miscellaneous	40,893	25,669	18,888	8,738	59,781	34,407
Consolidations	0	0	-61,374	-35,876	-61,374	-35,876
<b>Total</b>	<b>142,930</b>	<b>91,024</b>	<b>0</b>	<b>0</b>	<b>142,930</b>	<b>91,024</b>

#### (2) OWN WORK CAPITALIZED

	2006	Apr. 20– Dec. 31, 2005
<b>Euro thousand</b>		
Capitalized development costs	4,462	0
Leased machines	6,758	2,982
<b>Total</b>	<b>11,220</b>	<b>2,982</b>

Capitalized development costs were not shown as own work capitalized last year totaling 5,800 thousand euros, but instead under the respective expense categories.

**(3) OTHER OPERATING INCOME**

Euro thousand	2006	Apr. 20–Dec. 31, 2005
Income from the reversal of provisions	1,057	482
Costs passed on to others	431	836
Currency gains	239	0
Carrying amount of receivables	131	274
Investment allowances	84	3
Investment allowances the sale of assets	42	204
Miscellaneous income	974	2,127
<b>Total</b>	<b>2,958</b>	<b>3,926</b>

**(4) COST OF MATERIALS**

Euro thousand	2006	Apr. 20–Dec. 31, 2005
Cost of raw materials and supplies	33,393	21,656
Cost of purchased services	9,300	8,549
<b>Total</b>	<b>42,693</b>	<b>30,205</b>

**(5) PERSONNEL EXPENSES**

Euro thousand	2006	Apr. 20–Dec. 31, 2005
Salary and wages	42,381	25,161
Social security contributions	6,731	4,381
Pensions and other benefits	987	882
<b>Total</b>	<b>50,099</b>	<b>30,424</b>

Breakdown of defined benefit pension commitments:

Euro thousand	2006	Apr. 20–Dec. 31, 2005
Pension benefits accruing during the fiscal year	581	128
Interest expense	490	352
<b>Total</b>	<b>1,071</b>	<b>480</b>

**(6) OTHER OPERATING EXPENSES**

<b>Euro thousand</b>	<b>2006</b>	<b>Apr. 20–Dec. 31, 2005</b>
Commissions	5,650	5,853
Rental/lease	4,862	3,706
Packing and shipping	2,460	1,387
Charges, fees, consulting	1,923	3,650
Communications and postage	1,875	1,421
Travel expenses	1,737	1,145
Repair and maintenance	1,520	1,062
Marketing	1,485	1,505
Patent and licensing costs	1,374	913
Personnel-related costs	1,264	806
Outsourced IT services	1,234	590
Carrying amount of receivables	916	1,010
Warranty-related third-party charges	867	2,239
Office supplies	630	477
Miscellaneous	5,671	987
<b>Total</b>	<b>33,468</b>	<b>26,751</b>

The expenses arising from the issue of new shares totalled 4,519 thousand euros. Taking the tax effect of 1,687 thousand euros into consideration, these expenses were reported as a deduction from the capital reserves totalling 2,832 thousand euros. Expenses arising from the previous year's commissions were adjusted using a detailed presentation method. Provision expenses for the year prior were adjusted in view of accounting changes.

**(7) FINANCIAL RESULT**

<b>Euro thousand</b>	<b>2006</b>	<b>Apr. 20–Dec. 31, 2005</b>
Income from other securities and loans of financial assets	1	2
Other interest and similar income	<b>2,119</b>	<b>1,408</b>
from finance leasing	897	847
from bank balances	993	436
from third parties	229	125
Interest and similar expenses	<b>5,749</b>	<b>4,082</b>
liabilities to banks	3,608	2,536
liabilities to shareholders	1,349	928
thereof interest from addition to the pension provision	490	352
liabilities to third parties	302	266
<b>Net interest income</b>	<b>-3,629</b>	<b>-2,672</b>
<b>Other financial income</b>	<b>1,126</b>	<b>916</b>
<b>Other financial expenses</b>	<b>1,290</b>	<b>4</b>
<b>Total</b>	<b>-3,793</b>	<b>-1,760</b>

**(8) TAXES**

Tax expenses break down as follows:

Euro thousand	2006	Apr. 20–Dec. 31, 2005
Current tax expenses	4,722	1,135
Deferred tax expenses	4,425	2,212
<b>Income tax</b>	<b>9,147</b>	<b>3,347</b>
Other taxes	40	193
<b>Total</b>	<b>9,187</b>	<b>3,540</b>

Deferred taxes were computed using the applicable country-specific rates (37.34 – 39.90% for Germany; international 25% – 40%). As FP Group is organized as a stock corporation, the average tax rate for German companies includes both trade income tax and corporation tax including the solidarity surcharge. Foreign income tax is computed in accordance with applicable law and regulations in force in the respective individual countries.

Deferred tax income of 5,469 thousand euros was reported, for a tax result of 3,718 thousand euros. Deferred tax income concerns temporary differences between IFRS and tax accounting (5,291 thousand euros) and capitalization of a loss carryforward (178 thousand euros).

Actual income tax expenses of 3,718 thousand euros (versus 4,667 thousand euros for 2005) are 2,764 thousand euros higher (2005: 507 thousand euros) than projected income tax expenses of 954 thousand euros (2005: projected tax expense of 4,160 thousand euros) arrived at by applying the Group income tax rate to Group net pre-tax profit for the period. The Group income tax rate is calculated as the average of individual FP company tax rates weighted according to the percentage of Group profit represented. Domestic and international losses incurred in 2006 reduced the average Group tax rate on Group pre-tax profit to 28.5%.

