Francotyp-Postalia Holding AG

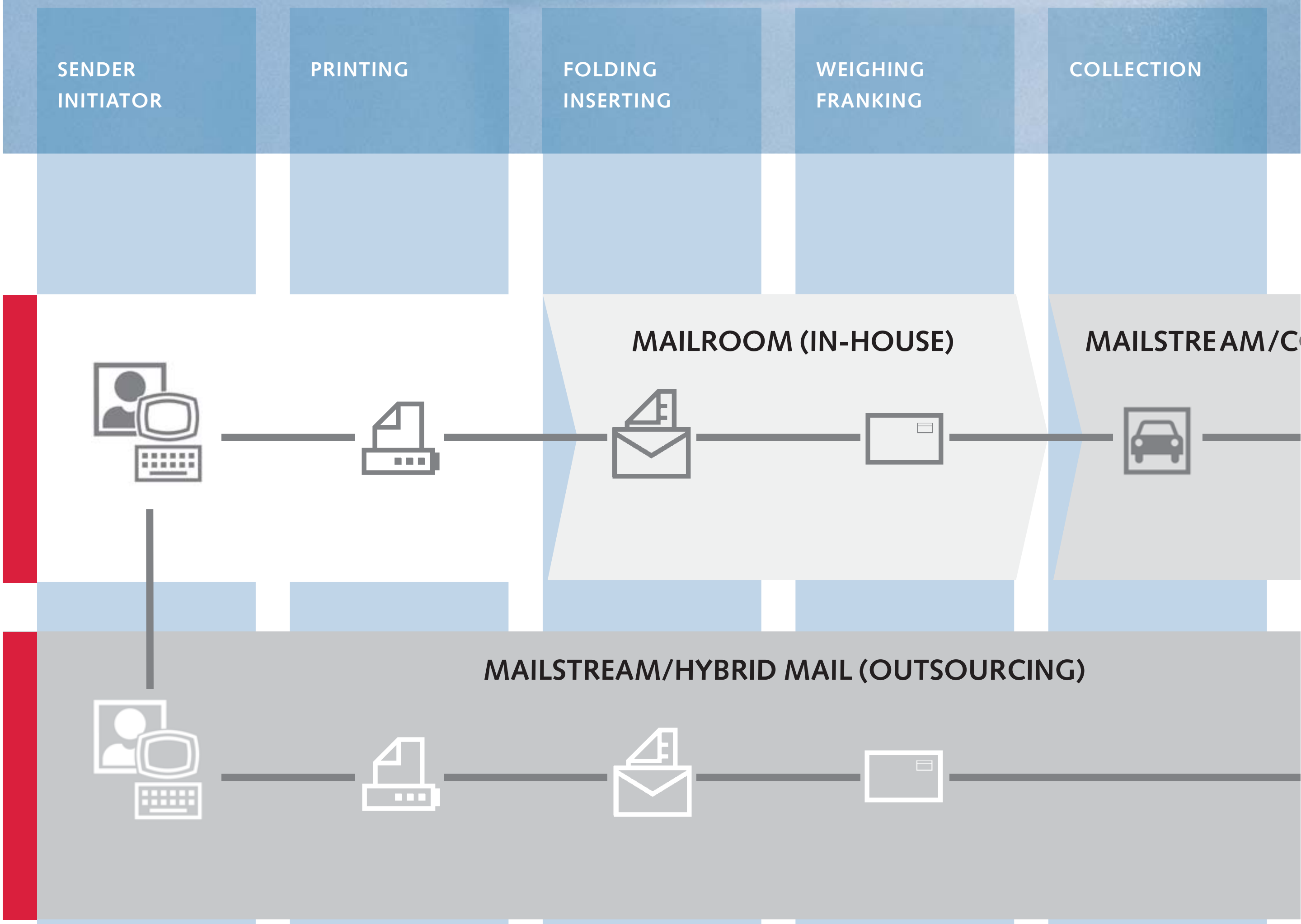
ANNUAL REPORT 2007

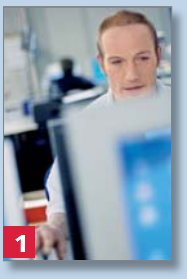
MULTIPLE YEAR GROUP SUMMARY

FRANCOTYP-POSTALIA GROUP				
	2007	2006	2005[1)]	2004
Figures in accordance with consolidated financial statements				
Revenues (€ million)	**145.1**	**142.9**	**136.4**	**128.2**
Increase in revenues (%)	1.5%	4.8%	6.4%	4.4%
EBITDA (€ million)	**26.3**	**32.0**	**21.9**	**21.8**
in percentage of revenues	18.1%	22.4%	16.1%	17.0%
EBITA (€ million)	**16.3**	**23.2**	**13.5**	**10.6**
in percentage of revenues	11.2%	16.2%	9.9%	8.2%
EBIT (€ million)	**–1.9**	**7.0**	**–0.7**	**10.6**
in percentage of revenues	–1.3%	4.9%	–0.5%	8.3%
Net income for the year (€ million)	**–2.8**	**–0.3**	**–0.7**	**7.3**
in percentage of revenues	–1.9%	–0.2%	–0.5%	5.7%
Cash flow from operating activities (€ million)	**19.4**	**18.0**	**n/a**	**27.7**
in percentage of revenues	13.4%	12.6%	n/a	21.6%
Equity capital (€ million)	**14.7**	**14.7**	**4.0**	**0.0**
Shareholders' equity (€ million)	**55.4**	**60.9**	**3.3**	**0.6**
in percentage of balance sheet total	29.8%	26.1%	2.2%	0.5%
Return on equity (%)	–5.0%	–0.5%	–21.2%	1,216.7%
Debt capital (€ million)	**130.5**	**172.5**	**145.2**	**115.6**
Balance sheet total (€ million)	**185.9**	**233.4**	**148.5**	**116.2**
Earnings per share (€)	**–0.18**	**–0.03**	**n/a**	**n/a**
Employees	**1,092**	**939**	**889**	**876**

[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.

Individualised strategies mean efficien





Data transfer
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nt mail processing

SORTING CONSOLIDATION | CARRIER TRANSPORT | RECIPIENT

ONSOLIDATION

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Consolidation
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And off it goes …
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FP. FOCUSING ON BUSINESS MAIL.

In-house processing

Low to medium volume loads: FP provides efficient postal centre solutions (hardware and software for mail processing). Letter production (printing, folding, inserting, franking) remains completely under the customer's control up to handover to the Deutsche Post.

Outsourcing of sorting and consolidation

High volume loads: in-house processing up to the completed letter.
FP collects franked mail from the customer, sorts and consolidates it and hands over the sorted mail to one or more carriers.

Outsourcing of outgoing mail

High volume loads: the customer hands over to FP his complete outgoing mail operation up to and including delivery.

Data is transferred electronically to the iab mail centre, an FP subsidiary. Here the letters are produced, franked, sorted and passed on to one or more carriers.

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Company Bodies

MANAGEMENT BOARD

DR. HEINZ-DIETER SLUMA,
born 1957, Dr. rer. nat., Chairman of the Management Board, responsible for Sales and Marketing, Personnel and Legal Affairs, Investor Relations.

HANS CHRISTIAN HIEMENZ,
born 1959, Diplom-Kaufmann (MBA), member of the Management Board, responsible for Controlling, Finance and Accounting, IT.

MANFRED SCHWARZE,
born 1957, graduate in industrial engineering, member of the Management Board, responsible for Research and Development, Intellectual Property, Production, Logistics, Purchasing and Quality Management.

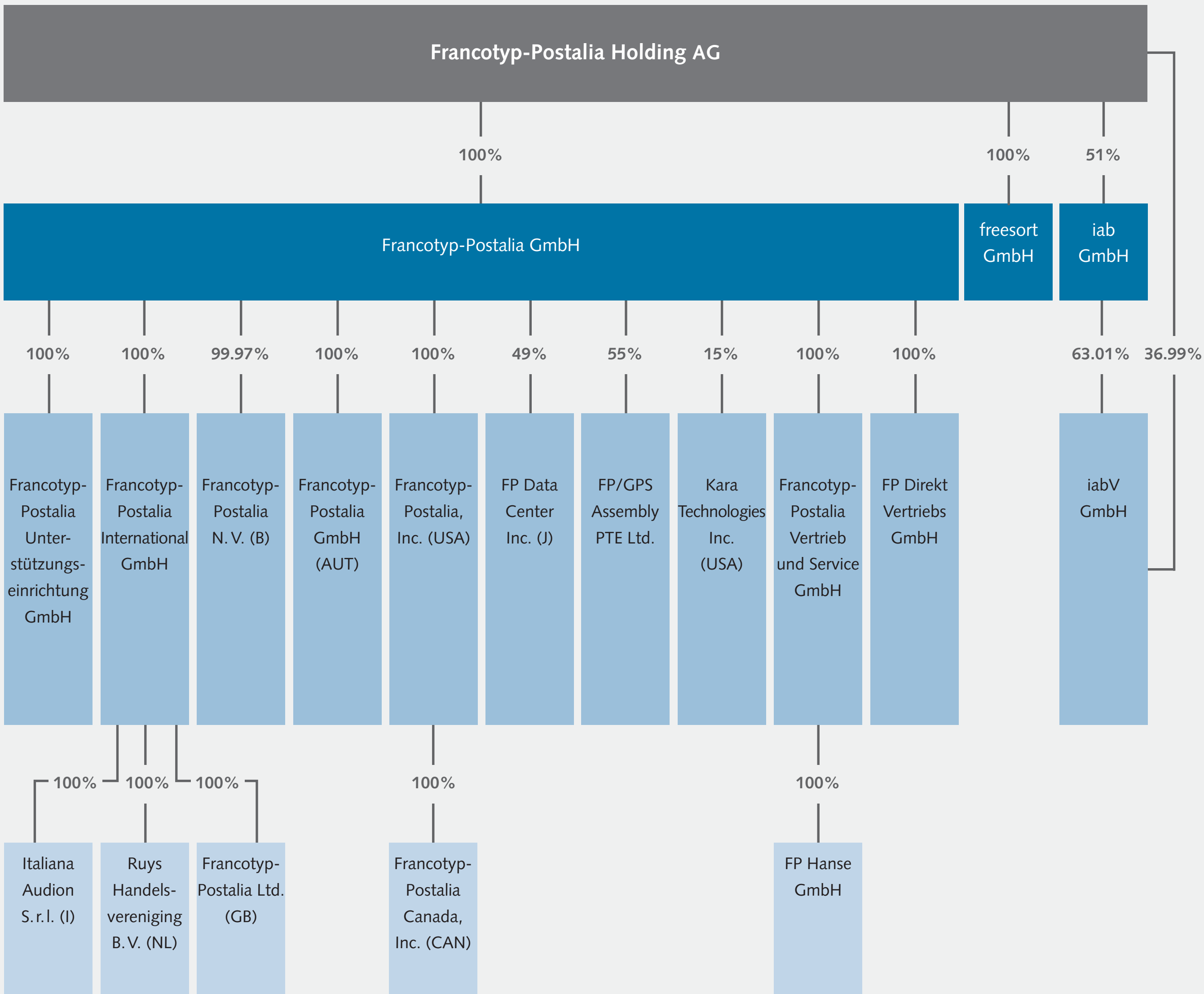
SUPERVISORY BOARD

DR. ROLF STOMBERG,
born 1940, PhD (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



Francotyp-Postalia Holding AG's new top management (from right to left):

Dr. Heinz-Dieter Sluma, Chairman of the Management Board as of January 1, 2008, responsible for Sales and Marketing, Personnel and Legal Affairs, Investor Relations.

Hans Christian Hiemenz, member of the Management Board, responsible for Controlling, Finance and Accounting, IT.

Manfred Schwarze, member of the Management Board, responsible for Research and Development, Intellectual Property, Production, Logistics, Purchasing and Quality Management.

Letter to the Shareholders

Dear Shareholders,

As of January 1, 2008 I have taken over as Chairman of the Management Board of Francotyp-Postalia Holding AG. Our Company has a long tradition; its business is stable and it has excellent opportunities for growth. Last year showed beside the FP Group success, the major challenges it faces. Based on our many years of experience, my colleagues on the Board and I, as well as all our employees, intend to master those challenges and exploit the opportunities the liberalised mail markets now offer.

The FP Group closed last financial year with revenues of €145.1 million, a slight increase on the prior year. Our main growth driver was our young mailstream business with its mail-related services such as consolidation and outsourcing. Sales of our subsidiaries freesort and iab, both acquired at the end of 2006, rose by 39% to €8.5 million.

With ten branches based throughout Germany, freesort had become one of the country's leading providers of consolidation for outgoing post by the end of 2007. In November, the company reached the ten millionth letter mark in one month for the first time, thereby increasing the number of letters consolidated within one year by 200%. And our outsourcing specialist iab is now also doing very well. While disposal of the hybrid mail software in 2007 hindered higher revenues and earnings figures, the growing interest companies are showing in working with iab illustrates the potential there is for additional services in the mail processing sector for the coming years.

However, our traditional business with franking and inserting machines did not meet expectations in financial 2007, with revenues in the Mailroom segment closing down at €136.6 million. One reason for this was the negative movement in the US dollar/euro exchange rate during the year. If the exchange rate effect is taken out of the equation, Francotyp-Postalia actually increased its revenues in North America, boosting its market share from 4.1% to 4.2%. In view of the cooling down of the US economy, I consider this a success. However, like all its competitors, Francotyp-Postalia increasingly began to feel the onset of recession in the US market towards the end of the year. This was accompanied by growing pressure on prices for standard products, both in the USA and the European core markets.

A weakening economy and tougher competition are the two decisive challenges facing Francotyp-Postalia in the current financial year. Bearing this in mind, the FP Group has lowered its expectations somewhat for 2008: the Company plans revenues increases to €150 million to €160 million and an EBITDA of €22 million to €26 million. That means that we have already begun to realign the Company to the new market situation. At the same time, we intend to use growth opportunities as they arise, and thus create the conditions necessary to regain our usual strong margins.

Optimisation of internal processes is the focal point for the current financial year. From January, we have been closely examining our administration, research and development and supply chain management areas, and are in the process of systematically improving procedures here. The cost optimisations achieved will have a sustained strengthening effect on margins.

However, we expect an even greater additional effect over the medium term by vigorously extending value added input from our high-margin business – our mailstream services. What that means in effect is that the FP Group's core business will develop from being a manufacturer of franking machines to a service provider, intelligently incorporating franking machines into tailored solutions for its customers. The seeds of this new strategy were sown at the end of 2006 when we took over freesort and iab. Now we must combine the decades of experience within Francotyp-Postalia with that new know-how, leveraging those synergies and solutions to provide our customers with greater efficiency in their mail processing.

This, then, is the central task facing the FP Group in the coming years: to supply intelligent solutions for mail processing and thereby increase the productivity of our business customers. Demand for these services is growing. Thanks to the liberalisation of the postal markets, companies have become aware of the greater efficiency to be gained through optimising their mail processing using professional service providers. Franking machines are the focal point in mail processing. But the FP Group offers its customers more, providing tailored, cost-optimised solutions that include printing, inserting, franking and sorting, consolidation and handover to delivery services.

The liberalisation of all the postal markets in the EU is due to be completed by 2011. Germany is leading the way here, with full liberalisation in force since January 1, 2008. Accordingly, the FP Group is starting in its home market, positioning itself more strongly as a mailstream service provider. Using our hybrid mail solution we intend to extend our value added successively through other countries, because business customer needs are the same worldwide: greater efficiency in mail processing!

As regards the Group's previous organisation, evolution in the direction of mailstream services will involve a number of changes. At this point, I would like to thank all our employees for their readiness to actively help with this next logical step forward in Francotyp-Postalia's long history. Their dedication and hard work form the basis for successfully repositioning our Company as a mailstream service provider.

The potential that arises as a result – synergies, new sales opportunities and higher margins – these we shall be explaining to investors during 2008, and I am sure that this will provide the FP share with more room to manoeuvre. Our share price was unsatisfactory during the last 15 months and this was due to business proving weaker than forecast during financial 2007. May I therefore thank you here and now for your continuing trust in our Company. At the same time, I would like to assure you that the sustained increase in the Company's value remains the prime goal of the FP Group for 2008 and thereafter. The measures we have recently introduced and the opportunities emerging from the liberalised postal market make me confident that we will come a great deal closer to achieving those goals as early as in 2008.

DR. HEINZ-DIETER SLUMA
Chairman of the Management Board of Francotyp-Postalia Holding AG

Report of the Supervisory Board

Dear Shareholders,

In fiscal year 2007, the Supervisory Board performed its duties in accordance with the law, the Articles of Association and standing orders, taking any decisions necessary within this framework. In total, six meetings took place, two of which by telephone. Where necessary we have kept resolutions by notational voting using written circulations. In the meetings, the Board of Management informed us in detail about all aspects of the Company's development, the risk situation, risk management and compliance. In the meetings we regularly voted on the strategic direction of the Francotyp-Postalia Holding AG and the state of its implementation. We were quickly updated by the Board of Management about any changes in the state of business and about major issues which were important in order to assess the state and development of the Company and its management. In this connection, we have discussed in depth the oral and written reports presented to us by the Board of Management.

The main aspects discussed at the meetings of the Supervisory Board were:
- The growth potential of the mailroom business bearing in mind the difficult market conditions and the increase in profitability
- The development of the affiliated companies freesort GmbH and iab – internet access GmbH
- The start of the MOVE project to analyse the organisational efficiency
- The share buy-back programme started in December 2007 and the adjustment of the risk management system

Committee Work
Due to the corporate size of Francotyp-Postalia Holding AG and the fact that the Articles of Association limit the number of members of the Supervisory Board to three persons, as a rule no other bodies or committees were formed. While the Supervisory Board comprises just three members, the full Supervisory Board also assumes the duties of an audit committee.