Euro thousand	2006	Apr. 20–Dec. 31, 2005
<b>Pre-tax Group profit</b>	<b>3,386</b>	<b>-11,305</b>
Projected tax expense (projected tax income for previous year) (28.5%; PY: 36.8%)	965	-4,160
Tax effect of non-deductible expenses and non-taxable income	219	378
Other variations	2,534	-885
Actual tax expense	<b>3,718</b>	<b>-4,667</b>
<b>Tax rate in %</b>	<b>111.2</b>	<b>41.3</b>

Tax expenses and tax income derive entirely from operating activities. Other variations between actual and projected tax expense primarily concern an amount of 1,919 thousand euros representing the tax-neutral booking of cash flow hedges, as these neither impact the commercial or tax result for the period.

## IV. NOTES TO THE CONSOLIDATED BALANCE SHEET

### (9) LONG-TERM ASSETS

The change in individual items under Long-term assets for the period under review is presented in the statement of changes in assets on page 56. Intangible assets acquired for a fee are shown on the balance sheet and statement of changes in assets along with internally generated intangible assets concerning development costs exclusively.

**Intangible assets** carried at 61,927 thousand euros include in particular customer lists valued at 29,538 thousand euros stemming from corporate acquisitions, development costs of 9,570 thousand euros for internally generated intangible assets (including 666 thousand euros in progress) and a non-compete agreement signed last year valued at 2,250 thousand euros. freesort customer lists are valued at 2,594 thousand euros and iab customer lists at 1,379 thousand euros.

**Goodwill** of 26,034 thousand euros is comprised of 18,351 thousand euros for freesort and 7,683 thousand euros for iab. No impairments were recognized in consequence of testing.

Fixed assets includes leased products carried at 11,430 thousand euros (2005: 10,883 thousand euros) and assets under finance lease with FP Group as lessee, carried at 1,948 thousand euros (2005: 666 thousand euros). Assets under finance lease include leased machines under sale and lease-back agreements involving Francotyp-Postalia (Österreich) Ges.m.b.H., Vienna, Austria. freesort continues to report finance leasing items.

#### (10) FINANCE LEASING RECEIVABLES

Below is provided a reconciliation of future leasing income with finance leasing receivables:

Dec. 31, 2006 Euro thousand	TOTAL	REMAINING DURATION		
		< 1 year	1–5 years	> 5 years
Future lease payments	4,116	1,281	2,754	81
Interest portion	822	362	450	10
<b>Finance leasing receivables</b>	<b>3,294</b>	<b>919</b>	<b>2,304</b>	<b>71</b>

Dec. 31, 2005 Euro thousand	TOTAL	REMAINING DURATION		
		< 1 year	1–5 years	> 5 years
Future lease payments	3,528	2,754	774	0
Interest portion	54	0	54	0
<b>Finance leasing receivables</b>	<b>3,474</b>	<b>2,754</b>	<b>720</b>	<b>0</b>

#### (11) INVENTORIES

Euro thousand	Dec. 31, 2006	Dec. 31, 2005
Raw materials and supplies	7,428	7,283
Work/services in progress	1,668	1,847
Finished products and goods	9,062	7,650
Advance payments	104	83
<b>TOTAL</b>	<b>18,262</b>	<b>16,863</b>

Depreciation and amortization of inventories decreased in fiscal year by 280 thousand euros (2005: by 401 thousand euros) down to 7,083 thousand euros (2005: 7,363 thousand euros).

#### (12) TRADE RECEIVABLES

Trade receivables break down as follows:

Euro thousand	Dec. 31, 2006	Dec. 31, 2005
Trade receivables		
– Germany	6,465	4,179
Trade receivables		
– International	13,848	12,722
<b>Total trade receivable</b>	<b>20,313</b>	<b>16,901</b>

Write-downs were performed to appropriately reflect all identifiable specific risks. The impairment loss recognized for fiscal year was 372 thousand euros (2005: 701 thousand euros).

**(13) OTHER CURRENT ASSETS**

Euro thousand	Dec. 31, 2006	Dec. 31, 2005
Deferred payments	5,201	4,915
Tax refunds due	3,406	2,359
Miscellaneous assets	2,415	1,294
<b>TOTAL</b>	<b>11,022</b>	<b>8,568</b>

**(14) CASH AND CASH EQUIVALENTS**

Euro thousand	Dec. 31, 2006	Dec. 31, 2005
Bank balances	60,398	19,300
Checks and cash on hand	328	63
<b>TOTAL</b>	<b>60,726</b>	<b>19,363</b>

Availability is restricted for bank balances in the amount of 19,741 thousand euros (2005: 17,429 thousand euros), representing customer Teleporto balances on deposit which are redeemable on demand. A corresponding amount is posted under other liabilities.

**(15) EQUITY**

The statement of changes in equity is shown on page 54.

FP Group capital consists of share capital of 14,700 thousand euros and additional capital reserves of 45,768 thousand euros paid in by shareholders. Differences resulting from currency translation deriving from the financial statements of international subsidiaries and changes resulting from the valuation of interest rate swaps and cash flow hedges taken directly to equity are reported as total other equity.

Francotyp-Postalia Holding AG share capital currently totals 14,700 euros, consisting of 14,700,000 par value dividend-paying bearer shares. Each share entitles the holder to one vote at the Annual General Meetings. Share capital is fully paid-in.

Pursuant to an August 11, 2006 shareholder resolution subsequently entered into the Commercial Register on September 8, 2006, ordinary share capital of 4,000 thousand euros was increased by 8,000 thousand euros to 12,000 thousand euros, by converting reserves.

Pursuant to another shareholder resolution passed August 11, 2006 subsequently entered into the Commercial Register on September 28, 2006, the company was reorganized as a stock corporation under the corporate name Francotyp-Postalia Holding AG. The ordinary share capital of Francotyp-Postalia Holding GmbH totaling 12,000 thousand euros was converted into the share capital of Francotyp-Postalia Holding AG.

Pursuant to a November 14, 2006 shareholder resolution at the Extraordinary General Meeting, an increase in share capital of 12,000 thousand euros was authorized by a maximum 2,700 thousand euros up to a maximum 14,700 thousand euros through

the issuance of a maximum 2,700,000 new bearer shares without par value against cash, each share representing 1.00 euro of Company share capital. This increase was entered into the Commercial Register record of FP Group on November 29, 2006.

FP Group shareholders passed resolutions on October 16, 2006 authorizing 6.0 million euros in additional capital, amendment of the Articles of Association accordingly and a contingent increase in share capital by a maximum 6.0 million euros through the issuance of new individual bearer shares, each representing 1.00 euro of share capital. The Management Board was further authorized to issue warrants and convertible bonds allowing exclusion of subscription rights as per Section 186 (3), sentence 4 Stock Corporation Act (AktG), creating contingent capital and amending the Articles of Association accordingly. The company was authorized to purchase and sell its own shares pursuant to Section 71 (1), sentence 8 AktG in an amount up to 10% of Company share capital.

FP Group raised gross proceeds of 51,300 thousand euros through its initial public offering of 2,700,000 shares, 48,600 thousand euros of which was written to capital reserves representing funds from new shareholders. Expenses of 2,832 thousand euros (after deducting deferred taxes) accruing in connection with the share offering were charged against capital reserves.

Minority interests shows adjustment items of consolidated capital and gains/losses imputable to non-Group shareholders. Minority interests are shown under Group equity separate from parent company equity in line with IAS 27.33; the other shareholders of iab and FP/GPS hold 7,331 thousand euros and 23 thousand euros respectively.

#### **(16) ACCRUALS FOR PENSIONS AND SIMILAR OBLIGATIONS**

Defined benefit retirement plans are in place to provide pensions for employees. Pension commitment amounts are influenced by legal, tax and economic factors that vary from state to state, and are typically computed on the basis of employee length of service and salary. Commitments are financed through the creation of provisions.

Pursuant to a July 9, 1996 company agreement, all employees of German companies having begun service prior to January 1, 1995 are eligible for pension benefits. Pension benefits are only payable to employees with a minimum ten years of qualifying service. Employees above the general pay scale also are entitled to retirement pensions in accordance with the retirement pension policy for above-scale employees dated January 1986. Death benefits are payable to the surviving dependants of employees in accordance with the Framework Collective Agreement for Employees and the company agreement dated 30 December, 1975.

Accruals for pensions are created for commitments for the payment of retirement, disability and death benefits. Accruals for pensions are only created for defined benefit plan commitments guaranteeing employees specific benefits payable by the company.



An international subsidiary recognizes defined contribution plan commitments of 899 thousand euros accruing to 112 staff members (2005: 120). As the company has not been provided sufficient information by the fund company to perform accounting as for a defined benefit plan, a qualified estimate of the relevant amounts was made and provisions created accordingly. Expenses in connection with this type of plan totaled 400 thousand euros in fiscal year 2006.

The primary actuarial parameters applied are:

p. a.	Dec. 31, 2006	Dec. 31, 2005
Interest rate	4.60%	4.00%
Salary trend	2.50%	2.50%
Pension trend	1.75%	1.50%

These parameters concern employees in Germany, to whom nearly all pension commitments pertain.

Reconciliation of projected unit credits with accruals for pensions carried:

Euro thousand	Dec. 31, 2006	Dec. 31, 2005
Projected pension unit credits	12,591	12,265
Adjustment amount due to unrealized actuarial gains/losses	-690	-870
<b>Accruals for pensions</b>	<b>11,901</b>	<b>11,395</b>

Projected unit credits for pension commitments represent not expiring claims, without exception.

The change in accruals for pensions was as depicted below:

Euro thousand	2006	2005
Balance at beginning of period	11,395	11,430
Pension benefits accruing during the fiscal year	+581	+128
Interest expense	+490	+352
Pension benefits remitted	-565	-515
<b>Accruals for pensions</b>	<b>11,901</b>	<b>11,395</b>

**(17) PROVISIONS FOR DEFERRED TAXES AND TAXES**

Euro thousand	Dec. 31, 2006	Dec. 31, 2005
Deferred tax income	10,377	3,711
Current tax income	855	419
Other taxes	314	430
<b>Tax provisions</b>	<b>11,546</b>	<b>4,560</b>

The table below provides a breakdown of deferred tax assets and liabilities along with a net balance:

Euro thousand	Dec. 31, 2006			Dec. 31, 2005			2006 Change taken to income
	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance	
Long-term assets	3,866	14,733	-10,867	805	12,095	-11,290	423
Miscellaneous assets	1,691	691	-1,000	1,841	209	1,632	-632
Provisions	3,248	1,308	1,940	3,706	1,350	2,356	-416
Liabilities	147	224	-77	1,482	0	1,482	-1,559
Tax loss carryforwards	4,150	0	4,150	4,060	0	4,060	90
<b>Total</b>	<b>13,102</b>	<b>16,956</b>	<b>-3,854</b>	<b>11,894</b>	<b>13,654</b>	<b>-1,760</b>	<b>-2,094</b>

**(18) OTHER ACCRUALS**

	Starting balance Jan. 1, 2006	Currency difference	Used up	Written back	Added	Final balance Dec. 31, 2006
<b>Euro thousand</b>						
Personnel-related accruals	3,963	-11	1,945	234	3,475	5,248
Warranty related accruals	2,284	-101	1,401	0	527	1,309
Accruals for outstanding invoices	338	0	177	161	1,146	1,146
Accruals for equalization payments remitted to agents	713	-73	640	0	617	617
Accruals for losses resulting from orders	698	0	246	230	248	470
Accruals for auditing expenses	160	0	160	0	218	218
Accruals for inventor royalties	204	0	204	0	150	150
Miscellaneous accruals	3,758	-198	2,170	432	3,454	4,412
<b>Other accruals</b>	<b>12,118</b>	<b>-383</b>	<b>6,943</b>	<b>1,057</b>	<b>9,835</b>	<b>13,570</b>

Other accruals totaling 2,321 euros thousand (2005: 2,621 thousand euros) have remaining durations of greater than one year.