In-depth Discussion of Annual and Consolidated Financial Statements
In our meeting on April 16, 2007, in the presence of the public auditor we discussed business developments during the prior fiscal year 2006. We discussed in depth the annual financial statements and management report, as well as the consolidated financial statements and consolidated management report of the Francotyp-Postalia Holding AG.

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Berlin (public auditor) has audited the annual financial statements and management report year ending December 31, 2007 of the Francotyp-Postalia Holding AG, as well as the Company's consolidated financial statements and consolidated management report for the year ending December 31, 2007 and given them all its unqualified opinion. In accordance with Section 315a German Commercial Code (HGB), the consolidated financial statements and consolidated management report were drawn up to International Financial Accounting Standards (IFRS).

The public auditor conducted his audit of the annual and the consolidated financial statements in accordance with the generally accepted standards for the audit of financial statements promulgated by the IDW Institute of Public Auditors in Germany, together with International Accounting Standards (IAS). The above-mentioned documents, together with the audit report by Deloitte & Touche and the profit appropriation proposal by the Board of Management, were submitted to us in good time. During the balance sheet meeting held by the Supervisory Board on April 8, 2008 in the presence of the public auditor, who reported on the main findings of his audit, we examined in detail the annual financial statements 2007, consolidated financial statements 2007 and relevant management reports, including the audit report.

We concur with the Board of Management's reports and annual financial statements on the state of the Company, as well as with the results of the audit report. Accordingly we raise no objections. The Supervisory Board has approved the financial statements as prepared by the Board of Management. These financial statements are thus confirmed. We concur with the proposal of the Board of Management to pay a dividend of €0.15 to each share entitled to dividend, the dividend to be taken from the balance sheet profit.

Corporate Governance
In our meeting held on April 8, 2008, the Board of Management and the Supervisory Board have issued a Declaration of Compliance in accordance with Section 161 German Stock Corporation Act. The declaration will be permanently available to our shareholders via the website of Francotyp-Postalia Holding AG. We comply to a large extent with the proposals and recommendations of the Corporate Governance Code. The Corporate Governance Report, which is included in our Annual Report 2007 on page 14, and the Declaration of Compliance explain in detail where we deviate from the Code's proposals and recommendations.

Changes to the Supervisory Board and Board of Management
No changes were made in the composition of the Supervisory Board. Its members are Dr. Rolf Stomberg, who is at the same time Chairman of the Supervisory Board, Christoph Weise, who is at the same time Deputy to Dr. Stomberg, and George Marton.

Effective from January 1, 2008, the Supervisory Board appointed Dr. Heinz-Dieter Sluma as a full member of the Board of Management and nominated him Chairman of the Board of Management of Francotyp-Postalia Holding AG. Dr. Heinz-Dieter Sluma was previously Executive Vice President responsible of the largest business division of Schott AG. Before this, in his capacity as President Global Sales and Marketing, he was in charge of the global distribution for Dräger Safety, part of Drägerwerk AG. In his position at Francotyp-Postalia Holding AG, Dr. Heinz-Dieter Sluma assumes responsibility for Sales and Marketing, as well as for Legal and Personnel, taking over from Hartmut Neumann. Hartmut Neumann left Francotyp-Postalia Holding AG at the end of the year for personal reasons. The Supervisory Board wishes to thank Hartmut Neumann for his commitment and dedication over the last 10 years.

The Supervisory Board would also like to thank all employees, the works council and the Board of Management for their hard work during the previous fiscal year. Additionally, the Supervisory Board would like to thank the shareholders of Francotyp-Postalia Holding AG for their confidence and trust in the Company.

In April 2008.

The Supervisory Board
Francotyp-Postalia Holding AG

DR. ROLF STOMBERG
Chairman of the Supervisory Board

Corporate Governance Report

The purpose of the German Corporate Governance Code is to make those rules that apply in Germany to the management and monitoring of companies as transparent as possible for national and international investors. With its regulations and rules, the Code covers areas of interest to shareholders, the Board of Management and Supervisory Board, the transparency of company management and the duties of the public auditor. Francotyp-Postalia Holding AG is committed to the recommendations and proposals of the Corporate Governance Code ("Code"), and thus especially to the interests of its shareholders, despite the fact that in some areas the Company is deviating from the recommendations. These deviations are listed below, as well as in the relevant Declaration of Compliance issued by the Board of Management and Supervisory Board relating to the Code in its version of June 14, 2007.

Shareholders and General Meeting

In the General Meeting, our shareholders are able to exercise their rights to participate in the administration and control of the Company. They may either exercise their voting rights themselves, or nominate a proxy of their choice – including a shareholders' association – to act on their behalf. In order to make it easier for shareholders to exercise their personal rights, the Company also offers a voting service in the form of a representative available during the General Meeting.

The documents required for the General Meeting, including the Invitation, can be easily obtained by shareholders and are published on the Company's Internet site. The Company is pleased to provide electronically all German and foreign financial services, shareholders and shareholders' associations with the Invitation to the General Meeting, including the relevant documents, provided we have been given the appropriate authorisation. In accordance with our Articles of Association, the person chairing the General Meeting is entitled to reasonably limit the time allocated to shareholders to place questions and to speak at the General Meeting. For reasons of costs and the very high level of organisation required, a full transmission of the General Meeting by Internet will not be available.

Cooperation of Board of Management and Supervisory Board

Achieving a sustained increase in the value of the Company is the common aim of the cooperation existing between the Board of Management and the Supervisory Board. The Board of Management and Supervisory Board meet at regular intervals to discuss the strategic direction of the Company as formulated by the Board of Management, and the way that strategy is being implemented. The Board of Management also regularly informs the Supervisory Board about all relevant questions relating to the Company's state of planning, business development, risk, risk management and compliance. Accordingly, the Supervisory Board has laid down the duties of the Board of Management with regard to providing it with information and reports. Through the rules of procedure of the Board of Management, the Supervisory Board has retained its right to rule on decisions or measures which would substantially affect the assets, financial or earnings position of the Company, as well as on transactions of major significance.

In accordance with the Company's Articles of Association, the Board of Management comprises three members. During the last year, a spokesman for the Board of Management was elected from its midst, and as of January 1, 2008, the Board of Management now has a Chairman. As a result of this change, new rules of procedures were drawn up for the Board of Management, regulating the way it works.

The Supervisory Board of Francotyp-Postalia Holding AG comprises three members elected by the General Meeting in accordance with the Articles of Association. All members have the necessary extensive knowledge and experience to carry out their duties. Due to the size of the Company and the number of members of the Supervisory Board as laid down in the Articles of Association, the Supervisory Board normally does not set up committees or other bodies. While the Supervisory Board comprises just three members, the full Supervisory Board also assumes the duties of an audit committee.

In accordance with the Articles of Association of the Francotyp-Postalia Holding AG, the Chairman and the Deputy Chairman of the Supervisory Board are elected from its midst. Accordingly, the recommendation of 5.4.3 of the Corporate Governance Code under which the shareholders nominate candidates for election as Chairman of the Supervisory Board cannot be applied.

No efficiency audit has been performed to date due to the young history of the Supervisory Board of Francotyp-Postalia Holding AG. However, the Company does intend to comply with this recommendation of the Code in principle.

The Francotyp-Postalia Holding AG has set up D+O insurance without a deductible for both the members of the Supervisory Board and the Board of Management.

Conflicts of Interest

When making their decisions, and in connection with their duties, the Board of Management and the Supervisory Board may not pursue personal interests, nor grant other persons advantages or make personal use of business opportunities which would otherwise lie with the Company. Every member of the Board of Management is obliged to inform the Supervisory Board and the remainder of the Board of Management about any conflicts of interest. Likewise, every member of the Supervisory Board is obliged to inform the Supervisory Board about any conflicts of interest. In its report to the General Meeting, the Supervisory Board shall inform the latter about any conflicts of interest that may have occurred and how they were dealt with. No conflicts of interest occurred among the members of the Board of Management or the Supervisory Board during the reporting year.

Compensation of the Board of Management and the Supervisory Board

Detailed information regarding the compensation of the members of the Board of Management and the Supervisory Board is to be found in the Annual Report on page 57.

Transparency

For the Francotyp-Postalia Holding AG, corporate governance means responsible and transparent leadership and control of the Company. In particular, this means treating shareholders equally with regard to the supply and content of information. We inform all shareholders, financial analysts and comparable recipients about any new facts as quickly as possible. This involves providing information in German and English, both through our Internet site as well as through systems which ensure a comparable simultaneous dissimulation of information in Germany and abroad. Major repeat publications and dates are published in our financial calendar well in advance.

Individual Shareholders and Directors' Dealings

In accordance with Section 15a of the German Securities Trading Act ("WpHG"), members of the Supervisory Board, Board of Management and senior executives of Francotyp-Postalia Holding AG are obliged to report their dealings with Company shares or its financial instruments where the total amount involved exceeds €5,000 in any one calendar year. This obligation to report also applies to natural and legal entities standing in close contact with the above-mentioned people. All transactions reported are published via EquityStory and on our Internet site.

Members of the Supervisory Board and the Board of Management hold the following shares directly and indirectly in the Company.

Shareholder	Number of shares	%
FRW Coln GBR[1)]	51,506	0.35
Hans Christian Hiemenz	316,227	2.15
Hartmut Neumann	316,227	2.15
Manfred Schwarze	316,227	2.15
Christoph Weise	6,400	0.04

[1)] Member of the Supervisory Board Mr. Christoph Weise is a partner of the shareholder FRW Coln GbR and economic owner of 17,907.51 shares held by Coln GbR. Member of the Supervisory Board Dr. Rolf Stomberg is economic owner of 7,576.26 shares held by Coln GbR. All details are based on reports by the shareholders and could not be audited by the Company.

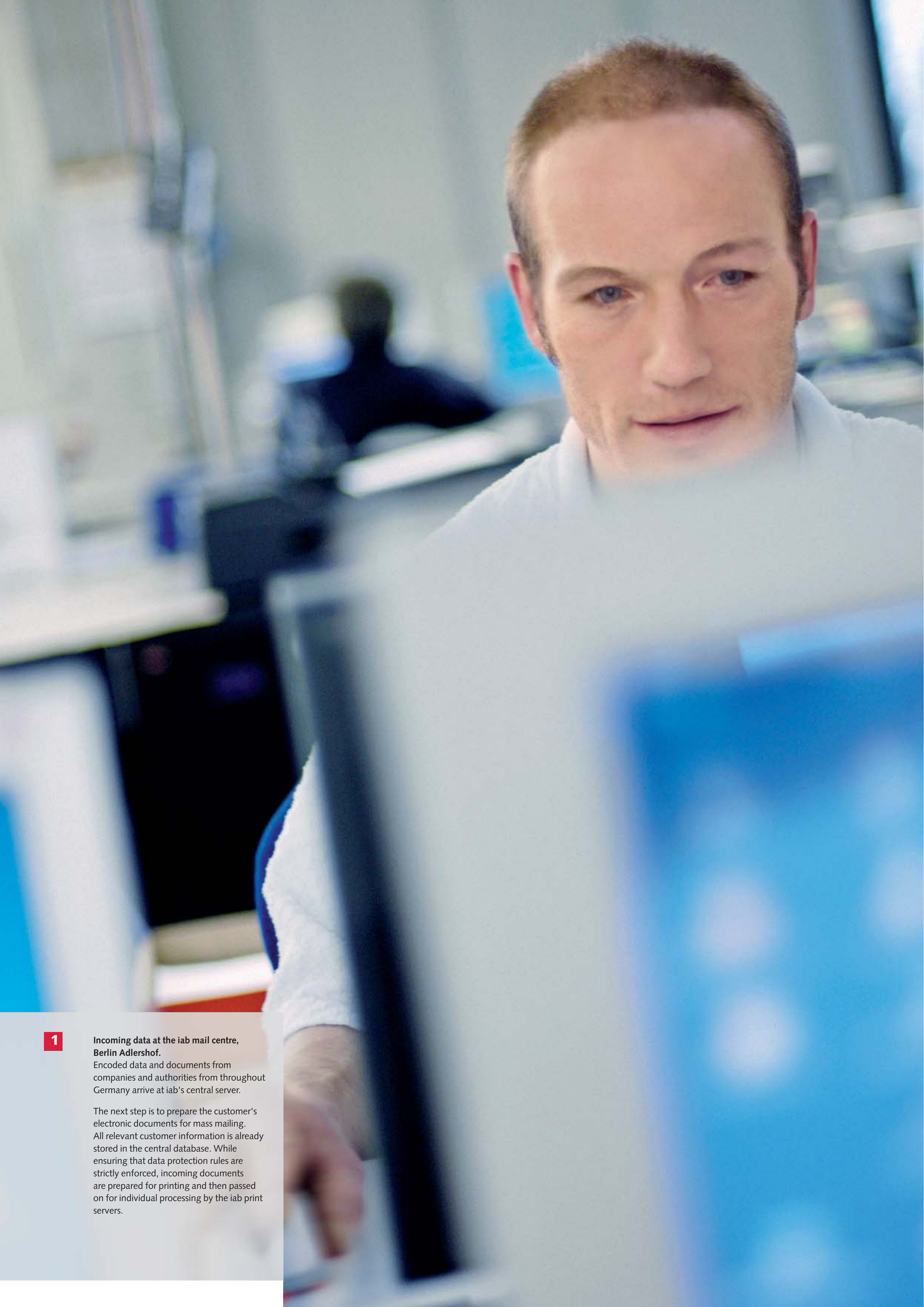
Accounting Practice

In accordance with the recommendations of the Code, shareholders and third parties are provided information by the Company's consolidated financial statements. Contrary to the recommendations of the Code, the consolidated financial statements are drawn up within 4 months of the end of the financial year. The Company also deviates from the recommendations of the Code with regard to the publication dates of the interim reports, publishing these within the periods stipulated by the Transparency Guidelines Implementation Act and the Stock Exchange Rules. The consolidated financial statements and the interim reports are drawn up in accordance with the International Financial Reporting Standards (IFRS). The statutory financial statements in compliance with German law required for tax purposes and for the payment of dividends are drawn up in compliance with the German HGB rules.

A list of the shareholders which qualify as persons with close ties to the Company in the sense of IAS 24 is given in the consolidated financial statements on page 111 of the Annual Report 2007.

Audit

Following the resolution of the General Meeting in 2007, the Supervisory Board has assigned Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Berlin with the task of auditing the Company's annual and consolidated financial statements for 2007. In accordance with the rules in the Code, it has been agreed with the auditors that the Chairman of the Supervisory Board be informed as quickly as possible of any grounds for exclusion or bias that may occur during the audit. The auditor will also report immediately on any important findings and issues relevant to the duties of the Supervisory Board. The auditor will inform the Supervisory Board immediately should he uncover facts which countermand the Declaration of Compliance issued by the Board of Management and the Supervisory Board in compliance with the Corporate Governance Code under Section 161 German Stock Corporation Act. Furthermore, we have agreed that the Chairman of the Supervisory Board and the Audit Committee will be informed immediately when grounds for exclusion or bias occur during the audit when such issues cannot be resolved immediately.



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Incoming data at the iab mail centre, Berlin Adlershof.
Encoded data and documents from companies and authorities from throughout Germany arrive at iab's central server.

The next step is to prepare the customer's electronic documents for mass mailing. All relevant customer information is already stored in the central database. While ensuring that data protection rules are strictly enforced, incoming documents are prepared for printing and then passed on for individual processing by the iab print servers.

New Opportunities in Liberalised Markets

A business with a long tradition

Organised postal services were already in existence at the time of the Pharaohs; monopolies for the delivery of letters can trace their roots back to the Middle Ages, and the familiar stamp is by now more than 150 years old. The postal industry is without doubt one of the most historic service sectors worldwide. The Universal Postal Union currently includes 6 million employees who work in this sector, handling a total of 430 billion letters annually – that's 65 letters for every person on the planet.

While private consumers are still sticking on stamps to this day in order to post items of mail, companies have been benefiting from the use of franking machines for over 80 years – Francotyp itself was established in Bielefeld in 1923. This is because a franking system allows even very large quantities of post to be franked automatically within a short time; modern machines can process more than 100 items of mail per minute. But even smaller companies find this to be a simpler and more efficient way of dealing with outgoing mail because the postage is electronically loaded into the machine, which then performs the franking using the correct value. In some countries, customers can even save money because the national postal organisations offer a discount for franking using franking machines.

The end of the monopoly

Despite the fact that companies such as Francotyp-Postalia have provided companies with intelligent solutions for handling their outgoing mail over the last few decades, large sections of the value creation chain for outgoing mail remained in the hands of state monopolies. It was only in the 1990s that the EU Commission initiated the process of opening up national markets to competition. The submission of a Green Paper on the development of the single market for postal services in 1992 and the adoption of the first Postal Directive in 1997 were the starting shots. Since then, more and more sections of the value creation chain have been opened up to competition. This process has also involved lifting existing restrictions relating to the carriage of mail. As a result, new service companies have established themselves in the market.

The opening up of the German consolidation market in 2005 represented a milestone. The term consolidation describes a service provider that collects letters from various senders and then sorts them before transferring them to the Deutsche Post sorting centres at a discounted price – the postage cost for consolidated deliveries of this type is up to 25% below the standard rate. One portion of this saving is passed on by the service providers to the customer and the other portion is used to cover the costs of consolidation while at the same time generating attractive margins on the back of steadily increasing letter volumes.

At the start of 2008, the EU passed a resolution aimed at fully opening the European markets no later than January 1, 2011, although transition periods will apply for some countries. To date, Sweden, Finland and Great Britain have fully liberalised their national postal markets; they were followed in January 2008 by Germany, where the final monopoly held by Deutsche Post AG to be abolished related to the transportation of standard letters weighing up to 50 grams. The following overview details the key milestones along the way to liberalising the German postal market.