**Personnel related accruals** primarily represent service anniversary provisions, partial retirement scheme obligations, accrued vacation, bonuses and severance pay.

**Miscellaneous accruals** include provisions for process costs and auditing risks.

**(19) LIABILITIES**

Euro thousand	Dec. 31, 2006			Dec. 31, 2005		
	Total	Duration < 1 year	Duration > 1 year	Total	Duration < 1 year	Duration > 1 year
Liabilities to banks	72,001	5,119	66,882	60,410	4,544	55,866
Loans from other parties	106	6	100	0	0	0
Finance leasing liabilities	2,165	546	1,619	706	0	706
<b>Financial debts</b>	<b>74,272</b>	<b>5,671</b>	<b>68,601</b>	<b>61,116</b>	<b>4,544</b>	<b>56,572</b>
<b>Liabilities with related parties</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14,853</b>	<b>0</b>	<b>14,853</b>
Trade payables						
Trade payables to third parties	7,204	7,204	0	3,701	3,701	0
to related parties	0	0	0	34	34	0
<b>Trade payables</b>	<b>7,204</b>	<b>7,204</b>	<b>0</b>	<b>3,735</b>	<b>3,735</b>	<b>0</b>
Other liabilities						
taxes	2,353	2,353	0	2,656	2,656	0
<i>(there of tax income)</i>	<i>(521)</i>	<i>(521)</i>	<i>(0)</i>	<i>(1,465)</i>	<i>(1,465)</i>	<i>(0)</i>
Social security	219	219	0	734	734	0
from Teleporto	19,741	19,741	0	17,429	17,429	0
due to employees	693	693	86	768	768	0
deriving from acquisitions	16,773	16,773	0	0	0	0
deriving from deferred items	12,278	12,278	0	14,281	14,216	65
Miscellaneous liabilities	1,936	1,710	141	1,616	1,497	119
<b>Other liabilities</b>	<b>53,993</b>	<b>53,767</b>	<b>227</b>	<b>37,484</b>	<b>37,300</b>	<b>184</b>
<b>Total</b>	<b>135,469</b>	<b>66,642</b>	<b>68,828</b>	<b>117,188</b>	<b>45,579</b>	<b>71,609</b>

Liabilities due to banks in the amount of 42,077 euros thousand and finance leasing liabilities in the amount of 182 thousand euros have remaining durations of over 5 years.

Liabilities due to banks represents financing through BNP Paribas S.A., Frankfurt am Main branch, primarily in connection with the FP Company IPO. Subsequent to this successful public offering, buyout-related loans and an acquisition and capital expenditure line were consolidated into a credit facility for a maximum 78,000 thousand euros. There is additionally a long-term working capital facility in place for 10,000 thousand euros which has not been drawn down as of the statement date. A LIBOR-pegged interest rate was negotiated varying by tranche and hedged by means of swaps and caps (see 'Hedging policy and risk management'). The disagio subtracted from liabilities due to banks is amortized as an expense over the duration through to maturity.

All loans to shareholders were redeemed early with accrued interest in a total amount of 16 million euros on November 17, 2006 through financing provided under the credit agreement with BNP Paribas S.A. as well as Company funds. Payment of the original iab acquisition price of 5,000 thousand euros was financed by drawing on the acquisition and capital expenditure credit line.

Acquisition liabilities of 16,773 thousand euros represent the freesort buyout in an amount of 14,273 thousand euros and the increase of 2,500 thousand euros in the iab sale price.

Reconciliation of future lease payments and finance lease liabilities:

Euro thousand	Total	Durations		
		< 1 year	1–5 years	> 5 years
Future lease payments	3,555	748	2,569	238
Interest portion	1,390	202	1,132	56
<b>Finance lease liabilities</b>	<b>2,165</b>	<b>546</b>	<b>1,437</b>	<b>182</b>

## (20) CONTINGENCIES

Euro thousand	Dec. 31, 2006	Dec. 31, 2005
Guarantee obligations	43	78
<b>Total</b>	<b>43</b>	<b>78</b>

Guarantee obligations chiefly represent security deposits for sales office facilities.

On March 4, 2005 FP Group as parent company and FP GmbH as borrower concluded a credit agreement with BNP Paribas S.A., Frankfurt am Main, for 89.5 million euros to finance the purchase price of the mail processing system business, with amendments dated April 13, 2005, January 23, 2006 and October 20, 2006. An amount of 16.0 million euros was borrowed during the year under review for the repayment of a shareholder loan in addition to another 5.0 million euros to finance the purchase of iab shares. As of December 31, 2006, FP GmbH had drawn on 70.0 million euros under this credit agreement. Francotyp-Postalia Inc., Addison, Illinois, US borrowed an amount of 1.2 million euros.

The sureties held by banks were released immediately following the initial public offering. FP companies, with the exception of the Italian, Belgian and Austrian subsidiaries, provided the loan collateral listed below to BNP Paribas S. A.:

- \_ Pledging of all FP GmbH shares held by FP Group
- \_ Assignment of all receivables from external parties, including in particular the shareholder loan granted to FP GmbH
- \_ Pledging of all bank account balances
- \_ Assignment of brand rights (FP GmbH and FP Inc., US only)
- \_ Pledging of long-term in short-term assets (FP GmbH and FP Inc., US only)

**(21) OTHER NOTES REGARDING OPERATING LEASES**

The nominal values of other financial obligations totaled 18,239 thousand euros as of December 31, 2006 (2005: 19,104 thousand euros), breaking down by maturity as follows:

Euro thousand	Dec. 31, 2006			
	Total	< 1 year	1-5 years	> 5 years
Rental/lease obligations	18,239	4,273	9,166	4,800

Rental/lease obligations represented exclusively rental contracts under which FP Company companies are not the commercial owner of the rented/leased assets pursuant to IASB rules. These items constitute obligations from operating lease contracts.

There are no material other financial obligations for contingent rents or sublease payments.

Other financial obligations concerned primarily the FP GmbH lease for land and facilities at the Birkenwerder location. The lease was signed January 1, 2005 for a 10 year term. Annual lease payments due total 1,600 thousand euros (12,800 thousand euros through 2014).

Miscellaneous other financial obligations represent for the most part short-term rental/lease contracts for vehicles and office equipment.

**(22) FINANCIAL INSTRUMENTS**

Loans payable declined by 3,360 thousand euros year-on-year due to changes in the US dollar exchange rate in 2006. The resulting difference of 3,697 thousand euros was taken to total equity in line with hedge accounting rules. Currency differences resulting from redemption of the 184 thousand euros loan were taken to revenue.

Hedge accounting accounts for currency fluctuation impacting USD income under the contractual amortization schedule through the November 30, 2011 maturity date. The term of the loan was shortened by 16 months per a contract amendment dated October 20, 2006.

Interest rate hedging (swaps and caps) was engaged in to limit interest rate risks accruing to variable rate obligations. These swaps and caps were carried at respective market values of 537 thousand euros and 360 thousand euros as of the statement date.

The change in the fair values of the SWAPs were taken directly to equity and classified as cash flow hedging in cumulative equity; by contrast, the changes in the fair values of the CAPs were recognised in income and reported as fair value hedging.

**(23) NOTES ON THE CASH FLOW STATEMENT**

The FP Company cash flow statement reports cash flow changes broken down by cash received and cash paid from operating, investment and financing activities.

Cash and cash equivalents of 60,726 thousand euros (2005: 19,363 thousand euros) includes postage credit balances managed by the FP Company of 19,741 thousand euros (2005: 17,429 thousand euros). The corresponding offsetting position shown under other liabilities.

Cash received derived mainly from financing activities, with 51,300 thousand euros deriving from the company stock offering.

Of the expenses in the course of the IPO amounting to 4,519 thousand euros, 3,093 thousand euros affected payments.

In fiscal year 2006 the Group made investments to acquire iab, iabV, freesort and FP/GPS for a total of 27,318 thousand euros, 9,675 thousand euros of which was in cash. These transactions were accounted for applying the purchase method.

Net acquisition assets in Euro thousand	Carrying value	Adjustment to fair value	Fair value post-acquisition
Intangible assets	41	13,929	13,970
Fixed assets	2,437		2,437
Financial assets	23		23
Deferred tax assets	441	-401	40
Inventories	145		145
Trade receivable and other assets	2,150		2,150
Noncurrent financial assets	365		365
Bank balances	630		630
Pension obligations	-397		-397
Tax liabilities	-186		-186
Deferred tax liabilities	0	-5,049	-5,049
Trade payables	-445		-445
Miscellaneous liabilities and deferred items	-407		-407
Other accruals	-252		-252
Liabilities with related parties	-250		-250
Financial debt	-4,136		-4,136
Minority interests	-4,136	-3,191	-7,354
	<b>-4,004</b>	<b>-3,191</b>	<b>1,284</b>
Goodwill freesort			18,351
Goodwill iab			7,683
			<b>27,318</b>
Less bank balances			-630
Minus obligations to vendors			-16,773
Minus obligations arising from ancillary acquisition costs			-240
			<b>9,675</b>

**(24) EARNINGS PER SHARE**

FP Group share capital increased to 14,700 thousand euros through the issuance of 2,700,000 additional shares pursuant to shareholder resolution, now consisting of 14,700,000 value dividend-paying bearer shares with no par value.

The newly issued shares are factored into the weighted average number of shares outstanding for the year as of the offering date in line with IAS 33.21. Accordingly, the weighted average number of common shares for fiscal year 2006 came to 12,225,000 yielding earnings per share of –0.03 euro on consolidated net loss for the year of 372 thousand euros.



## V. OTHER DISCLOSURES

### // Average staffing levels

	2006	2005
blue-collar worker	155	143
white-collar worker	773	739
Apprentices	11	7
<b>Total</b>	<b>939</b>	<b>889</b>
there of in		
Germany	557	538
Netherlands	114	120
US	91	94
Great Britain	67	55
Austria	25	28
Canada	47	28
Belgium	13	13
Italy	13	13
Singapore	12	0
<b>Total</b>	<b>939</b>	<b>889</b>

The change in the number of commercial staff and office personnel against the previous year was due to a reclassification in the US.

### // Executive and Supervisory Boards

The company's Management Board is currently constituted by the three members shown in the table below.

Name	Appointed	Current term ending	Responsibilities
Hans Christian Hiemenz	September 2006	September 2010	Controlling Finance and Accounting IT HR, Legal Investor Relations
Hartmut Neumann	September 2006	September 2010	Service Sales Marketing Business Development
Manfred Schwarze	September 2006	September 2010	Research and Development Intellectual Property Production Logistics Purchasing Quality Management

The three Management Board members do not sit on any supervisory boards or other monitoring committees per Section 125 (1), sentence 3 AktG.