Overview: liberalisation of the German postal market

1998	mail monopoly is limited to letters and catalogues weighing less than 200 grams
▶	*the market opens up for private postal services*
2003	mail monopoly is limited to letters and catalogues weighing less than 100 grams
▶	*further opening up of the market*
2005	opening up of the market for consolidation
▶	*new business segment for private service providers*
2006	mail monopoly is limited to letters and catalogues weighing less than 50 grams
▶	*further opening up of the market*
2008	market is fully liberalised

Francotyp-Postalia: from franking specialist to full-service provider

Each and every day all over the world, more than one billion letters are written, inserted and franked before being sorted and consolidated, transported to their destination and, finally, delivered to the recipient. Francotyp-Postalia aims to cover an increasing proportion of this value creation chain with its products and services, thus developing to become a provider of mailstream solutions.

Francotyp-Postalia has traditionally developed, manufactured and marketed franking machines and inserters, in addition to supplying the associated services. Each year, the Company manufactures around 40,000 machines with various performance features at its manufacturing facilities in Berlin and Singapore. In order to guarantee seamless automated mail processing in the mail centres, these franking machines and their associated consumables are certified by the national postal companies. Our client base includes companies and authorities as well as a smaller number of private users.

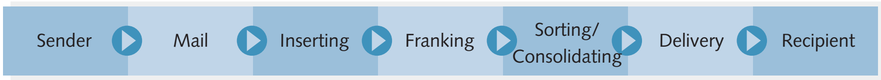
During the course of liberalisation, Francotyp-Postalia expanded this service portfolio in the traditional mailroom business at the end of 2006 by adding services catering to companies' outgoing mail, referred to as the mailstream business. In this context, the Company used capital raised from the IPO to position itself in what is a new high-growth segment at an early stage. Part of the proceeds was used to acquire freesort GmbH and a majority interest in iab – internet access GmbH.

freesort is active in the consolidation segment and provides customers with full postal services. With a network of nine offices servicing the entire Federal Republic, the company's primary focus is on customers with large volumes of mail, which it then pre-sorts and delivers to the relevant mail centre. The strong growth experienced at freesort is reflected by the fact that it processed around 80 million items of mail in 2007, up from just 35 million items of mail in 2006.

In its short company history, iab has successfully carved out a name for itself as an outsourcing partner and software provider. In this context, the company profits from an increasing willingness among companies to outsource their entire mail dispatch activities to third parties in order to reap the benefits of greater efficiency. It is above all the recurring communications such as invoices and marketing mail that service providers like iab take over from the customer in these kinds of outsourcing arrangements. The mails to be sent are transferred electronically or via data media from the customer to iab, which prints the mail in sorted form, centrally and near the recipient's location. Further development of the original iab software will also allow these services to be offered in future for individualised daily mail.

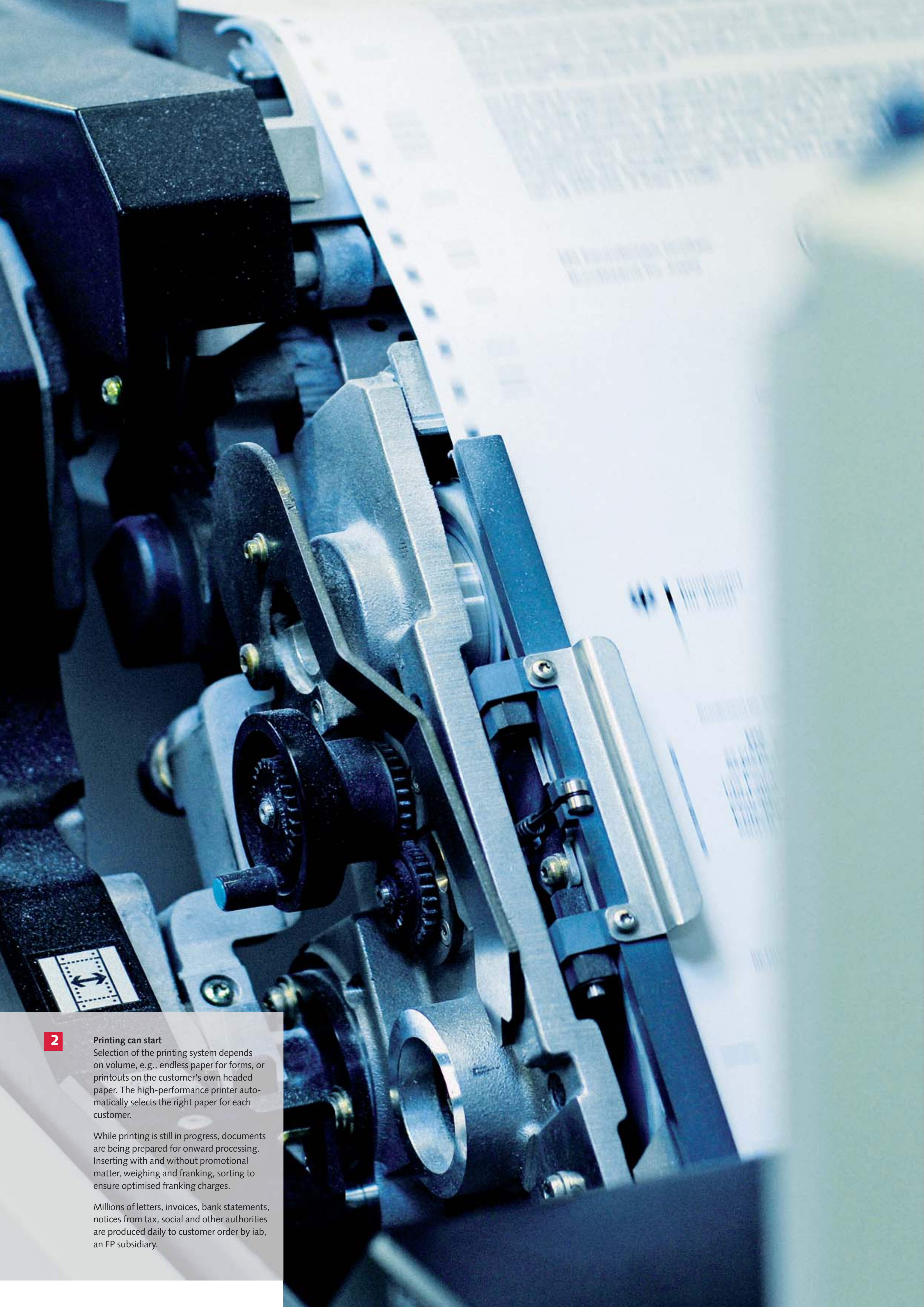
With its subsidiaries iab and freesort, Francotyp-Postalia is evolving to become a service provider for the mail dispatch market. Although franking machines remain the core business of the Company, the consolidation and outsourcing services are developing it into a solution provider for the mail dispatch of companies – a market offering enormous growth potential.

An overview of the value creation chain:



Attractive value creation in the 21st century

With its expanded range of services, Francotyp-Postalia is extremely well positioned for the future in a liberalised postal market. This is because an ever increasing number of companies will outsource all of their outgoing mail operations to service providers as they focus on their core competencies. Fears first expressed during the 1990s that e-mail would render the letter obsolete have been dramatically disproved by the trend of the last few years. Although the number of e-mails continues to increase by leaps and bounds, mail volumes remain constant – as does the need to process this mail, in other words, franking, inserting and consolidating.



2

Printing can start

Selection of the printing system depends on volume, e.g., endless paper for forms, or printouts on the customer's own headed paper. The high-performance printer automatically selects the right paper for each customer.

While printing is still in progress, documents are being prepared for onward processing. Inserting with and without promotional matter, weighing and franking, sorting to ensure optimised franking charges.

Millions of letters, invoices, bank statements, notices from tax, social and other authorities are produced daily to customer order by iab, an FP subsidiary.

"We expect a boost in growth in 2008"

Roland Walter is Managing Director of the Francotyp-Postalia subsidiary iab. Here he discusses the enormous potential of software solutions for mail communication.

Your company specialises in outsourcing outgoing mail. What does that mean?

We receive outgoing mail in digital form initially. In our production centres we then print the documents, fold them, insert them and frank them ready for delivery. The big advantage for customers is that they just send us their data and have nothing more to do with the whole mail process after that. The process is completely automated. And when letters are handled we ensure that the very highest levels of security and data protection are applied. That saves our customers a lot of time and money.

Are you not competing against the FP subsidiary freesort?

Quite the contrary. We develop and market professional digital print services, while freesort GmbH is a consolidation specialist. This means we complement each other's services optimally. Over the coming years we want to make stronger use of these synergies. For example, we can produce letters, and freesort can then process and consolidate them. Taken together, we supply the full range of mailstream services.

Who are your customers?

Regarding outsourcing, they are well-known major companies in the fields of industry and trade, insurance, utilities, financial services and numerous associations and public institutions. We intend to achieve double-digit growth in this segment over the next few years. But there is more to iab than that.

What are you referring to?

One particularly important asset for further growth is our software and the solutions and project business based on it. Using our software, larger companies can optimise their printing and dispatch process for both mass and individual mailings. The core of this software is a central database where all relevant information is stored. The main programme – we call it the monitoring interface – takes over the control, collation and processing of all existing and newly arriving data. For example, one major application potential is company-wide internal communication with branch networks. Imagine a company with 5,000 workplaces where each one sends off two letters per day. With our solution, a letter is sent off to iab at a click, we then take over the printing of 10,000 letters and pass them on for delivery.

Can this solution be used internationally?

Definitely. For example, if you have to send letters to the USA, it takes several days by the usual route. With our solution, the recipient gets the letter on the same day or one day after dispatch. At present, we have three printing stations in Switzerland, England and India. Further sites are being planned.

Will your customer base remain limited to big companies?

No. Our Internet-based solution Print&Mail is directed at smaller companies and even private individuals who want to outsource their outgoing mail to a service provider. The advantages are obvious. With Print&Mail you need no printer, paper, envelopes or postage stamps in order to send off a letter. That saves our customers a great deal of time and money. And what is so special is that we can offer this service from a volume of just one letter onwards. And we give a 10% rebate on the standard postage charge.

But can you make money with it?

Yes, we can. Using our printing and dispatch know-how, we move several million letters per year and profit from the resulting economies of scale. And as our processes are completely automated, we can offer this service from just one letter on.

You sound optimistic. What do you expect in the current financial year?

We expect a boost in growth in 2008. Apart from our usual outsourcing business, we are convinced that our new software solutions offer great opportunities for growth in the liberalised postal market.

"Liberalisation opens up enormous opportunities for us"

Oliver Kremers is Managing Director of the Francotyp-Postalia subsidiary freesort. Here he talks about growth opportunities in the outgoing mail market.

Why do companies not just simply post their mail themselves? What advantages do you offer?

Our customers no longer have to process their outgoing mail and get a price deal, too. That's because freesort collects their mail directly from them, sorts it by postal code and then hands it over to delivery firms.

How can freesort offer a rebate on fixed post charges?

Following liberalisation of the letter market, Deutsche Post now offers a rebate of up to 25% on pre-sorted and franked mail. However, this saving only applies to daily mail volumes upward of 5,000 units. Part of this rebate is passed on to the customer, so we create a win-win situation for our customers and for freesort. We set up a tailored franking and delivery package deal for each individual customer, as freesort offers a one-stop-shop that covers the whole daily mailing process. Franking, sorting, delivery handover and other services.

Who are your customers at present?

Our customers are typically large and medium-sized businesses with a corresponding high volume of mail. The average volume per customer is around 1,500 units a day.

So the typical small business doesn't get a look in?

Right now we are setting up logistics solutions which will also appeal to customers with a volume of less than 500 deliveries daily – we see great potential here. However, every company sooner or later must ask itself whether and how it can gain from the price advantages now available following liberalisation of the postal market. This is where freesort provide solutions. We see ourselves as independent specialists, able to work out an optimal solution with companies for their outgoing mail.

But doesn't e-mail make outgoing post obsolete in the medium term?

This idea has been around for years, but the volume of mail has not declined, despite e-mail and Internet. Many experts believe, on the contrary, that the volume of mail will actually continue to grow over the coming years.

Apart from more letters, where do you see decisive growth potential?

Liberalisation of the postal market has just started, and already now there are numerous opportunities. One good example is the expectations customers place on service providers. As a rule, customers have one central quality aspect in mind: the letter must reach its destination. This reliability is decisive, while the time taken for delivery is secondary for many companies. It is conceivable that prices could be differentiated so that the whole infrastructure of outgoing mail is more evenly loaded. Letters that must arrive on the next day would be charged the standard rate, while letters with more time would receive an additional rebate. And that is just one of many examples.

Are these ideas limited to Germany?

In the medium and long term, international expansion will certainly be attractive. For example, take international businesses that send mail to Germany. Apart from that hybrid mail from the FP subsidiary iab is predestined for international services. So within the Group we can fulfil all the conditions required of a full-service provider in the outgoing mail market.

But to date you have been making losses with this business. Is it possible to make money with outgoing mail?

Of course it's possible. freesort was set up at the outset of liberalisation of the German postal market in 2005 with the strategic goal of setting up a network of sorting centres throughout Germany. With this investment we have created a basis for future growth and planned with initial losses right from the start. Now, at the start of 2008 we have nine sorting centres throughout Germany and are in a very good position. And in the current financial year we shall make a profit for the first time. Already in January we had positive EBIT and EBITDA and we intend to improve on these results during the rest of the year.

What makes you so optimistic?

We have clear economies of scale in the outgoing mail market. The better the overall infrastructure, including the sorting centres, the better the margins we can achieve. In view of the broad potential among medium-sized businesses and the fact that there are only two others competitors in Germany, we are optimistic that we can achieve attractive margins over the medium term.

Doesn't the minimum wage in the postal sector put a spanner in the works?

No. We have been paying fair wages to our sorters for many years now. And our company is also a member of the Employers' Association of Postal Services. So we are not in any way affected by the current discussion. I would even go so far as to say that the ongoing debate about liberalisation of the postal markets and its consequences will actually sensitise some companies to the issue.

Let's look ahead: where will your company be in three years?

In the liberalised German market, we are setting standards for the economic and efficient processing of outgoing mail. We see ourselves as an independent solutions provider, able to find a tailored solution for each individual customer. That makes us a partner for outsourcing solutions, at present operating mainly in Germany, tomorrow in Europe and over the long term worldwide.

3

In-house processing/inserting
at the Dahme-Nuthe Wasser-, Abwasser-betriebsgesellschaft mbH postal centre in Königs Wusterhausen.

This company's medium volume load is met using the modular inserter FPi 6500 and FP franking technology. The process includes folding, inserting with or without additional promotional matter, weighing and franking.

The FPi 6500 inserter heads up this small-scale postal production line, which terminates with the ultimail franking system.

The Francotyp Share

The capital markets were characterised by severe volatility during 2007. Although the first half year saw share prices rise across the board against a backdrop of healthy business figures and positive economic trends, the debate surrounding securitised mortgage loans to borrowers with low credit ratings (subprime) in the US triggered a reassessment of risk by the end of July 2007 at the latest. This led to a softening of the market during the months that followed. The decline of the US dollar, the sharp increase in the price of oil as well uncertain market outlooks reinforced the negative trend during the second half of the year.

Following volatile share performance, Germany's DAX share index nevertheless successfully recorded a year-on-year increase of 20.7%, which contributed to a comparatively robust result in overall terms. However, a much more challenging situation prevailed with regard to the trends among second-line stocks. Following a yearly high in July, the SDAX slumped 28.3% during the second half of the year. At the end of the 2007, the small cap index posted a fall of around 9% for the full year.

The Francotyp share also made a good start to 2007. At the start of the year, the rate for the security remained almost permanently above the issue price of €19.00 and went on to reach the year's high point of €21.55 in April 2007. However, the share's performance for the rest of 2007 was characterised by a weak trend. Apart from two extended periods of sideward trading between May and June as well between August and October, the share price steadily lost ground. After the publication of figures for the third quarter and the withdrawal of the annual forecast, the share price fell steeply in November before bottoming out at €4.51 in mid-December. The Francotyp share subsequently recovered significantly and was listed at €6.55 at year-end.

Francotyp-Postalia stock January 2007–December 2007

Source: Deutsche Börse Group

The reasons for the decline in the share price were the weaker-than-expected business performance combined with a generally challenging trading environment for second-line stocks, which include the Francotyp shares. Added to this were unfavourable conditions within the sector, which also saw direct competitors in the market for outgoing mail systems suffering significant falls in share price during 2007.

Analysts and trading turnover

During the 2007 fiscal year, Francotyp-Postalia presented its business model with renewed vigour to analysts and investors. In addition to JPMorgan Cazenove, two further independent analyst houses, SES Research and Berenberg Bank, have been monitoring the Francotyp share since the third quarter of 2007. The three analysts provide regular information bulletins to the public. As a result, trading volumes on the stock market increased substantially up to the end of the year: during the first half year of 2007, an average of 4,329 shares changed hands every day. With a daily average of 19,154 Francotyp shares, the trading volume during the second half of 2007 was up over 400%. The end of the year, trading peaks of up to 152,600 shares per day were realised.

Investors

At the end of 2007, existing shareholders held 36.65% of the Francotyp-Postalia shares and the free float was 63.35%. Institutional investors hold roughly 33% while private investors hold 30% of the shares, giving the Company a widely diversified shareholder structure. One noteworthy factor is the high degree of continuity among existing shareholders. These are: Quadriga Capital Private Equity Fund II L.P. (22.84%), Quadriga Capital Limited (5.46%), Freelog Ltd. (1.89%), Manfred Schwarze and Christian Hiemenz as members of the Management (2.15% each) as well as Hartmut Neumann (2.15%).

As of December 31, 2007, notifiable declarations had been submitted by the following investors, each of which hold more then 3% of the voting rights: Richelieu Finance Gestion Privée (9.12%), J O Hambro (6.01%), INVESCO UK Limited (5.11%) and Financière de l'Echiquier (5.11%). As of February 4 , 2008, we can report that J O Hambro has exceeded the 10% threshold and now holds 10.84% of Francotyp-Postalia Holding AG.