The table below lists the company Supervisory Board members and their disclosable positions outside the company, on other advisory, management or supervisory boards or on similar domestic or foreign corporate monitoring committees:

Name	Occupation	Other memberships on advisory/supervisory boards or other domestic or foreign monitoring committees
Dr. Rolf Stomberg (Chairman)	Management consultant	Chairman of the Board of Directors, Management Consulting Group plc  Supervisory Board Chairman _ LANXESS AG, Leverkusen _ LANXESS GmbH, Leverkusen  Supervisory Board member _ Biesterfeld AG, Hamburg _ Deutschen BP, Hamburg _ Reed Elsevier N. V., Amsterdam _ TNT N. V., Amsterdam  Board of Directors _ JSC Severstal, Russia _ Reed Elsevier plc, London _ Smith & Nephew plc, London  Advisory Board Chairman _ HOYER GmbH, Hamburg
Christoph Weise (Vice-Chairman)	Management consultant	Managing Director _ QCR 1 GmbH _ Quadriga Capital GmbH _ Quadriga Capital Services GmbH _ W.E.R.F. 1 Vermögensverwaltungs- gesellschaft mbH
George Marton	Management consultant	None

### // Related party disclosures

IAS 24 stipulates that control relationships between the FP Company and individuals or companies are disclosed, barring the latter being included within the consolidated financial statements as a Group company. A control relationship is in evidence when a shareholder holds over 50% of the voting rights for FP Group shares and is able to influence FP Company financial or business policies pursuant to the Articles of Association or contractual agreements.

IAS 24 disclosure obligations also extend to associated companies and transactions with individuals having a material influence on FP Company financial or business policy, including close relatives and commercial intermediaries. An equity stake of 20% or more in FP Group, an executive position at FP Group and/or other key positions within the organization may constitute a material influence on FP Company financial and business policy.

Shareholders of FP Holding GmbH constitute related parties to the FP Company according to IAS 24. Supervisory Board member Christoph Weise is a managing executive and shareholder of Quadriga Capital Eigenkapital Beratung GmbH. No transactions were effected between Francotyp-Postalia and Quadriga Capital Eigenkapital Beratung GmbH during the year under review.

The shareholders Quadriga Capital Private Equity Fund II L.P., Quadriga Capital Limited and FRW CoIn GbR granted the company loans totaling 13,923 thousand euros in a shareholder loan agreement dated April 12, 2005.

After a number of assignments, the nominal values of shareholder loans broke down as follows: (a) Quadriga Capital Private Equity Fund II L.P.: 9,169 thousand euros; (b) Quadriga Capital Limited: 2,194 thousand euros; (c) Stockwell Fund L.P.: 1,936 thousand euros; (d) CIC/Stockwell Partners L.P.: 484 thousand euros; and (e) FRW CoIn GbR: 140 thousand euros.

All shareholder loans were redeemed early plus accrued interest on November 17, 2006 through 16 million euros of financing provided under the credit agreement with BNP Paribas S.A. as well as Company funds. The repayment amounts were: (a) Quadriga Capital Private Equity Fund II L.P.: 10,677 thousand euros; (b) Quadriga Capital Limited 2,597 thousand euros; (c) Stockwell Fund L.P. 2,211 thousand euros; (d) CIC/Stockwell Partners L.P. 553 thousand euros; and (e) FRW CoIn GbR 164 thousand euros. The interest which accrued during the fiscal year came to 1,349 thousand euros.

In addition to the subsidiaries included in the consolidated financial statements, the FP Holding is directly or indirectly involved with the associated, non-consolidated company FP Data Center Inc., Japan in performing normal business transactions. All transactions with this company are performed subject to the same conditions as are usual with third parties.

**// Total remuneration of the Executive Board and Supervisory Board**

Management Board members receive no compensation for their role in connection with FP Group, whereas they do receive compensation as managing executives of FP GmbH, totaling 866 thousand euros for fiscal year 2006. No stock-based components are in place. Below is provided a breakdown of Management Board compensation.

Euro thousand	Non-performance-related compensation	Performance-related compensation	Total compensation
Hans Christian Hiemenz	189	100	289
Hartmut Neumann	189	100	289
Manfred Schwarze	188	100	288
<b>Total</b>	<b>566</b>	<b>300</b>	<b>866</b>

FP GmbH agreed to place its managing executives at the disposal of FP Group in a personnel sharing agreement dated May 16, 2006 within the limits of a contractually specified time commitment.

Provisions in the amount of 800 thousand euros were created for pension commitments to current and former managing executives and their surviving dependents. No close relatives of Management Board members maintained a business relationship with FP.

All Supervisory Board members receive fixed annual compensation of 10,000 euros remitted in the final month of the fiscal year. The Chairman receives 2.5 times and the Vice-Chairman 2 times this amount. Provisions were thus created in the amount of 60 thousand euros for accruing Supervisory Board compensation.

**// Auditor's fees expensed**

Expenses of 1,709 thousand euros were shown on the single-entity German financial statements for fiscal year 2006 for auditing services provided to FP Group by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Berlin. Of this amount, 361 thousand euros was for auditing, 3 thousand euros for other review and measurement services, 14 thousand euros for tax advisory services and 1,331 thousand euros for other services. Expenses of 1,504 thousand euros were charged against capital reserves on the consolidated financial statements in connection with the FP Group IPO.

**// Corporate governance**

The German Corporate Governance Code adopted February 2002, last revised June 12, 2006, provides guidelines and best practices on the management and monitoring of public companies in Germany concerning shareholders and shareholder voting, executive and supervisory boards, transparency, accounting and auditing. Following the Code is not compulsory. German law only obligates executive and supervisory board members of public companies to disclose any recommendations not implemented. No disclosure is required for the non-implementation of best practices outlined in the Code.

The Francotyp-Postalia Holding AG Executive and Supervisory Boards subscribe to the Code's purpose of promoting responsible and transparent corporate management and monitoring in order to achieve long-term appreciation of enterprise value. The Francotyp-Postalia Holding AG Executive and Supervisory Boards have thus ensured the company's full compliance with its obligation as a public company to provide a declaration of conformity in line with Section 161 k of the German Stock Corp. Act permanently accessible to shareholders. The Executive and Supervisory Boards intend to comply with the majority of Code recommendations.

**// Events after the reporting date**

In January 2007, BNP Paribas accepted a guarantee in the amount of 8,996 thousand euros for Freelog Ltd., St. Julians/Malta concerning the outstanding payment amount for the freesort acquisition. This guarantee consists of FP Holding AG pledging cash to BNP in the corresponding amount.

There were no further events of material importance occurring after the reporting date.

**// Publishing of the consolidated financial statements**

The consolidated financial statements will be published in the electronic German Federal Gazette and the publication enclosing the published documents will be submitted to the register of companies.

BIRKENWERDER, DATED MARCH 26, 2007

THE FRANCO TYP-POSTALIA HOLDING AG MANAGEMENT BOARD

## // INDEPENDENT Auditors' Report

We have audited the consolidated financial statements prepared by Francotyp-Postalia Holding GmbH, Birkenwerder – comprising the balance sheet, the income statement, the notes to the consolidated financial statements, statement of changes in equity and cash flow statement– and the group management report for the business year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the 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 § 315a Abs. 1 HGB is the responsibility of the corporate officers of the company. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (“German Commercial Code”) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. 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 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 the 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 company officers, 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 of Francotyp-Postalia Holding AG, Birkenwerder, comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and full IFRS 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 group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

BERLIN, DATED MARCH 27, 2007

DELOITTE & TOUCHE GMBH  
Wirtschaftsprüfungsgesellschaft

Signed: ROHMANN  
Wirtschaftsprüferin  
(German Public Auditor)

KEMPE  
Wirtschaftsprüfer  
(German Public Auditor)



// Individual  
financial statements

AR2006



# // INDIVIDUAL FINANCIAL STATEMENTS for the fiscal year January 1 through December 31, 2006

FRANCOTYP-POSTALIA HOLDING AG, BIRKENWERDER  
(FORMERLY FRANCOTYP-POSTALIA HOLDING GMBH, BIRKENWERDER)

## Foreword

Below is provided an excerpt of information taken from the Francotyp-Postalia Holding AG single-entity financial statements in supplement to the Francotyp-Postalia Holding AG (FP AG) consolidated financial statements. The single-entity financial statements were produced in accordance with HGB. Presenting the single-entity financial statements appears particularly relevant with respect to assessing the dividend paying capability of FP AG.

A discussion of the change in the legal organizational form of the company, changes in subscribed capital levels and the acquisition of new subsidiaries is provided in the consolidated financial statements above.

Francotyp-Postalia Holding AG is organized as a management holding company.

Fiscal year 2006 ran from January 1, 2006 through December 31, 2006. The year 2005 was divided into two short fiscal years, January 1 through 30 April and May 1 through December 31. Pro-forma figures are given on the income statement for the period January 1 2005 through December 31, 2005.

FP AG income derives primarily from a profit transfer agreement with subsidiary Francotyp-Postalia GmbH (5.3 million euros in 2006 versus 3.2 million euros in 2005 (pro forma)). Interest expenses and income both mainly represent shareholder loans. One-time expenses are in connection with the initial public offering (charged against equity in the IFRS consolidated financial statements factoring in deferred taxes).

The level of financial assets rose in consequence of the freesort and iab acquisitions. Net cash proceeds from the IPO were loaned to the subsidiaries, leading to an increase in receivables from subsidiaries. The shareholder loans taken out were redeemed in 2006 including accrued interest. Other liabilities primarily represent outstanding payments due in connection with the freesort and iab acquisitions.



## // Profit and loss account

FOR THE PERIOD JANUARY 1 THROUGH DECEMBER 31, 2006

FRANCOTYP-POSTALIA HOLDING AKTIENGESELLSCHAFT, BIRKENWERDER

(FORMERLY FRANCOTYP-POSTALIA HOLDING GMBH, BIRKENWERDER)

	Jan. 1–Dec. 31, 2006	Jan. 1–Dec. 31, 2005	Pro-forma Jan. 1–Dec. 31, 2005
	Euro thousand	Euro thousand	Euro thousand
1. Revenue	100	0	0
2. Other operating expenses	647	119	122
3. Income/expenses from profit transfer agreements	5,276	3,261	3,164
4. Other interest and similar income	1,056	945	947
5. Interest and similar expenses	732	928	928
<b>6. Earnings from ordinary business activities</b>	<b>5,053</b>	<b>3,159</b>	<b>3,061</b>
7. One-time expenses	4,349	0	0
<b>8. Net profit for the year</b>	<b>704</b>	<b>3,159</b>	<b>3,061</b>

## Terms and definitions //

<b>A SEGMENT</b>	Designation for postage meter segment comprising customers with low mail volume (less than 200 letters per day)
<b>BATCH COMMUNICATIONS</b>	Non-standardized daily mail collected centrally
<b>B SEGMENT</b>	Designation for postage meter segment comprising customers with medium mail volume (200 to 2,000 letters per day)
<b>CERTIFICATION</b>	Operating permit for postage meters
<b>CONSOLIDATION</b>	Refers to the pre-sorting of letters by postal code prior to delivery to the mail distribution center in return for a postage discount.
<b>C SEGMENT</b>	Designation for postage meter segment comprising customers with high mail volume (over 2,000 letters per day)
<b>CUSTOM TAG</b>	Customizable imprint next to postage such as sender company logo
<b>DECERTIFICATION</b>	Revocation of postage meter certification by the responsible postal authority in connection with changes in technical specifications affecting the machines. Distinction is made between 'hard' (the decertification extending to machines already on the market) and 'soft' (decertification affecting only specifications for new machines, consequently allowing older machines on the market to remain in use).
<b>DPAG</b>	The former German state monopoly Deutsche Post AG
<b>FRANKIT®</b>	Digital franking/postage metering process implemented by Deutsche Post AG in Germany now mandatory for the approval of new postage meters since April 1, 2006 in response to heightened security requirements.
<b>HYBRID E-MAIL</b>	General term for solutions by means of which outgoing letters are first digitally transmitted before printing, inserting and franking for delivery in ready-made, physical form to a mail distribution center.