Investor Relations

Francotyp-Postalia Holding AG seeks open and transparent dialogue with its shareholders. To this end, the Investor Relations Team has been expanded by the inclusion of an additional member and the Company's Investor Relations activities throughout the year are being intensified on a continuing basis. During 2007, the Management Board and the Investor Relations Team used investor conferences, roadshows and numerous one-on-one meetings to explain the business model and the potential of Francotyp-Postalia. Another key forum for dialogue with shareholders was the Annual General Meeting held on June 13, 2007 in Berlin, at which 71% of the voting stock was present. Furthermore, public conference calls served as a regular means of exchanging information with relevant target groups.

Comprehensive information for investors is available in the special Investor Relations area of the Company's website at http://www.francotyp.com. Here, you can find all publications of relevance to investors, such as annual and quarterly reports, ad-hoc announcements as well as press releases, etc. For more information, you can also contact the Investor Relations Team at Tel. +49 (0)3303 525 777.

Share buy-back programme

On November 20, 2007, the Management Board of Francotyp-Postalia passed a resolution, based on the authorisation it was granted by the Annual General Meeting, to implement a programme to buy back shares in the Company.

As part of the share buy-back programme, Francotyp-Postalia last year acquired a total of 102,132 shares – equating to 0.8% of the share capital – at an average price of €5.33 in a manner designed to prevent market disruptions. The business volume in this case amounted to €607,861. Up to April 15, 2008, a total of 500,000 shares in the Company were acquired via the stock market. This is equivalent to 3.4% of the share capital.

Dividends

The share buy-back programme was an important element implemented at the end of 2007 with the objective of boosting shareholder value. In addition, Francotyp-Postalia Holding AG will for the first time involve its 2007 shareholders in the development of the business through payment of a dividend. The Management Board and Supervisory Board will propose the distribution of a dividend of €0.15 per share to the Annual General Meeting on June 18, 2008. The distribution will in all likelihood take place the day following the Annual General Meeting, on June 19, 2008.

Key figures relating to the Francotyp share

Number of shares	14.7 million
Type of shares	Registered shares
Share Capital	€14.7 million
Voting Rights	Each share guarantees one vote
WKN	FPH900
ISIN	DE000FPH9000
Stock Exchange Symbol	FHP
Trading Segment	Official market (Prime Standard)
Stock Exchange Centre	Frankfurt Stock Exchange
Fiscal Year	Calendar year
Accounting	In accordance with IFRS
Designated Sponsor	JPMorgan Cazenove
Disclosures	Elektronischer Bundesanzeiger (German Electronic Federal Gazette)
Yearly High 2007	€21.55
Yearly Low 2007	€4.51
Closing Price at Year-End 2007	€6.55
Market Capitalisation as at Dec. 31, 2007	€96.3 million
Earnings per Share	€–0.18
Dividend per Share	€0.15

4

In-house processing/franking at the HCI Hanseatische Schiffstreuhand GmbH postal centre in Bremen.

The high-performance franking system is perfectly suited to a range of processing tasks at HCI. Using a vertical franking feeder, mail of all sizes can be picked and processed – from postcard to bulky B4 business correspondence.

The dynamic weighing unit automatically identifies size, thickness and weight of each item and calculates the right franking charge. Mixed post is correctly franked at a record-breaking 60 letters per minute.

Group Management Report

GROUP STRUCTURE AND BUSINESS ACTIVITIES

ORGANISATIONAL STRUCTURE AND LOCATIONS

Francotyp-Postalia Holding AG is the parent company of the FP Group (hereinafter also referred to as Francotyp-Postalia). It acts as the parent of the German subsidiaries Francotyp-Postalia GmbH, Birkenwerder, and freesort GmbH (freesort), Düsseldorf, both of which are wholly owned by Francotyp-Postalia Holding AG, as well as iab – internet access GmbH (iab), Berlin, in which it holds a 51% interest. The main subsidiaries of Francotyp-Postalia GmbH can be seen in the following table. Francotyp-Postalia Holding AG holds indirect interest in these companies.

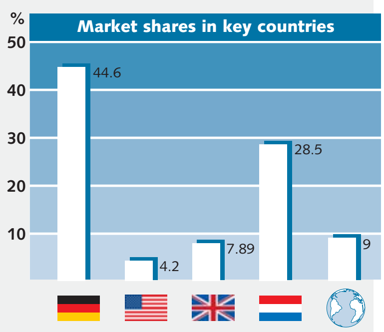
Company name	Company headquarters	Equity interest in %
Francotyp-Postalia Vertrieb & Service GmbH	Birkenwerder, Germany	100
Francotyp-Postalia International GmbH	Birkenwerder, Germany	100
FP/GPS Assembly PTE Ltd.	Singapore	55
Ruys Handelsvereniging B. V.	The Hague, Netherlands	100
Francotyp-Postalia N. V.	Zarentem, Belgium	99.97
Francotyp-Postalia Ltd.	Dartford, Great Britain	100
Francotyp-Postalia Inc.	Addison, USA	100
Italiana Audion s. r. l.	Milan, Italy	100
Francotyp-Postalia Canada	Markham, Canada	100
FP Hanse GmbH	Hamburg, Germany	100
Francotyp-Postalia GmbH	Vienna, Austria	100

BUSINESS ACTIVITIES AND BRANDS

In past years, Francotyp-Postalia's business activities focused on the development, manufacture and distribution of franking machines, as well as the distribution of inserters. Since 2006, Francotyp-Postalia has also offered sorting and consolidation services, outsourcing services and hybrid mail products. With this development, Francotyp-Postalia has expanded its operations above and beyond its traditional franking machine business, thereby establishing a strong starting position from which it can benefit from the liberalisation of the postal markets. Postal market deregulation will create a dynamic competitive environment with more attractive conditions for all market participants, i.e., consumers, business customers and providers of hardware and software solutions alike. By combining our traditional activities with new mail-related services, we have opened up additional possibilities for serving our customers.

Well positioned in key markets

We are the German market leader in our core line of business, with a market share of 44.6%. The USA is and will remain a further key growth market for our franking machines (market share of around 4.2%). A main focus of our activities in 2008 will be the successful implementation of the Phase IV decertification programme. In addition to the USA, our primary markets include the United Kingdom (market share of 7.9%) and the Netherlands (market share of 28.5%).



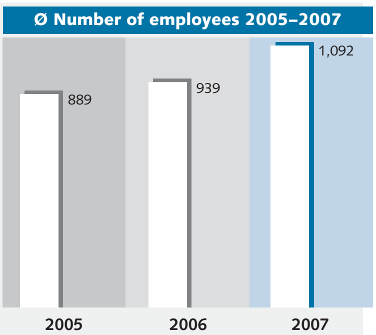
In the emerging markets, such as China, Russia and India, individual postal organisations are on the road to privatisation; however, this process is expected to take a number of years. Although automated franking has yet to achieve widespread penetration due to extremely low labour costs, demand is on the increase. Some postal organisations are also seeking to implement new technologies, such as 2D barcodes. This will open up business opportunities in terms of our installed base of existing franking machines, as well as allowing us to acquire new customers.

At the same time, we have successfully expanded our traditional operations by initiating sales activities in countries in which we were not previously represented and by marketing new products in existing markets – such as our latest franking machine, centor**mail**.

Growth markets for postal services

The growth rates of our subsidiaries show that the market for our *sorting*, *consolidation*, *outsourcing* and *hybrid mail* postal services is developing rapidly, while the sending of physical letters continues unabated. Larger companies are increasingly examining the area of individual mail with a view to identifying more efficient solutions. The collaboration of Francotyp-Postalia, iab – internet access GmbH and freesort GmbH has improved customer access in this area. Customers are offered postal processing solutions that dovetail with their requirements. For freesort GmbH alone, we estimate a market share potential of above 25% based on an estimated market volume of around €100 million.

EMPLOYEES



In the 2007 financial year, FP Group employed an average of 1,091 people (previous year: 948), of which 13 were trainees. This average increase of 143 employees is primarily attributable to the acquisition of our two subsidiaries iab and freesort at the end of 2006. As of December 31, 2007, iab GmbH and freesort GmbH accounted for 45 and 98 employees respectively.

Following the assumption of the distribution activities in Northern Germany, we appointed 13 new employees within our traditional franking machine operations at FP Hanse GmbH, Hamburg, as of December 31, 2007. At the same time, the workforce in Canada was reduced by 26 positions following the completion of the decertification process.

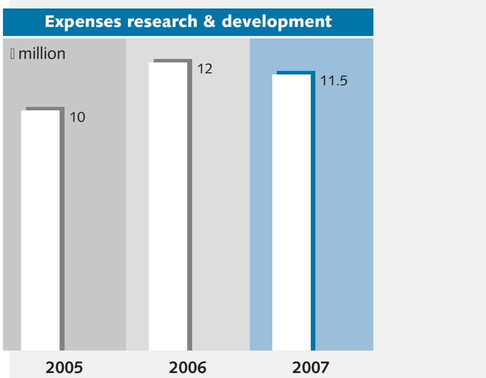
We employed an average of 421 people at our international subsidiaries (38 %), at which FP Inc., USA, is the largest foreign subsidiary with a workforce of 112. In Germany, we employed a total of 671 people (62 %), with Birkenwerder accounting for 396 employees as of December 31, 2007. 61 % of the people employed in Birkenwerder come from Brandenburg State and the surrounding area. The number of trainees increased slightly year-on-year to 13 (previous year: 11).

Project MOVE

In September 2007, Project MOVE was initiated following a resolution by the Supervisory Board and the Management Board. The IPO and the emerging changes in the global market for franking machine manufacturers have presented FP Group with new challenges. With this in mind, it is vital to set a course for new growth based on the premises of improving cooperation and significantly increasing effectiveness between our employees, and hence flexibility – thereby enhancing our ability to adapt to the developments and challenges in the market. This is the only way to ensure sustainable, profitable growth. In a global survey, we asked our employees about cooperation within the Company, process and product quality, customer focus and employee motivation. The results have been and will continue to be presented to employees individually and implemented in the form of corresponding measures.

RESEARCH AND DEVELOPMENT

Research and development strives to combine the requirements imposed by the relevant postal organisations and the needs of our end customers. Accordingly research and development activity at Francotyp-Postalia focuses on the areas of safety engineering, server applications for franking machine solutions, and device development. Innovations in franking solutions are primarily determined by postal standards, which are increasingly being driven by heightened security requirements and changes in the postal market. Our R&D team is responsible for developing solutions that allow new postal standards to be implemented in a timely, low-cost manner.



Since 2002, Francotyp-Postalia has focused on franking systems for customers with a low to medium mail volume, reorienting its product range accordingly. In the year under review, we launched the centor**mail**, a new machine for daily volumes of up to 200 letters, in the USA and the United Kingdom. Country-specific variants will follow in Austria and Norway, and the Netherlands, Denmark, Sweden, China and Italy in the next years.

With the centor**mail**, we have introduced a product that can remove items of every format – from postcards to B4 letters – from a stack and process them. The dynamic scale also detects the format, thickness and weight of the item before calculating the correct postage.

In the 2007 financial year, costs of €11.5 million were incurred for research and development (previous year: €12 million), of which €5.8 million were capitalised in accordance with IAS 38 and €5.7 million were expenses. The capitalised development services were written down with €2.4 million.

ENVIRONMENTAL REPORT AND QUALITY MANAGEMENT

In the past, we have taken precautions to ensure compliance with environmental legislation, to equip our systems in accordance with the state of the art, and to guarantee that we continue to comply with the requirements of environmental law in the future.

In a surveillance audit, Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb und Service GmbH and FP Direkt GmbH met the requirements for DIN EN ISO 9001 certification. iab GmbH has also been certified in accordance with DIN EN ISO 9001:2000. At Francotyp-Postalia, all employees are responsible for guaranteeing the quality of their work within the respective processes, thus ensuring that the high quality of our products and services is achieved and maintained. By applying effective methods and procedures, forward thinking is prioritised ahead of subsequent action. Accordingly, our innovative activity is not limited to products and services: the quality management process is also continuously reviewed in order to identify potential areas for improvement. This means that quality management is a fundamental element of our development, production, distribution and service activities.

BUSINESS DEVELOPMENT

Macroeconomic conditions

The global economic upturn continued in 2007, with a growth rate of around 5%. The emerging Asian economies enjoyed particularly dynamic development, but the Europe and the USA also recorded GDP growth of 2.7% and 2.2% respectively. The subprime crisis led to a downturn in financial market and real economic sentiment in the second half of the year, initially in the USA and subsequently also in Europe, with growth in the USA slowing down significantly in the fourth quarter. Germany recorded GDP growth of 2.5% in 2007. First and foremost, domestic investment accounted for the main growth beside exports, while consumer spending remained weak. The growth in exports was achieved despite the steady appreciation of the euro, with the US dollar/euro exchange rate rising from 1.32 dollars at the start of the year to 1.47 dollars at year-end. The strength of the euro was a stumbling block for the Company's activities in the USA, as well as those markets using the US dollar as their export currency.

Industry conditions

Global demand for franking machines and inserters correlates with the development of global letter volumes, which are generally stable even in the age of the Internet and despite the annual increase in overall mail volumes. According to the most recent statistics published by the Universal Postal Union, the volume of global mail increased by just under 1% to 439 billion items in 2006, with a similar development expected in 2007. The majority of global letter correspondence takes place within the developed economies of Europe and North America, which accounted for a market share of more than 80% in 2006; this corresponds to an annual volume of around 400 letters per capita.

Europe and North America dominate the market for franking machines

Demand for franking machines is naturally concentrated on the major economies of Europe and North America. The largest market is the USA, where the mail volume is also significantly higher than in most European countries: around 1.6 million franking machines are installed in the USA, representing some 60% of the global market. In Germany and the United Kingdom, the number of installed franking machines at year-end 2007 was around 250,000 and just under 230,000 respectively, giving the countries a global market share of 9% and 8%. Francotyp-Postalia is represented in all three markets with its own sales organisation, meaning that it participates directly in the world's largest mailroom markets. There were significant changes across all key markets in 2007. To begin with, demand for smaller machines in the A segment, i.e., for mail volumes of up to 200 letters a day, increased at the expense of the C and B segments. At the same time, companies took up the option of leasing franking machines rather than buying them. Both of these developments are likely to strengthen Francotyp-Postalia's position in the medium term, as the Company traditionally focuses on the A segment, and leasing offers steadier revenues than sales. The short-term impact on revenues will be negative, however, as revenues from leased machines are lower than from the sale of equivalent machines in the first few years.

In the second half of 2007, Francotyp-Postalia was affected by the economic downturn in the largest market for franking machines, the USA, where demand for new machines failed to meet expectations. Increasingly hesitant investment behaviour also had an adverse affect on the FP Group's activities in Germany.

Global sales of franking machines are always boosted by the introduction of new postage rates by state postal companies, such as the launch of the "Pricing in Proportion" system in the United Kingdom in 2005/2006 and the "Shape-Based Pricing" structure in the USA in 2007. As a result of these measures, postage costs in these countries are now based not only on weight, but also on the size of the respective item – as has been the case in Germany for a number of years.

Postal market liberalisation opens up new opportunities for private providers

Since 1998, Germany – alongside Sweden and the United Kingdom – has been one of the global pioneers in terms of postal market liberalisation. Following the deregulation of the parcel market, the letter markets were gradually opened up to private providers from 1998 onwards, culminating in their full liberalisation at the start of 2008. The market for consolidation services, i.e., the bundling of the outgoing mail of several companies by a specialist provider and its subsequent delivery to Deutsche Post, was liberalised as early as 2005. Deutsche Post grants postage discounts of between 3% and 25% to private consolidation providers, subject to the delivery of a minimum number of pre-sorted items. Francotyp-Postalia's subsidiary freesort is enjoying growing success in this market: the number of letters collected from customers and sorted by freesort increased from 35 million in 2006 to 80 million in 2007, with processed volumes growing from month to month. freesort is benefiting from the fact that corporate clients are increasingly willing to contract a specialist provider to process their outgoing mail.

New market for hybrid mail

Hybrid mail, which is offered by Francotyp-Postalia's subsidiary iab, goes one step further: recurring communications in particular, such as customer invoices, are transferred electronically to service providers such as iab, which then print the corresponding mail items in sorted form and deliver them to the mail centres of the relevant postal organisation. According to a survey by the Universal Postal Union, hybrid mail services are currently only offered in around one-third of industrialised nations, but this figure is on the rise. With the hybrid mail solution, customers can also be approached with so-called individual post. The content-based software is able to process individual post such as regular communications as part of the postal processing procedure. This means that medium-sized companies can also benefit from the advantages, which otherwise would only be available to larger companies due to their volume of post. At the same time, this means for Francotyp-Postalia an expansion of the target group of our products.

Significant events affecting the course of business

The course of business in 2007 was impacted by a total of five significant unforeseen events: the weakness of the US dollar; the delayed launch of the centor**mail**; the downturn in the German market, which was more pronounced than expected; the postponement of orders for iab's hybrid mail solution; and the reduction in the installed base following decertification in Canada.

Over the course of 2007, the euro appreciated by more than 11% against the US dollar, closing the year at 1.47 dollars/euro. As Francotyp-Postalia's manufacturing operations are primarily domiciled in the euro zone and the USA is the world's largest market for franking machines, the Company recorded losses due to this unfavourable exchange rate development during the course of the year. All in all, negative exchange rate effects impacted the FP Group's earnings to the tune of €1.5 million in 2007. Francotyp-Postalia recorded an 8% decline in its installed base following the completion of the decertification process in Canada midway through the year. As Francotyp-Postalia had established a suitably extensive sales organisation and built up corresponding machine inventories prior to decertification, it was forced to recognise additional costs. However, the Company had returned its sales organisation to the usual level and reduced inventories once again by the end of the year.

In its original financial planning for 2007, Francotyp-Postalia expected to generate a positive revenue and earnings contribution from the centor**mail**, a new generation of franking machines for small and medium-sized enterprises. Although customer interest in both Europe and the USA was high, it took longer for this interest to be converted into corresponding revenues than was the case for previous generations of machines. iab's project business in the form of its hybrid mail solution also enjoyed a high level of interest. Unlike in autumn 2006, however, there were delays in the forecast new orders for this groundbreaking solution for companies' outgoing mail. Francotyp-Postalia expects the delays affecting the centor**mail** and the hybrid mail solution to be resolved in the current financial year.

Comparison of forecast and actual business development

Due to the weakness of the US market and the US dollar, the delayed launch of the centor**mail** and changes in the market for franking machines, Francotyp-Postalia was unable to meet some of its targets for the past financial year. Organic revenues in the Mailroom segment did not increase as forecast, but instead were down slightly year-on-year at €136.6 million. By contrast, revenues in the Mailstream segment recorded the expected double-digit growth, rising 39.3% to €8.5 million. EBITDA did not remain unchanged year-on-year, as had been forecast midway through the year, but instead declined by €26.3 million; this was largely due to the weaker than expected results in the Mailroom segment. As announced in the course of its IPO, we are abiding by our forecast and will propose to the Annual General Meeting a dividend.

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

BUSINESS DEVELOPMENT

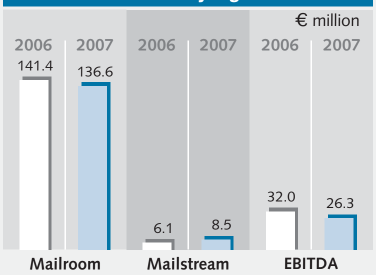
In the 2007 financial year, the FP Group generated revenues of €145.1 million, of which €136.6 million was attributable to the Mailroom segment and €8.5 million to the Mailstream segment.

Summary of results by business segment

€ million	Revenues			EBITDA		
	Jan. 1– Dec. 31, 2007	Jan. 1– Dec. 31, 2006	Change %	Jan. 1– Dec. 31, 2007	Jan. 1– Dec. 31, 2006	Change %
Mailroom	136.6	141.4	–3.4%	27.2	31.9	–14.7%
Mailstream	8.5	6.1[1]	39.3%	–0.9	n/a[2]	n/a[2]
of which freesort	4.8	2.5[1]	91.7%	–1.3	n/a[2]	n/a[2]
of which iab	3.7	3.6[1]	2.6%	0.4	n/a[2]	n/a[2]
FP Group	145.1	142.9	1.5%	26.3	32.0	–17.8%

[1] These figures are only included in the consolidated amounts on a pro rata basis, as the Mailstream segment was not included in the FP Group for the entire period.
[2] These figures are not available, as the Mailstream segment was only included in the FP Group on a pro rata basis in Q4 2006.

Revenue by region

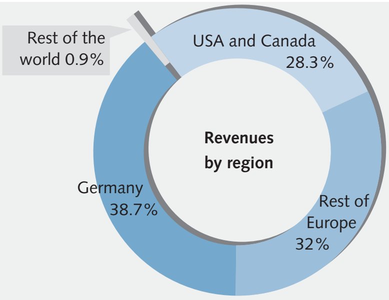


Mailroom

Revenues declined by 3.4% over the year as a whole, from €141.4 million in the previous year to €136.6 million. As forecast, revenues in Germany were lower than in the previous year due to the non-recurring effects of decertification and the rate change in 2006. By contrast, North America generated revenue growth of 2.4%, from USD 54.9 million to USD 56.2 million. Revenues in the rest of Europe increased from €46.2 million to €46.5 million, representing moderate growth of 0.6%. The negative effects of exchange rates in the 2007 financial year amounted to €3.5 million (US dollar, Canadian dollar, pound sterling).

Mailstream

For 2007 as a whole, revenues in the Mailstream segment rose by 39.3% to €8.5 million (previous year: €6.1 million).



FP Group revenues by region

€ million	Jan. 1–Dec. 31, 2007	Jan. 1–Dec. 31, 2006
Germany	56.2	51.9
Rest of Europe	46.5	46.2
USA/Canada	41.0	43.7
Rest of the world	1.3	1.1
Total revenues	**145.1**	**142.9**

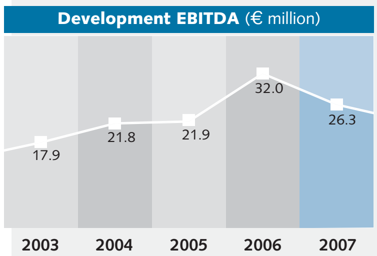
Consolidated net loss

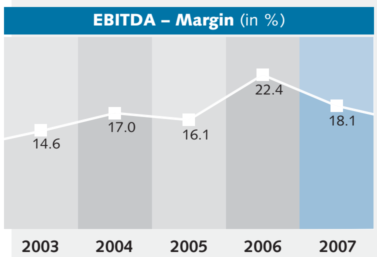
The development of the consolidated net loss for the period was impacted by changes in revenues. In comparison, the consolidated net loss decreased from €–0.3 million to €–2.6 million year-on-year. For 2006 the figures were positively influenced by the high-margin revenues from decertification in Germany, whereas the weak US dollar and start-up costs for the Mailstream segment adversely affected the Group's earnings situation in the 2007 financial year. EBIT amounted to €–1.9 million in 2007 after €7.0 million in 2006, while EBITDA declined from €32.0 million to €26.3 million year-on-year. The reduction in EBITDA is primarily due to the effects of decertification in Germany in the first quarter of 2006, the start-up costs for the Mailstream segment, and exchange rate effects amounting to €1.5 million.

REVENUES AND RESULTS OF OPERATIONS

The following table shows the key income statement items of the Francotyp-Postalia Group for the financial years ending December 31, 2007 and 2006.

€ million	2007 Jan. 1– Dec. 31	2006 Jan. 1– Dec. 31	Change	2005 Jan. 1– Dec. 31	2005 Jan. 1– Dec. 31	2004 Jan. 1– Dec. 31	2003 Jan. 1– Dec. 31
Income statement items				Pro forma			
Revenues	145.1	142.9	2.2	136.4	91.0	128.2	122.8
Changes in inventories	–1.0	1.3	–2.3	–1.7	0.2	1.1	0.2
Other own work capitalised	12.1	11.2	0.9	3.7	3.0	1.3	1.3
Gross revenue	**156.2**	**155.4**	**0.8**	**138.4**	**94.2**	**130.6**	**124.3**
Other operating income	2.6	3.0	–0.4	4.1	3.9	1.8	3.4
Cost of materials	45.9	42.7	3.2	40.4	30.2	33.7	34.2
Personnel expenses	54.3	50.1	3.4	43.8	30.4	43.7	44.1
Depreciation, amortisation and write-downs	28.2	25.0	3.1	22.6	20.3	11.3	15.9
Other operating expenses	33.4	33.5	0.5	37.3	26.8	32.8	31.0
Operating result before extraordinary income and expenses	**–2.9**	**7.2**	**–9.8**	**–1.6**	**–9.5**	**10.9**	**2.5**
Net interest expense	–2.6	–3.6	1.0	–2.3	–2.7	–0.2	–0.8
Net other finance income/financial expenses	1.0	–0.2	1.2	0.9	0.9	–0.4	–0.5
Tax result	1.7	–3.7	4.2	2.3	4.7	–3.0	–2.0
Consolidated net loss for the period	**–2.8**	**–0.3**	**–3.4**	**–0.7**	**–6.6**	**7.3**	**–0.8**
EBIT	**–1.9**	**7.0**	**–8.9**	**–0.7**		**10.6**	**2.0**
EBITA	**16.3**	**23.2**	**–6.9**	**13.5**		**10.6**	**5.7**
EBITDA	**26.3**	**32.0**	**–5.7**	**21.9**		**21.8**	**17.9**



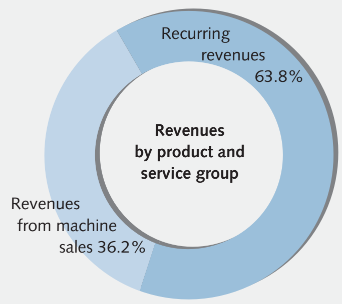


REVENUES

Revenues can be broken down by product group as follows:

Revenues by product and service group		
€ million	Jan. 1–Dec. 31, 2007	Jan. 1–Dec. 31, 2006
MAILROOM		
Franking	33.5	38.0
Inserting	14.2	14.0
Other	1.3	0.8
Revenues from product sales	**49.0**	**52.8**
Leasing	24.9	25.9
Teleporto	12.4	12.7
Services/Customer service	25.8	26.4
Consumables	23.9	23.9
Recurring revenues	**87.0**	**88.9**
Mailroom revenues	**136.0**	**141.7**
Revenues from machine sales (as % of Mailroom revenues)	36.2%	37.2%
Recurring revenues (as % of Mailroom revenues)	63.8%	62.8%
Exchange rate effect of loans denominated in US dollars	0.6	–0.2
Total Mailroom revenues	**136.6**	**141.5**
MAILSTREAM		
Mailstream revenues	**8.5**	**6.1**[1)]
TOTAL REVENUES	**145.1**	**142.9**

[1)] *These figures are only included in the consolidated amounts on a pro rata basis, as the Mailstream segment was not included in the FP Group for the entire period.*



The aforementioned exchange rate effects of €3.5 million had a varying impact on the different product and service categories. *Revenues from product* sales declined by 7.2% year-on-year, from €52.8 million to €49.0 million. In the *Franking* segment, revenues fell by 11.7%, from €38.0 million to €33.5 million. This was largely due to exchange rate effects, the increased leasing volume and the change in the product mix with proportionately higher sales of smaller franking machines, as well as the positive effects in the Netherlands (NetSet), the United Kingdom (PIP) and Germany (decertification of pre-paid card machines) in the previous year. Revenues from *Inserting* increased by 1.4%, from €14.0 million to €14.2 million. *Recurring revenues* declined by 2.2% in the year under review, from €88.9 million in the previous year to €87.0 million. The proportionate exchange rate effect amounted to €2.5 million. Revenues from *Leasing* fell by 3.8% year-on-year, from €25.9 million to €24.9 million. The weak US dollar impacted revenues in this service category to the tune of €1.6 million. Revenues in the *Teleporto* segment fell by 2.4%, from €12.7 million to €12.4 million, while revenues from *Services/Customer service* declined by 2.3%, from €26.4 million to €25.8 million. With €23.9 million revenues in the *Consumables* segment are on the same level year-on-year. Exchange rate effects impacted the various product and service categories in the amount of €1.2 million in the fourth quarter of the year under review.

Cost of materials

In the 2007 financial year, the cost of materials increased by 7.5% year-on-year, from €42.7 million to €45.9 million, while the cost of materials ratio rose from 29.6% to 31.8%. The increase in this ratio is primarily due to the exchange rate effects recognised in revenues, project business in the Netherlands involving large-scale inserters from the company Kern, and the relative increase in the share of business attributable to the Mailstream segment, which requires a higher materials ratio.

Personnel expenses

Personnel expenses increased by 8.5% to €54.3 million, compared with €50.1 million in the previous year. Of this increase, €3.3 million is attributable to the Mailstream segment, which was only included in consolidation for just under two months of the previous year, while restructuring provisions in Germany accounted for the remaining €0.9 million.

Depreciation, amortisation and write-downs

Depreciation, amortisation and write-downs increased by 12.4% year-on-year, from €25.0 million to €28.1 million. Of this increase, €0.8 million was attributable to the Mailstream segment, while €2.8 million related to the amortisation of customer lists and software that were capitalised at Group level following the acquisition of freesort and iab.

Other operating expenses

Other operating expenses fell by 0.6% year-on-year, from €33.5 million to €33.3 million. The Mailstream segment accounted for €2.5 million of the other operating expenses recorded in the year under review.

Net interest expense

Net interest expense was reduced by 28.7% in the year under review, from €–3.6 million to €–2.6 million. This was due to the partial repayment of a bank loan, which resulted in a lower level of interest payments, as well as the increased interest income due to the cash inflow from the IPO.

Financial result

Net other finance income improved by €1.2 million year-on-year to total €1.0 million, compared with net other financial expenses of €–0.2 million in the previous year. This was primarily attributable to exchange rate effects.

Tax result

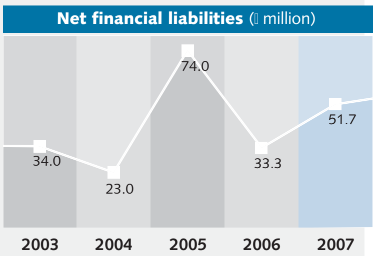
The tax result for 2007 amounted to €1.7 million, compared with €3.7 million in 2006. The tax result for the year under review is composed of a deferred tax asset of €10.2 million relating to temporary differences between the IFRS financial statements and the tax accounts (€9.7 million) and the recognition of deferred taxes from tax loss carryforwards (€0.5 million), current tax expenses of €4.0 million and deferred tax liabilities of €4.4 million.

The Group tax rate decreased from 37.34% to 28.08% as a result of the 2008 German corporate income tax reform, which was adopted in 2007. Accordingly, deferred taxes of €1.3 million that were recognised in previous years were reversed to income in the 2007 financial year.

FINANCIAL POSITION

Sources of capital

Development of net financial liabilities					
€ million	2007	2006	2005	2004	2003
Financial liabilities	59.0	74.3	76.0	25.0	36.3
less cash and cash equivalents	–26.6	–60.7	–19.4	–17.5	–15.7
excluding Teleporto balances	19.3	19.7	17.4	15.5	13.4
Net financial liabilities	**51.7**	**33.3**	**74.0**	**23.0**	**34.0**



In some of its subsidiaries, the FP Group manages customer funds that are earmarked for postage to be uploaded to franking machines. These amounts are reported as cash and cash equivalents in the balance sheet, even though the FP Group cannot freely dispose of these funds. The corresponding amounts are eliminated in calculating net financial liabilities. Cash and cash equivalents excluding Teleporto balances amounted to €7.3 million at December 31, 2007, €41.0 million at December 31, 2006, €2.0 million at December 31, 2005, €2.0 million at December 31, 2004, and €2.3 million at December 31, 2003. The changes in cash and cash equivalents are primarily due to reporting date effects and fall within the usual fluctuation margins. The increase in the 2006 financial year was also due in part to the cash inflow from the IPO. The financial liabilities presented in the table above include liabilities to BNP Paribas S.A., Frankfurt/Main, in the amount of €55.8 million.

Loan agreement, operating loan and shareholder loan

On March 4, 2005, Francotyp-Postalia GmbH (borrower) and Francotyp-Postalia Holding AG (guarantor) entered into a loan agreement with a volume of €89.5 million with BNP Paribas S.A., Frankfurt/Main. The loan agreement served in particular to finance the acquisition of the FP Group by Francotyp-Postalia Holding AG, which was effected on April 20, 2005. All in all, €69.5 million of the total loan volume, which was partially utilised in US dollars, was used to finance the acquisition. The conditions of the loan were changed by way of a modification agreement dated October 20, 2006 with a view to the Company's IPO, among other things. Firstly, the lending banks undertook to provide an additional loan of €16 million to be used by the Company for the purposes of repaying the shareholder loan. In addition, the capital expenditure tranche was amended in order to allow it to be used to finance the acquisitions of certain other companies in the future. The Company utilised €5.0 million of this tranche to finance the acquisition of its equity interest in iab. Under the terms of the modification agreement, the collateral provided under the original loan agreement was released by the banks after the completion of the Company's IPO, with the exception of standard market guarantees for certain key subsidiaries. The amounts drawn down under the terms of the loan agreement, including an operating credit facility utilised by the Company, must be repaid in full in accordance with a fixed repayment plan no later than five years after the date of the Company's initial stock exchange listing. The annual repayments prior to this date amount to USD 2.8 million in 2007 and the total of €1.0 million and USD 3.8 million in each subsequent year. Voluntary early repayments are permitted.

Changes in shareholders' equity

The share capital of Francotyp-Postalia Holding AG amounts to €14,700,000.00 and is divided into 14,700,000 no-par value bearer shares. No preference shares have been issued. By December 31, 2007 Francotyp-Postalia Holding AG had acquired 102,132 own shares.

Authorised capital

By resolution of October 16, 2006, the shareholders' meeting authorised the Management Board, with the 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 up to an aggregate amount of €6,000,000 (authorised capital). The New Shares are essentially required to be offered to the shareholders. The Management Board, however, has been authorised, 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

· if the New Shares are issued against contributions in kind for the purpose of acquiring companies or interests in companies, and if the acquisition of the company or the interest is in the well understood interest of the Company;

· with respect to a portion of the authorised capital in the aggregate amount of up to €1,200,000, if (i) the New Shares are issued against cash contribution at an offer price that is not materially below the market price, and (ii) the aggregate amount of the share capital attributable to the number of shares to be issued from authorised capital, together with other issued or sold shares pursuant to or in accordance with section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (Aktiengesetz), do not exceed a total of 10% of the existing share capital of the Company as of the time of the adoption by the shareholders' meeting of the resolution with respect to such authorisation or – if a lower amount – the share capital of the Company existing at the time of the exercise of the aforementioned authorisation;

· with respect to a share of the authorised capital in the amount of up to €1,200,000 for the purpose of issuing New Shares to employees of the Company or employees of one of its direct or indirect affiliates within the meaning of section 18 of the German Stock Corporation Act (Aktiengesetz), whereby the issuance of the employee shares can also be effectuated at a preferential price.