<b>INSTALLED BASE</b>	The number of postage meters installed with customers.
<b>MAILROOM</b>	Corporate department responsible for company mail services
<b>MAILSTREAM</b>	Term encompassing mail processing and transport
<b>NETSET</b>	Innovative program introduced by the Dutch Postal Service in connection with increased security requirements for postage meters
<b>OUTSOURCING</b>	The contracting out of production or other services to external providers
<b>POSTAGE PRINTING</b>	A postage option of particular interest in a bulk delivery setting by which an in-house company computer system determines the required amount of postage based on the relevant parameters, allowing automatic print-out of a valid postage along with address data in a single process.
<b>RECURRING COMMUNICATIONS</b>	Standardized letters to customers and business partners sent out on a recurring basis (e.g. invoices)
<b>STAMPIT</b>	Internet-based postage tool provided by Deutsche Post AG geared mainly towards low mail volume customers
<b>TELEPORTO</b>	Service allowing the remote loading of postage meters via phone or modem
<b>UPU</b>	Weltpostverein, Bern (Union postale universelle/Universal Postal Union)
<b>USPS</b>	U.S. Postal Service

## Financial calendar //

<b>EVENT</b>	<b>DATE</b>
FY 2006 Financial Press Conference	April 26, 2007
FY 2006 Analysts' Conference	April 26, 2007
Q1 2007 Earnings	May 10, 2007
2007 Annual General Meeting	June 13, 2007
Q2 2007 Earnings	August 30, 2007
Q3 2007 Earnings	November 15, 2007
FY 2007 Financial Press Conference	April 24, 2008
FY 2007 Analysts' Conference	April 24, 2008



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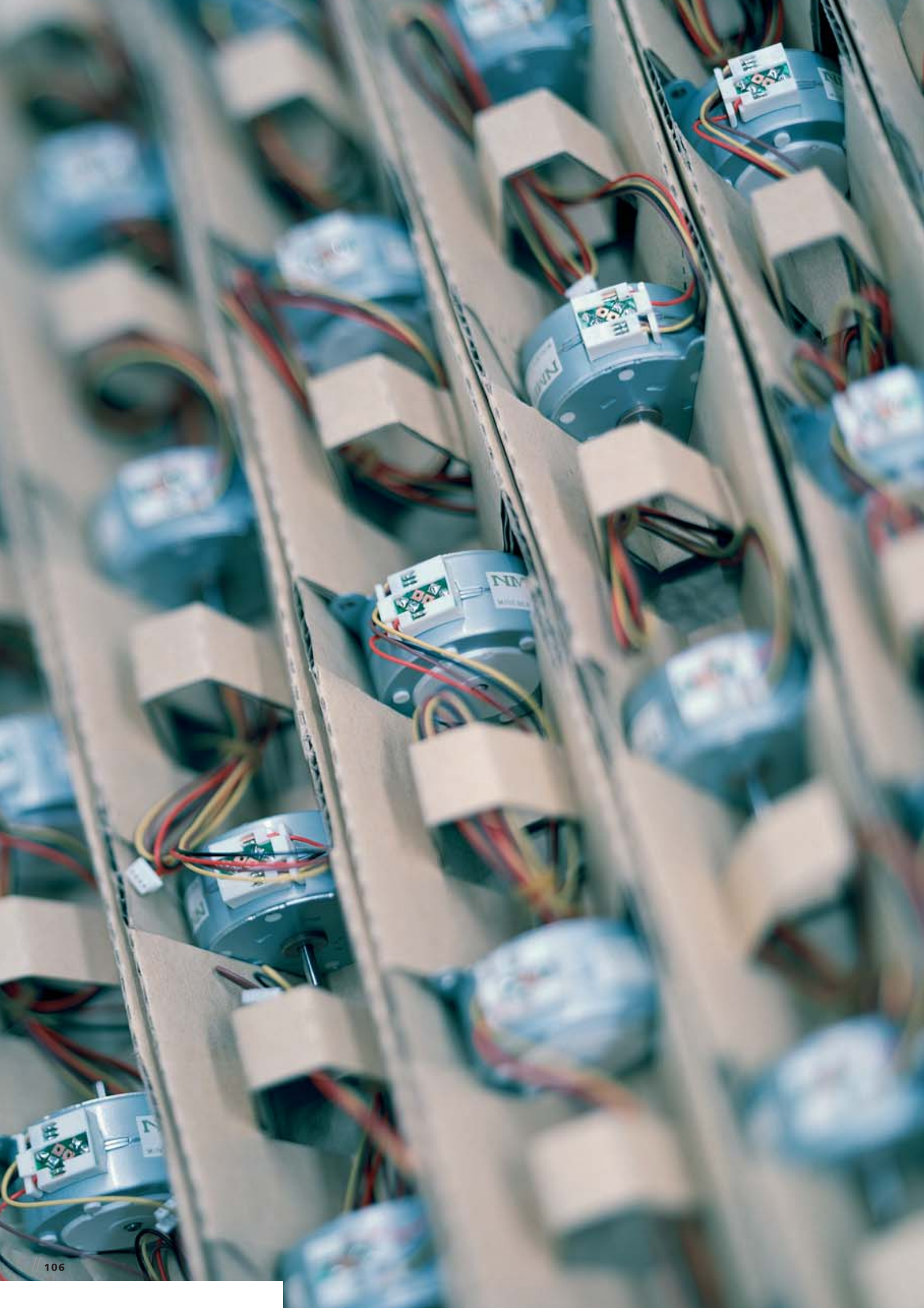
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