Contingent capital

On October 16, 2006, the shareholders' meeting resolved to increase the share capital of the Company by up to €6,000,000 by issuing new ordinary bearer shares with no par value, each such share with a notional par value of €1.00 per share (contingent capital). The contingent capital is intended to be used to grant rights to holders of option or conversion rights or, as the case may be, the persons obliged to exchange or convert by October 15, 2011 (inclusive) pursuant to option bonds or convertible bonds, that are issued or guaranteed by Francotyp-Postalia Holding AG or a direct or indirect affiliate of Francotyp-Postalia Holding AG within the meaning of section 18 of the German Stock Corporation Act (Aktiengesetz) in accordance with the aforementioned authorisation conferred by the shareholders' meeting on the Management Board and to the extent other forms of satisfying such rights are not used.

The issuance of the shares will be effectuated at the strike price or conversion price fixed in each case by resolution. The contingent capital increase will be effectuated only in the event of the issuance of option bonds and/or convertible bonds and only to the extent that the related option or conversion rights or exchange or conversion obligations are exercised. The New Shares will have full dividend rights for the entire fiscal year of the Company in which they were created through the exercise of the option or conversion rights or through exchange or conversion obligations. The Management Board has been authorised, with the consent of the Supervisory Board, to determine the further details of the implementation of the contingent capital increase.

Conversion rights and options

The Annual General Meeting on October 16, 2006 authorised the Management Board, with the approval of the Supervisory Board, to issue option and/or convertible bonds (hereinafter also collectively referred to as "bonds") with a total volume of up to €2,000,000,000 and a maximum term of 30 years on one or more occasions until October 15, 2011, and to grant options to the holders of option bonds and conversion rights to the holders of convertible bonds for the no-par value shares of the Company with a total notional interest in the share capital of up to €6,000,000 in accordance with the more detailed terms and conditions of the bonds. Up until now there has been no issue of shares due to use of the authorised or contingent capital.

Presentation of the consolidated cash flow statement

€ million	Jan. 1–Dec. 31, 2007	Jan. 1–Dec. 31, 2006[2]
1. Cash flows from operating activities		
Net cash from operating activities	19.4	18.0
2. Cash flows from investing activities		
Net cash used in investing activities	–34.4	–25.6
3. Cash flows from financing activities		
Net cash used in/from financing activities	–17.1	46.6
Cash and cash equivalents		
Change in cash and cash equivalents	–32.1	38.9
Change in cash and cash equivalents due to currency translation	–1.6	0.2
Cash and cash equivalents at the start of the period	41.0	1.9
Cash and cash equivalents at the end of the period[1]	**7.3**	**41.0**

[1] *The postage credit balances managed by the FP Group (€19,309 thousand; previous year: €19,363 thousand) have been eliminated from cash and cash equivalents and other liabilities.*
[2] *The prior-period amounts have been restated in accordance with 1) above.*

Cash flows from operating activities

Net cash from operating activities increased from €18.0 million in the previous year to €19.4 million in 2007.

Cash flows from investing activities

Net cash used in investing activities amounted to €34.4 million in 2007, compared with €25.6 million in 2006. Excluding payments for company acquisitions, net cash used in investing activities amounted to €–16.0 million in 2006 (adjustment of €9.7 million) and €–17.3 million in 2007 (adjustment of €17.0 million). The change in cash flows from investing activities is due in particular to the €1.3 million increase in capitalised development costs.

Cash flows from financing activities

Net cash used in financing activities amounted to €–17.1 million in 2007, compared with net cash from financing activities of €46.6 million in 2006.

Cash outflows from financing activities in 2006 were primarily attributable to repayments of loans to shareholders (€16.2 million) and BNP Paribas S.A. (€6.5 million), as well as payments relating to the IPO (€3.1 million). The corresponding inflows in 2006 related to cash receipts from the assumption of bank loans (€21.0 million) and the IPO (€51.3 million).

In 2007, cash outflows related to the acquisition of treasury shares (€0.6 million) and payments relating to the IPO (€1.5 million), as well as repayments of bank loans (€15.1 million).

Cash and cash equivalents (excluding Teleporto balances) decreased by €33.7 million, from €41.0 million in 2006 to €7.3 million in 2007.

NET ASSETS

Assets		
€ million	Dec. 31, 2007	Dec. 31, 2006
A. Noncurrent assets		
I. Intangible assets	76.7	88.6
II. Property, plant and equipment	23.3	23.3
III. Other noncurrent assets	3.8	2.8
IV. Deferred tax assets	7.6	6.5
	111.4	**121.2**
B. Current assets		
I. Inventories	19.7	18.3
II. Trade receivables	18.3	20.3
III. Cash and cash equivalents	26.6	60.7
IV. Other current assets	9.9	12.8
	74.5	**112.1**
	185.9	**233.3**

Intangible assets declined from €88.6 million as of December 31, 2006 to €76.7 million at the end of the year under review. This was primarily due to the amortisation of intangible assets that were capitalised at Group level as a result of company acquisitions (€15.3 million), which was offset by the capitalisation of development costs in the amount of €5.8 million. As of December 31, 2007, *property, plant and equipment* remained unchanged year-on-year at €23.3 million. Leased inventories increased from €11.4 million to €12.3 million, while assets held under finance leases rose from €1.9 million to €3.4 million. This was offset by the depreciation of property, plant and equipment that was capitalised as a result of company acquisitions (€1.9 million). The carrying amounts of *other noncurrent assets* rose from €2.8 million to €3.8 million, with noncurrent finance lease receivables increasing by €0.9 million to €3.3 million. *Deferred tax assets* increased from €6.5 million to €7.6 million. Inventories increased by €1.4 million to €19.7 million as against December 31, 2006. *Trade receivables* declined from €20.3 million to €18.3 million. *Cash and cash equivalents* fell by €34.1 million year-on-year, from €60.7 million to €26.6 million. This development is primarily due to the early repayment of a US dollar-denominated loan (€20.5 million), payments for company acquisitions (€17.0 million) and payments relating to the IPO (€1.6 million), as well as a €0.4 million decrease in the Teleporto balances managed by the FP Group (restricted cash). *Other current assets* decreased by €2.9 million to €9.9 million in the period under review.

Liabilities

€ million	Dec. 31, 2007	Dec. 31, 2006
B. Noncurrent Liabilities		
I. Provisions for pensions and similar obligations	12.1	11.9
II. Other noncurrent provisions	1.6	2.3
III. Noncurrent financial liabilities	52.9	68.6
IV. Other noncurrent liabilities	0.1	0.2
V. Deferred tax liabilities	6.2	10.4
	72.9	**93.4**
C. Current Liabilities		
I. Current income tax liabilities	1.0	1.2
II. Other current provisions	9.9	11.2
III. Current financial liabilities	6.1	5.7
IV. Trade payables	4.6	7.2
V. Other current liabilities	36.0	53.8
	57.6	**79.1**
	130.5	**172.5**

Noncurrent and current provisions declined by €1.7 million, from €25.4 million to €23.7 million. *Noncurrent and current financial liabilities* fell by €15.3 million, from €74.3 million to €59.0 million; this was primarily attributable to the early repayment of a US dollar-denominated loan in the second quarter (USD 20.5 million). *Other noncurrent and current liabilities* decreased by €17.9 million, from €54.0 million to €36.1 million, largely as a result of payments for additional tranches of the purchase price for freesort and iab (€16.8 million). *Deferred tax liabilities* declined from €10.4 million as of December 31, 2006 to €6.2 million at December 31, 2007; this was due in particular to the deferred tax effect of the amortisation of capitalised customer lists and software at Group level. *Trade payables* decreased from €7.2 million to €4.6 million.

Investments

€ million	Jan. 1–Dec. 31, 2007	Jan. 1–Dec. 31, 2006
Capitalisation of development costs	5.8	4.5
Investments in intangible assets	1.6	1.1
Investments in property, plant and equipment	3.6	3.8
Investments in leased inventories	6.4	6.8
Investments in financial assets	0.1	0.0
Total investments	**17.5**	**16.2**

The capitalisation of *development costs* increased from €4.5 million in the previous year to €5.8 million. *Investments in intangible assets* rose from €1.1 million to €1.6 million, largely as a result of the increased capitalisation of ERP software in the USA. *Investments in property, plant and equipment* and *investments in leased inventories* remained essentially unchanged.

Summary of business development

In the past financial year, Francotyp-Postalia increased its revenues by 1.5% to €145.1 million in a difficult market environment and generated EBITDA of €26.3 million after €32.0 million in the previous year. The weakness of the US dollar impacted earnings to the tune of €1.5 million. The Company considers the revenue and earnings performance of its Mailroom segment in particular to be unsatisfactory, and has decided to implement restructuring measures in order to sustainably increase the FP Group's earnings power.

RISKS AND OPPORTUNITIES

A fundamental review of the risk management system was undertaken in the 2007 financial year. The Management Board and senior executives prepared a revised inventory of potential risks, the probability of their occurrence and the potential damages arising as a result, and allocated those risks to the following risk categories based on the extent to which they can be controlled internally and the corresponding areas of responsibility:

Risk categories
1. Legal and political environment – external events
Legislation and politics
Natural disasters
2. Business risks
Strategy/Operational management
Market/Competition
3. Operating risks
Operational management/Technology/Environmental protection
Human resources
Legal/Contractual/Insurance
Purchasing
IT
4. Finance
Accounting
Financial control

The risk register was revised on the basis of the results of the risk inventory and the classification and allocation of risks to risk categories. The main risk categories identified for Francotyp-Postalia Holding AG and its subsidiaries are market-related risks and financial risks.

Risks are listed and allocated in accordance with the areas of responsibility and operation that form part of the Group's organisational structure. The corresponding provisions on areas of responsibility and information and reporting systems are incorporated into the risk management system. This means that the risk management system is based on the fundamental workflows and responsibilities within the Group as a whole and uses established committees. A risk officer is appointed to perform the overall coordination of the risk management system (adjustments, further development of risk categories, preparation of meetings and implementation of matters arising, preparation of reports, etc.).

In accordance with the relevant statutory requirements, the risk management system serves as the basis for the information provided to and the decisions taken by the Management Board, which is responsible for reporting to the Supervisory Board and the Company's shareholders on the current course of business and the development of the risk situation within the Company.

MARKET-RELATED RISKS AND OPPORTUNITIES

Liberalisation

The EU Directive on the further liberalisation of Community postal services (Directive 2002/39/EG) regulates the opening up to competition of the European postal market. The necessary implementation of the Directive in national law is expected to lead to a large number of service providers being active in the German postal market in future. Many areas of the German postal market have already been liberalised. The German Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway ("Bundesnetzagentur") – which is responsible for the further development of the German postal infrastructure market through liberalisation and deregulation, among other things – has already issued several hundred licences to various postal service providers. Following the further liberalisation of the German market with effect from January 1, 2008, it is possible that these new carriers will expand their services to include the areas that were exclusively reserved for Deutsche Post AG ("DPAG") until the end of 2007, gain market share from DPAG and deliver their mail without franking, which could serve to reduce the overall level of demand for franking machines. This development may also affect the other European and global postal markets in which Francotyp-Postalia is active. This could have a material, long-term adverse effect on Francotyp-Postalia's business activities and its net assets, financial position and results of operations.

Demand for franking machines could decline due to the use of new technologies in the mail dispatch market and the increase in the number of private carriers. In addition to these factors, a segment shift within the franking machine sales structure could result in changes in market share, with the additional risk of reduced prices due to changes in the perceived value of franking machines for customers.

At the same time, our subsidiaries freesort and iab are participating in the liberalisation of the postal markets. The risks described above are accompanied by substantial opportunities, which we intend to leverage by generating synergies between our franking machine and inserter activities and our consolidation, outsourcing and hybrid mail services, thereby improving the profitability of our operations. With this in mind, we are closely observing the current developments in the private postal service market. The introduction of the minimum wage for postal workers has had a substantial impact on the liberalisation process. Some of the companies that are now forced to pay the minimum wage to their deliverers have encountered financial difficulties or are considering modifying or even discontinuing their operations in Germany. This represents a significant opportunity for Francotyp-Postalia. Although the distribution of the market share occupied by the various postal service providers is changing, the total volume of mail has remained constant. In the field of batch communications, which is iab GmbH's traditional area of business, we are also observing a growing number of competitors with impressive solutions. Accordingly, there is a pronounced risk that these competitors could obtain a strong market position in the longer term. Here, too, the Francotyp-Postalia Group will focus on outpacing its competitors and bringing its potential to the market in bundled form. Francotyp-Postalia's varied service range means that it can provide customers with tailored advice and solutions that meet their requirements. Our proximity to the customer and our ability to react flexibly and quickly to customer demands will be vital in allowing us to benefit from the expected redistribution of market share.

Financial risk

In the course of its business activities, the FP Group is exposed to certain financial risks, including exchange rate fluctuations, changes in interest rates and debt defaults. The Group's primary risk management system takes into account the unpredictability of the financial markets and is designed to minimise the negative repercussions for the Group's results of operations. To achieve this goal, the Group employs certain financial instruments, which are generally used to hedge existing items or planned transactions.

The scope for action, areas of responsibility, financial reporting and control mechanisms for financial instruments are governed by the Group's internal provisions. This includes the separation of the recording and control functions for financial instruments. The FP Group's exchange rate, interest rate and liquidity risks are controlled centrally.

Exchange rate risk

Exchange rate risks arising from expected future cash inflows denominated in US dollars are hedged to the extent that they are used to repay a US dollar-denominated loan that was assumed on April 20, 2005.

The Group has also concluded a number of US dollar currency options. In each case, the term of these options runs from November 14, 2007 until a date between January 14 and December 12, 2008. The option contracts grant Francotyp-Postalia the right to trade a specified volume of US dollars in exchange for a predetermined payment in euros at the respective due date.

Interest rate risk

The risk of fluctuations in market interest rates to which the Group is exposed primarily relates to noncurrent liabilities with a variable interest rate. In accordance with the terms of the master loan agreement entered into with the financing banks, the Group hedged around 56% of the current loan value resulting from this agreement against interest rate risk at the balance sheet date. On April 28, 2007, the Group made a repayment of €15,072 thousand (USD 20,500 thousand) on a bank loan denominated in US dollars. The ineffective portion of a swap that was used to hedge the variable interest rate of the repaid amount was sold following the repayment. On June 18, 2007, the Group entered into a new USD interest rate swap with a nominal volume of USD 18,146 thousand and a term until November 30, 2011. The reference amount decreases over the term of the swap contract in the amount of the scheduled repayments set out in the master loan agreement. Under the terms of the interest rate swap, the Group swaps variable 6-month Libor interest rate payments for a fixed interest rate of 4.29% p.a. The fair value of this financial instrument is determined on the basis of the price quoted by the contracting party at the balance sheet date.

Effective from June 30, 2006, volumes denominated in euros were also hedged using two cap transactions in the form of maximum interest rate agreements. The reference amounts as of December 31, 2007 are €6,398 thousand and €12,000 thousand, each with a maximum interest rate of 3.50% p.a. and a base interest rate of 6-month Euribor. There is no direct interest rate risk for the term of the hedging transactions (4 and 5 years respectively).

Counterparty default risk

The amount of the financial assets recognised on the face of the balance sheet indicates the maximum counterparty default risk in the event that the respective counterparties are unable to meet their contractual payment obligations, irrespective of the securities pledged. For all of the performance relationships underlying the originated financial instruments, counterparty default risk is minimised in order to prevent default by demanding the provision of securities, obtaining credit information/references or using historical data from existing business relationships, and in particular payment histories, depending on the nature and extent of the performance to be provided. In addition to the conclusion of credit insurance for trade receivables, the identifiable default risk for individual receivables and the Group's general credit risk are hedged by charging appropriate specific valuation allowances.

In the case of the Group's other financial assets, such as cash and cash equivalents, available-for-sale financial assets and certain derivative financial instruments, the maximum credit risk on default is the corresponding carrying amount.

Liquidity risk

The Group counteracts liquidity risk by way of a liquidity forecast for the entire Group based on a fixed planning horizon and available unutilised credit facilities.

SUPPLEMENTARY REPORT BY THE MANAGEMENT BOARD
IN ACCORDANCE WITH SECTION 315 (4) OF THE HGB IN CONJUNCTION WITH SECTION 120 (3) SENTENCE 2 OF THE AKTG

Following an amendment to the Aktiengesetz (AktG – German Stock Corporation Act) on April 25, 2007, the Supervisory Board is no longer required to discuss the disclosures contained in the Management Report in accordance with sections 289 (4) and 315 (4) of the Handelsgesetzbuch (HGB – German Commercial Code) in the Report by the Supervisory Board. This obligation has been transferred to the Management Board of the Company. In accordance with section 120 (3) sentence 2 of the AktG, this report must be presented on an annual basis to the Annual General Meeting in future. The Management Board of Francotyp-Postalia Holding AG presented this report for the first time in its 2006 annual financial statements.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) NO. 1 OF THE HGB (SUBSCRIBED CAPITAL)

On December 31, 2007, the share capital of Francotyp-Postalia Holding AG amounted to €14,700,000.00, divided into 14,700,000 no-par value bearer shares. Up until now there has been no issue of shares due to use of the authorised or contingent capital.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) NO. 2 OF THE HGB (RESTRICTIONS AFFECTING VOTING RIGHTS OR THE TRANSFER OF SHARES)

Each share grants the holder a voting right. There are no restrictions affecting voting rights or the transfer of voting rights. Francotyp-Postalia Holding AG is not aware of any restrictions resulting from agreements between shareholders.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) NO. 3 OF THE HGB (DIRECT OR INDIRECT INTERESTS IN THE COMPANY'S SHARE CAPITAL EXCEEDING 10% OF THE VOTING RIGHTS)

As of December 31, 2007, Quadriga Capital Private Equity Fund II L.P. and Quadriga Capital Limited held 22.84% and 5.46% of the share capital of Francotyp-Postalia Holding AG respectively, making for a combined interest in the Company's share capital of 28.3%. This corresponds to a total of 3,357,321 shares held by Quadriga Capital Private Equity Fund II L.P. and 803,326 shares held by Quadriga Capital Limited (combined shareholding: 4,160,647). As of December 31, 2007, J O Hambro Capital Management Umbrella Fund plc, with its headquarters in London, Great Britain, held 10.41%, or 1,530,435 voting rights, in the share capital of Francotyp-Postalia Holding AG. J O Hambro Capital Management Limited and J O Hambro Capital Management Group Limited, both with their headquarters in London, Great Britain, are allocated voting rights via J O Hambro Capital Umbrella Fund plc, with the result that their voting rights in Francotyp-Postalia Holding AG totalled 10.84% as of December 31, 2007, which equalled 1,593,452 voting rights.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) NO. 4 OF THE HGB (PREFERENCE SHARES)

Francotyp-Postalia Holding AG has not issued any preference shares.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) NO. 5 OF THE HGB (CONTROL OF VOTING RIGHTS IN THE CASE OF SHARES HELD BY EMPLOYEES)

None of the Company's shares are held by employees.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) NO. 6 OF THE HGB (STATUTORY PROVISIONS OF THE ARTICLES OF ASSOCIATION ON THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION)

In accordance with Article 6 (2) of the Articles of Association of Francotyp-Postalia Holding AG, the Supervisory Board is responsible for determining the number of members of the Management Board and appointing and dismissing such members. In accordance with Article 6 (3) of the Articles of Association, the Supervisory Board may transfer the responsibility for the conclusion, amendment and termination of employment agreements with members of the Management Board to a Supervisory Board committee.

In accordance with Article 23 (1) of the Articles of Association, resolutions at the Annual General Meeting are passed by a simple majority of the votes cast and, unless the law requires a capital majority in addition to a simple majority, by a simple majority of the equity capital represented at the passing of the resolution, unless a larger majority is expressly required by law or in accordance with the Articles of Association. Abstentions are not counted towards the number of votes cast.

In accordance with Article 15 (2) of the Articles of Association, the Supervisory Board is authorised to make amendments to the Articles of Association that relate solely to their wording.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) NO. 7 OF THE HGB (AUTHORISATION OF THE MANAGEMENT BOARD TO ISSUE OR BUY BACK SHARES)

Authorised capital

By resolution of October 16, 2006, the shareholders' meeting authorised the Management Board, with the 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 up to an aggregate amount of €6,000,000 (authorised capital). The New Shares are essentially required to be offered to the shareholders. The Management Board, however, has been authorised, 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

· if the New Shares are issued against contributions in kind for the purpose of acquiring companies or interests in companies, and if the acquisition of the company or the interest is in the well understood interest of the Company;

· with respect to a portion of the authorised capital in the aggregate amount of up to €1,200,000, if (i) the New Shares are issued against cash contribution at an offer price that is not materially below the market price, and (ii) the aggregate amount of the share capital attributable to the number of shares to be issued from authorised capital, together with other issued or sold shares pursuant to or in accordance with section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (Aktiengesetz), do not exceed a total of 10% of the existing share capital of the Company as of the time of the adoption by the shareholders' meeting of the resolution with respect to such authorisation or – if a lower amount – the share capital of the Company existing at the time of the exercise of the aforementioned authorisation;

· with respect to a share of the authorised capital in the amount of up to €1,200,000 for the purpose of issuing New Shares to employees of the Company or employees of one of its direct or indirect affiliates within the meaning of section 18 of the German Stock Corporation Act (Aktiengesetz), whereby the issuance of the employee shares can also be effectuated at a preferential price.

Contingent capital

On October 16, 2006, the shareholders' meeting resolved to increase the share capital of the Company by up to €6,000,000 by issuing new ordinary bearer shares with no par value, each such share with a notional par value of €1.00 per share (contingent capital). The contingent capital is intended to be used to grant rights to holders of option or conversion rights or, as the case may be, the persons obliged to exchange or convert by October 15, 2011 (inclusive) pursuant to option bonds or convertible bonds, that are issued or guaranteed by Francotyp-Postalia Holding AG or a direct or indirect affiliate of Francotyp-Postalia Holding AG within the meaning of section 18 of the German Stock Corporation Act (Aktiengesetz) in accordance with the aforementioned authorisation conferred by the shareholders' meeting on the Management Board and to the extent other forms of satisfying such rights are not used. The issuance of the shares will be effectuated at the strike price or conversion price fixed in each case by resolution. The contingent capital increase will be effectuated only in the event of the issuance of option bonds and/or convertible bonds and only to the extent that the related option or conversion rights or exchange or conversion obligations are exercised. The New Shares will have full dividend rights for the entire fiscal year of the Company in which they were created through the exercise of the option or conversion rights or through exchange or conversion obligations. The Management Board has been authorised, with the consent of the Supervisory Board, to determine the further details of the implementation of the contingent capital increase. An application for the contingent capital was submitted for registration in the Commercial Register and is expected to be registered on November 15, 2006.

Conversion rights and options

The Annual General Meeting on October 16, 2006 authorised the Management Board, with the approval of the Supervisory Board, to issue option and/or convertible bonds (hereinafter also collectively referred to as "bonds") with a total volume of up to €2,000,000,000 and a maximum term of 30 years on one or more occasions until October 15, 2011, and to grant options to the holders of option bonds and conversion rights to the holders of convertible bonds for the no-par value shares of the Company with a total notional interest in the share capital of up to €6,000,000 in accordance with the more detailed terms and conditions of the bonds. Up until now there has been no issue of shares due to use of the authorised or contingent capital.

Authorisation to acquire and sell treasury shares

By resolution of the shareholders' meeting on October 16, 2006, the Company was authorised, pursuant to section 71 paragraph 1 no. 8 of the German Stock Corporation Act (Aktiengesetz), to acquire shares representing up to 10% of the share capital of the Company by April 15, 2008 (inclusive) in the stock market or by means of a public offering directed to all shareholders of the Company, though not for the purpose of trading in its own shares and subject to the limitations of section 71 paragraph 2 of the German Stock Corporation Act (Aktiengesetz).

If the shares are purchased in the stock market, the price per share paid by the Company (net of commissions) may not exceed or fall short of, by more than 10%, the price determined in the opening auction on the respective trading day in Xetra trading (or in trading on a functionally equivalent successor system taking the place of the Xetra system) of the Frankfurt Stock Exchange.

If the shares are purchased through a public offering made to all shareholders of the Company, the price or the price range per share offered by the Company (in each case net of commissions) may not exceed or fall short of, by more than 10%, the price determined in the final auction in Xetra trading (or in trading on a functionally equivalent successor system taking the place of the Xetra system) of the Frankfurt Stock Exchange on the trading day preceding the announcement of the intention to make a public offering. The size of the offering can be limited. To the extent that the total subscriptions exceed the size of the offering, the acceptance must occur pro rata in relation to the shares offered.

The offer terms can provide for preferential acceptance of small blocks of up to 100 tendered shares per shareholder. The authorisation for the acquisition can be exercised in whole or in partial amounts, once or more than once, for one or more purposes, within the scope of the aforementioned limitations.

The Management Board was authorised with regard to the acquired treasury shares not only on the stock exchange or through a public offering to all shareholders, but also, with the consent of the Supervisory Board, to the exclusion of the shareholders' subscription rights,

- to issue them against in-kind contributions for the purpose of acquiring companies or interests in companies, to the extent that the acquisition of the company or the interest in the company is in the well-understood interest of the Company and to the extent that the consideration to be paid per treasury share by third parties is not unreasonably low (by analogy to section 255 paragraph 2 of the German Stock Corporation Act (Aktiengesetz));

- to issue the shares against cash contributions for the purpose of introducing the shares of the Company to a foreign stock exchange on which the shares of the Company have not previously been admitted to trading; or

- to sell the shares at a price that does not exceed or fall short of, by more than 10%, the average price (arithmetic mean) of the final auction price in Xetra trading (or in trading on a functionally equivalent successor system taking the place of the Xetra system) of the Frankfurt Stock Exchange on the five trading days preceding the sale of the shares, provided that this authorisation to exclude subscription rights, taking into consideration the current and future authorisation in the Articles of Association of the Company, is limited to a maximum of 10% of the share capital of the Company. This limit of 10% of the share capital will include shares that are issued to the exclusion of shareholder subscription rights after this authorisation takes effect, pursuant to an authorisation in effect at the time this authorisation takes effect or an authorisation in place thereof, to issue new shares from authorised capital pursuant to section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (Aktiengesetz). Shares issued or required to be issued for the satisfaction of convertible bonds or option bonds will also be included within the limit, to the extent that the convertible bonds or option bonds were issued to the exclusion of shareholder subscription rights after this authorisation takes effect, pursuant to an authorisation in effect at the time this authorisation takes effect or an authorisation in place thereof, in analogous application of section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (Aktiengesetz); or

- to assign such shares to authorised subscribers in satisfaction of subscription rights to shares of the Company in the scope of convertible bond or option bond programmes of the Company. The authorisation to sell, even outside of the stock exchange, can be exercised in whole or in part, once or more than once, individually or separately. The Company's Management Board was also authorised to retire the acquired treasury shares without the need for a further resolution by the shareholders' meeting. The rights to acquire treasury shares pursuant to section 71 paragraph 1 subparagraphs 1 to 6 of the German Stock Corporation Act (Aktiengesetz) remain unaffected.

In exercise of the authorisation granted by the shareholders' meeting dated October 16, 2006, the Management Board approved on November 20, 2007 a programme for the Company to buy back its own shares.

In accordance with the authorisation granted by the shareholders' meeting dated October 16, 2006, an amount of up to 500,000 shares of the Company shall be purchased by the Company in the stock market. This equals a share of up to 3.40% of the Company's share capital. The price per share paid by the Company (net of commissions) may not exceed, or fall short of, by more than 10%, the price determined in the opening auction on the respective trading day in Xetra trading of the Frankfurt Stock Exchange. The share buy-back programme may run until April 15, 2008 (inclusive). The Management Board reserves the right to suspend or discontinue the share buy-back programme at any time and to acquire a total of less than 500,000 shares of the Company.

The buy-back programme will be administered by an investment bank, which will execute the buyback pursuant to in particular Article 5 of the Regulation (EC) no. 2273/2003 of the Commission dated December 22, 2003.

By December 31, 2007 Francotyp-Postalia Holding AG had acquired 102,132 own shares.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) NO. 8 OF THE HGB (MATERIAL AGREEMENTS OF THE PARENT COMPANY THAT ARE SUBJECT TO THE CONDITION OF A CHANGE OF CONTROL RESULTING FROM A TAKEOVER BID)

No such agreements were in place as of December 31, 2007.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) NO. 9 OF THE HGB (COMPENSATION AGREEMENTS OF THE PARENT COMPANY IN THE EVENT OF A TAKEOVER BID)

No such agreements were in place as of December 31, 2007.

REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The remuneration of the members of the Management Board is determined by the Supervisory Board at an appropriate amount based on a performance assessment and taking into account any payments by Group companies. The criteria for determining the appropriateness of remuneration are, in particular, the tasks of the respective member of the Management Board, his/her personal performance and the performance of the Management Board as a whole, as well as the economic situation and the performance and outlook of the Company, taking into account its peer group. The employment agreements entered into with the members of the Management Board include a fixed annual salary and a performance-related bonus. In the 2007 financial year, the direct remuneration paid to the members of the Management Board totalled €1,007,870.87, of which €617,499.99 related to the fixed annual salary, €300,000 to the performance-related bonus, and €90,370.88 to remuneration in kind. The bonus system is variable, meaning that bonus payments do not constitute guaranteed remuneration. Remuneration in kind primarily relates to the amounts to be recognised for the use of a company car under tax law and the individual insurance contributions. The company had no stock option plans or similar securities-based incentive systems in the year under review, nor has it introduced any stock option plans for 2008 financial year.

The entitlement to a pension for those members of the Management Board employed to the end of the year is in line with the pension scheme of Gebr. Röchling, Mannheim. This guarantees after fulfilment of the claim requirements payment of a pension, disability pension or dependants' pension as pension benefits. The amount of benefit is determined by the qualifying period of service and the qualifying income. The Company had no stock option plans or similar securities-based incentive systems in the year under review, nor has it introduced any stock option plans for the 2008 financial year.

The remuneration paid (€) to the members of the Management Board in the 2007 financial year is broken down as follows:

Management Board remuneration

	Fixed salary	Bonus 2006	Remuneration in kind	Total
Hans Christian Hiemenz	205,833.33	100,000	28,693.20	**334,526.53**
Hartmut Neumann	205,833.33	100,000	32,295.72	**338,129.05**
Manfred Schwarze	205,833.33	100,000	29,381.96	**335,215.29**

In accordance with the resolution by the Annual General Meeting on August 11, 2006, the remuneration of the members of the Company's Supervisory Board is set out in Article 17 of the Articles of Association. Accordingly, each member of the Supervisory Board receives fixed remuneration of €10,000 payable in the last month of the financial year, as well as the reimbursement of expenses and the VAT incurred in the course of their Supervisory Board activities. The Chairman of the Supervisory Board receives 2.5 times the amount of the fixed remuneration, while the Deputy

Chairman receives double the amount of the fixed remuneration. The annual remuneration increases by 10% for each Supervisory Board committee to which the respective member belongs, providing that the committee in question meets at least twice during the financial year in question. No other performance-related remuneration is granted. In the 2007 financial year, the remuneration paid to the members of the Supervisory Board totalled €55,000 and was composed as follows:

Dr. Rolf Stomberg (Chairman)	€25,000
Christoph Weise (Deputy Chairman)	€20,000
Georg Marton	€10,000

REPORT ON EXPECTED DEVELOPMENTS

Following the retraction of our forecasts for 2007, our planning for 2008 of between €150 million and €160 million and an EBITDA of between €22 million and €26 million is conservative in nature. We expect the Group to continue to record steady growth of 5–10% p.a. over the coming years.

The Mailroom segment is expected to generate organic growth, driven in particular by the decertification of B segment machines in the USA and the continued high level of recurring revenues around the world. With a contribution to revenues of more than 60%, the latter will guarantee the Group's stable, profitable growth. Existing growth potential will be leveraged in the key markets of the USA and the UK with a view to increasing the Group's market share.

The Mailstream segment will remain the key growth driver in 2008. Mailstream is expected to generate double-digit revenue growth as well as its first positive contribution to earnings after breaking even in January 2008. The full liberalisation of the German postal market effective from January 1, 2008 has opened up new opportunities which we intend to leverage in particular through the synergy effects between the Group companies that are active between the franking and inserting sectors and our two subsidiaries that operate in the areas of consolidation, outsourcing and hybrid mail.

The expansion of our value chain will be a key factor in this development. Acquisitions along the mailstream value chain will be examined with a view to further supporting the planned revenue growth. This may lead to the development of new areas of activity or the more rapid expansion of existing operations. Our core focus will remain our customers, who are currently presented with a wide range of options for optimising and simplifying their mail processing in a rapidly evolving postal market. Francotyp-Postalia can offer customer-oriented solutions encompassing its traditional franking and inserting activities as well as its more recently acquired expertise in the areas of consolidation, outsourcing and groundbreaking hybrid mail solutions.

This will require several significant changes within the FP Group. Firstly, the Group's distribution and service operations will have to be adjusted to reflect the new conditions, with a greater focus on the needs of the market and growth opportunities in future. Internal processes will be restructured and optimised with a view to allowing the Group to react quickly to developments in the market. This primarily relates to the areas of distribution, administration, research and development, as well as supply chain management as a whole.

Consolidated net profit and EBIT will continue to be impacted by amortisation charges in 2008. However, the Group expects to record positive net income and EBIT once again in 2009. EBITDA will continue to develop positively. Margins could come under slight pressure due to the fact that the forecast growth will be driven primarily by the Group's lower-margin Mailstream activities; however, the measures aimed at improving efficiency in the areas of administration, research and development and supply chain management are expected to have a sustained positive impact on margins.

As the Group is dependent on US dollar-denominated revenues to a large extent, the further appreciation of the euro could have a negative effect on revenues.

The operating cash flow is expected to continue to develop extremely positively as a result of the high share of recurring revenues. The measures aimed at optimising the supply chain should lead to a sustained improvement in working capital.

Net indebtedness is expected to continue to decrease over the coming years (subject to debt-financed acquisitions), with the Group's gearing improving as a result.

Despite some difficulties in the past financial year, we are confident about the future. The FP Group is well equipped to deal with the challenges of the market. Our confidence is founded not only in our 80-year company history, which ensures that we have the necessary experience in our core business, but also in our conviction that this experience will combine with our technical expertise and innovative ability to form the basis for future growth.

REPORT ON POST-BALANCE SHEET DATE EVENTS

As of January 1, 2008, freesort GmbH has acquired the customer base of Direkt Express Brief AG with its headquarters in Ulm. The company being sold is a subsidiary of Direkt Express Holding AG, which belongs to the PIN Group and operates in the area of postal consolidation.

By the end of March 2008, the euro to dollar exchange rate had changed further to FP's disadvantage. As far as fiscal 2008 is concerned, resulting risk has been mainly hedged using options transactions.

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Collection of outgoing mail is a cost and service advantage enjoyed by an increasing number of customers.

Every working day a driver from freesort – an FP subsidiary – collects franked post from the customer at a pre-arranged time and brings it to the freesort sorting centre for sorting and consolidation.

A sophisticated logistics systems ensures that business correspondence is delivered the next working day throughout Germany. With this concept, FP offers customers both cost savings and easier mail processing.

Consolidated Accounts

RESPONSIBLE STATEMENT PURSUANT TO SEC. 37Y NO. 1 OF THE WPHG IN CONJUNCTION WITH SEC. 297 PARA. 2 SENT. 3 AND SEC. 315 PARA. 1 SENT. 6 OF THE HGB

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Birkenwerder, March 20, 2008

Board of Management Francotyp-Postalia Holding AG

DR. HEINZ-DIETER SLUMA	HANS CHRISTIAN HIEMENZ	MANFRED SCHWARZE
Management Board Chairman	Management Board member	Management Board member

CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2006

Assets			
€ thousand	*Note*	**Dec. 31, 2007**	**Dec. 31, 2006**
A. NONCURRENT ASSETS			
I. Intangible assets	*(9)*		
1. Intangible assets including customer lists		47,699	61,927
2. Goodwill		26,034	26,034
3. Development projects in progress and advance payments		3,004	666
		76,737	**88,627**
II. Property, plant and equipment	*(9)*		
1. Land, land rights and buildings		34	24
2. Technical equipment and machinery		1,631	1,580
3. Other equipment, operating and office equipment		5,970	7,673
4. Leased inventories		12,305	11,430
5. Advance payments and assets under construction		0	672
6. Assets held under finance leases		3,356	1,948
		23,296	**23,327**
III. Other noncurrent assets			
1. Equity investments		337	206
2. Loans to third parties		0	23
3. Noncurrent finance lease receivables	*(10)*	3,284	2,375
4. Miscellaneous other noncurrent assets		203	152
		3,824	**2,756**
IV. Deferred tax assets		**7,560**	**6,523**
		111,417	**121,233**
B. CURRENT ASSETS			
I. Inventories	(11)		
1. Raw materials and supplies		8,451	7,428
2. Work in progress		1,640	1,668
3. Finished goods and goods purchased and held for resale		9,510	9,062
4. Advance payments		94	104
		19,695	**18,262**
II. Trade receivables	(12)	**18,289**	**20,313**
III. Cash and cash equivalents	*(14, 22)*	**26,593**	**60,726**
IV. Other current assets			
1. Current finance lease receivables	(10)	1,577	919
2. Receivables from related parties		6	0
3. Derivative financial instruments		482	897
4. Miscellaneous other current assets		7,862	11,022
		9,927	**12,838**
		74,504	**112,139**
		185,921	**233,372**

Liabilities			
€ thousand	*Note*	**Dec. 31, 2007**	**Dec. 31, 2006**
A. SHAREHOLDERS' EQUITY			
I. Shareholders' equity attributable to the shareholders of the parent company			
1. Subscribed capital	*(15)*	14,700	14,700
2. Capital reserves	*(15)*	45,708	45,768
3. Treasury shares	*(15, 22)*	–552	0
4. Accumulated losses carried forward		–8,314	–7,942
5. Consolidated net loss for the period	*(19)*	–2,578	–372
6. Accumulated other comprehensive income		–712	1,377
		48,252	**53,531**
II. Minority interests	*(15)*	**7,148**	**7,354**
		55,400	**60,885**
B. NONCURRENT LIABILITIES			
I. Provisions for pensions and similar obligations	*(16)*	12,070	11,901
II. Other noncurrent provisions	*(18)*	1,663	2,321
III. Noncurrent financial liabilities	*(19)*	52,941	68,601
IV. Other noncurrent liabilities	*(19)*	65	227
V. Deferred tax liabilities	*(17)*	6,202	10,377
		72,941	**93,427**
C. CURRENT LIABILITIES			
I. Current income tax liabilities	*(17)*	989	1,169
II. Other current provisions	*(18)*	9,922	11,249
III. Current financial liabilities	*(19)*	6,062	5,671
IV. Trade payables	*(19)*	4,568	7,204
V. Payments received on account of orders		2	0
VI. Other current liabilities		36,037	53,767
		57,580	**79,060**
		185,921	**233,372**

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD JANUARY 1 THROUGH DECEMBER 31, 2007

Consolidated income statement			
€ thousand	*Note*	**Jan. 1–Dec. 31, 2007**	**Jan. 1–Dec. 31, 2006**
1. Revenues	*(1)*	145,130	142,930
2. Changes in inventory	*(9, 16–18)*	–986	1,338
		144,144	**144,268**
3. Other own work capitalised	*(2)*	**12,115**	**11,220**
4. Other operating income	*(3)*	**2,555**	**2,958**
5. Cost of materials	*(4)*		
a) Cost of raw materials, consumables and supplies		35,433	33,393
b) Cost of purchased services		10,470	9,300
		45,903	**42,693**
6. Personnel expenses	*(5)*		
a) Wages and salaries		46,464	42,381
b) Social security contributions		7,238	6,731
c) Expenses for pensions and other benefits		636	987
		54,338	**50,099**
7. Depreciation, amortisation and write-downs		**28,146**	**25,007**
8. Other operating expenses	*(6)*	**33,334**	**33,468**
9. Net interest expense	*(7)*		
a) Interest and similar income		2,832	2,120
b) Interest and similar expenses		5,418	5,749
		–2,586	**–3,629**
10. Net other finance income/financial expenses	*(17)*		
a) Other finance income		3,037	1,126
b) Other financial expenses		2,002	1,290
		1,035	**–164**
11. Tax result	*(8)*		
a) Tax income		10,160	5,469
b) Tax expense		8,485	9,187
		1,675	**–3,718**
12. Consolidated net loss for the period		**–2,783**	**–332**
13. Minority interests		**–205**	**40**
14. Consolidated net loss for the period after minority interests		**–2,578**	**–372**
EARNINGS per share:	*(24)*	€ **–0.18**	€ **–0.03**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2007

Consolidated cash flow statement

€ thousand	Note	Jan. 1–Dec. 31, 2007	Jan. 1–Dec. 31, 2006
1. Cash flows from operating activities			
Consolidated net loss for the period		–2,783	–332
Depreciation, amortisation and write-downs of noncurrent assets		28,146	25,007
Increase (+)/decrease (–) in provisions and deferred taxes	*(16, 18)*	631	3,218
Losses on the disposal of noncurrent assets	*(9)*	334	807
Increase (–)/decrease (+) in inventories, trade receivables and other assets not allocated to investing or financing activity	*(10–13)*	1,170	–9,721
Increase (+)/decrease (–) in trade payables and other liabilities[1] not allocated to investing and financing activities	*(19)*	–3,888	659
Other non-cash income and expenses		–26	–909
Net cash from operating activities		**19,423**	**17,972**
2. Cash flows from investing activities			
Capitalisation of development costs	*(2)*	–5,766	–4,462
Proceeds from the disposal of noncurrent assets	*(9)*	136	244
Payments for investments in intangible assets	*(9)*	–1,570	–1,125
Payments for investments in property, plant and equipment	*(9)*	–10,004	–10,611
Payments for investments in financial assets		–131	0
Payments for company acquisitions	*(23)*	–17,040	–9,675
Net cash used in investing activities		**–34,375**	**–25,629**
3. Cash flows from financing activities			
Cash receipts from the issue of capital	*(15)*	0	51,300
Payments to shareholders for the acquisition of treasury shares	*(15, 22)*	–552	0
Payments relating to the IPO	*(15, 23)*	–1,510	–3,093
Repayments of shareholder loans	*(19)*	0	–16,202
Cash receipts from the assumption of bank loans		0	21,000
Repayments of bank loans	*(23)*	–15,072	–6,455
Net cash used in/from financing activities		**–17,134**	**46,550**
Cash and cash equivalents[1]			
Change in cash and cash equivalents		–32,086	38,893
Change in cash and cash equivalents due to currency translation		–1,615	158
Cash and cash equivalents at the start of the period		40,985	1,934
Cash and cash equivalents at the end of the period	*(14, 23)*	7,284	40,985

[1] The postage credit balances managed by the FP Group (€19,309 thousand; previous year: €19,741 thousand) have been eliminated from cash and cash equivalents and other liabilities. The prior-period amounts have been restated accordingly.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Statement of changes in shareholders' equity				
€ thousand	Subscribed capital	Capital reserves	Treasury shares	Consolidated net loss
Balance at January 1, 2006	**4,000**	**6,700**	**0**	**–6,642**
Capital increases:				
· from retained earnings	8,000	–6,700	0	–1,300
· resulting from the IPO	2,700	48,600	0	0
· IPO costs	0	–2,832	0	0
Currency translation differences	0	0	0	0
Changes in consolidated group	0	0	0	0
Natural hedges	0	0	0	0
Derivatives	0	0	0	0
Consolidated net loss January 1 – December 31, 2006	0	0	0	–372
Balance at December 31, 2006/ January 1, 2007	**14,700**	**45,768**	**0**	**–8,314**
Subsequent IPO costs	0	–60	0	0
Purchase of treasury shares	0	0	–552	0
Currency translation differences	0	0	0	0
Natural hedges	0	0	0	0
Derivatives	0	0	0	0
Consolidated net loss January 1 – December 31, 2007	0	0	0	–2,578
Balance at December 31, 2007	**14,700**	**45,708**	**–552**	**–10,892**

Statement of changes in shareholders' equity

€ thousand	Accumulated other comprehensive income	Minority interests	Total
Balance at January 1, 2006	**–788**	**0**	**3,270**
Capital increases:			
· from retained earnings	0	0	0
· resulting from the IPO	0	0	51,300
· IPO costs	0	0	–2,832
Currency translation differences	–1,519	0	–1,519
Changes in consolidated group	0	7,314	7,314
Natural hedge	3,697	0	3,697
Derivatives	–13	0	–13
Consolidated net loss January 1 – December 31, 2006	0	40	–332
Balance at December 31, 2006/ January 1, 2007	**1,377**	**7,354**	**60,885**
Subsequent IPO costs	0	0	–60
Purchase of treasury shares	0	0	–552
Currency translation differences	–2,563	0	–2,563
Natural hedge	766	0	766
Derivatives	–292	0	–292
Consolidated net loss January 1 – December 31, 2007	0	–206	–2,784
Balance at December 31, 2007	**–712**	**7,148**	**55,400**

STATEMENT OF CHANGES IN INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

AS OF DECEMBER 31, 2007

	Cost					
€ thousand	Carried forward to Jan. 1, 2007	Currency translation differences	Additions	Disposals	Reclas-sifications	Balance at Dec. 31, 2007
INTANGIBLE ASSETS						
1. Intangible assets including customer lists	101,976	–445	4,345	551	627	105,952
2. Goodwill	27,666	–2	26	0	0	27,690
3. Development projects in progress and advance payments	666	0	2,965	0	–627	3,004
Total	**130,308**	**–447**	**7,336**	**551**	**0**	**136,646**
PROPERTY, PLANT AND EQUIPMENT						
4. Land, land rights and buildings	149	–7	14	0	0	156
5. Technical equipment and machinery	4,433	–9	487	14	43	4,940
6. Other equipment, operating and office equipment	32,599	–36	1,815	632	–35	33,711
7. Leased inventories	62,665	–4,845	6,372	10,752	80	53,520
8. Advance payments and assets under construction	672	0	0	0	–672	0
9. Assets held under finance leases	3,011	0	1,316	0	584	4,911
Total	**103,529**	**–4,897**	**10,004**	**11,398**	**0**	**97,238**
NONCURRENT ASSETS						
Total	**232,205**	**–5,344**	**17,340**	**11,949**	**0**	**232,252**

Depreciation, amortisation and write-downs						Carrying amounts	
Carried forward to Jan. 1, 2007	Currency translation differences	Additions	Disposals	Reclas-sifications	Balance at Dec. 31, 2007	Dec. 31, 2007	Jan. 1, 2007
40,049	–346	19,126	550	0	58,279	47,699	61,927
1,632	–2	0	0	0	1,630	26,034	26,034
0	0	0	0	0	0	3,004	666
41,681	**–348**	**19,126**	**550**	**0**	**59,909**	**76,737**	**88,627**
125	–7	4	0	0	122	34	24
2,853	69	399	13	2	3,310	1,630	1,580
24,926	–74	3,280	390	–2	27,740	5,971	7,673
51,235	–4,340	4,845	10,525	0	41,215	12,305	11,430
0	0	0	0	0	0	0	672
1,063	0	492	0	0	1,555	3,356	1,948
80,202	**–4,352**	**9,020**	**10,928**	**0**	**73,942**	**23,296**	**23,327**
120,251	**–4,700**	**28,146**	**11,478**	**0**	**132,219**	**100,033**	**111,954**

6

Mail sorting and consolidation
Daily mail from customers is pre-sorted by postal code at one of nine freesort sorting centres, bundled and handed over on the same day for delivery.

freesort's customers gain from rebates granted by Deutsche Post as a result of consolidation.

freesort's range of services is continuing to develop in direct response to market needs.

Notes to the Consolidated Financial Statements for the Fiscal Year January 1 to December 31, 2007

FRANCOTYP-POSTALIA HOLDING AG (FORMERLY GMBH), BIRKENWERDER

INTRODUCTION

GENERAL INFORMATION

Francotyp-Postalia Holding AG (hereinafter also referred to as "FP Holding"), Birkenwerder, is organised as a stock corporation and is entered in the commercial register maintained by the Local Court of Neuruppin under HRB 7549. The headquarters of the corporation is Birkenwerder at Triftweg 21–26. The consolidated financial statements of FP Holding covering the financial year ending December 31, 2007 includes FP Holding and its subsidiaries (hereinafter also referred to as "FP Group").

Francotyp-Postalia has an eighty-year history as an organisation operating internationally in the field of outgoing postal processing. The corporation operates a traditional product business involving primarily the development, production and distribution of franking machines and inserters in combination with after-sales business. The subsidiary freesort and majority stake in iab 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 April 26, 2007, in accordance with IAS 10.17.

DECLARATION OF CONFORMITY

FP Group produced its consolidated financial statements dated December 31, 2007 in accordance with the EU-wide valid and obligatory applicable 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

Francotyp-Postalia Holding AG functions as the parent company under which the Francotyp-Postalia Group is consolidated. The financial years correspond to the calendar year for all Group companies.

The FP Group December 31, 2007 consolidated financial statements were produced in accordance with the EU-wide valid and obligatory applicable International Financial Reporting Standards (IFRS) and the relevant interpretations released by the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements are produced in euros. All amounts are quoted in thousand 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 current or noncurrent assets or liabilities. Assets and liabilities are classified as current 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 noncurrent.

The cost of production method was applied in preparation of the profit and loss account.

CHANGES TO ACCOUNTING POLICIES

The accounting policies as well as the regulations to the notes used correspond to the policies used last year with the following exception to the newly revised standards shown below.

Use of new and revised standards

In the financial year the Group used the following new and revised IFRS standards and interpretations listed below. The use of these new and revised standards and interpretations has had no effect on the Group's net assets, financial position and earnings. However, they have resulted in additional disclosures.

IFRS 7 "Financial instruments: disclosures"

IFRS 7 is to be used for the first time for financial years starting on or after January 1, 2007. This standard requires disclosures which enable users of financial statements to assess the significance of the financial instruments for the financial position and earnings power of the Group and the type and extent of the risks resulting from these financial instruments. The new disclosures resulting from this apply to the financial statements in their entirety.

Change to IAS 1 "Presentation of financial statements"

In connection with the publication of IFRS 7 "Financial instruments: disclosures", the IASB has announced a change to IAS 1. This change results in new disclosures which enable users of the financial statements to assess the objectives, methods and processes of the Group. These new disclosures are contained in the notes the financial statements entitled "Capital management".

IFRIC 8 "Scope of IFRS 2"

This interpretation requires the use of IFRS 2 for all transactions in which a company cannot identify specifically some or all of the goods or services involved. This applies in particular if the consideration for the equity instruments provided by the company appears to be less than the fair value. As no equity instruments have been provided in the Group, the use of this interpretation has had no effect on the Group's net assets, financial position and earnings.

IFRIC 9 "Reassessment of embedded derivatives"

According to IFRIC 9, the company must always assess whether an agreement concluded regarding a structured instrument involves an embedded derivative at the time of the conclusion of the agreement. A reappraisal is only permitted if there is a substantial change in the contractual conditions and this could lead to a significant change in cash flows. As the Group has no embedded derivatives to be separated from the basic agreement, the use of this interpretation has had no effect on the Group's net assets, financial position and earnings.

IFRIC 10 "Interim financial reporting and impairment"

The Group used the IFRIC interpretation 10 for the first time on January 1, 2007. This interpretation states that an impairment loss recognised in the interim financial statements for goodwill, equity instruments held or financial assets, and which leads to costs being entered in the balance sheet, may not be reversed in subsequent financial statements. As the Group has in the past not implemented any such adjustments to the impairment loss recognised, the use of this interpretation has had no effect on the Group's net assets, financial position and earnings.

IFRIC 11 "Group and Treasury share transactions"

IFRIC 11 is concerned with how Group-wide share-based remuneration is to be entered in the balance sheet, the effects that employee turnover have within the Group and how share-based remuneration is to be treated when the company issues its own shares or must acquire shares from a third party. IFRIC 11 is to be used for financial years starting on or after March 1, 2007. IFRIC 11 has no effect on the Group as no share-based remuneration has been made.

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 2007 consolidated financial statements encompass 8 domestic and 8 international subsidiaries in addition to FP Group (see table below). In addition, there is a 49% equity interest in FP Data Center Inc., Japan. This is reported at cost in the consolidated financial statements. This relates to a Teleporto data centre 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 was not shown on the balance sheet due to reporting in € thousand due to the lack of material significance.

There were no changes or additions to the Group of consolidated companies in the 2007 financial year.

December 31, 2007

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, Hamburg, Germany	100.00
10	Francotyp-Postalia N.V., Zaventem, Belgium	99.97
11	Francotyp-Postalia (Österreich) GmbH, Vienna, Austria	100.00
12	Ruys Handelsverenigung B.V., The Hague, Netherlands	100.00
13	Italiana Audion s.r.l. Milan, Italy	100.00
14	Francotyp-Postalia Ltd., Dartford, Great Britain	100.00
15	Francotyp-Postalia Inc., Addision, USA	100.00
16	Francotyp-Postalia Canada Inc., Markham, Canada	100.00
17	FP/GPS Assembly PTE Ltd., Singapore	55.00

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 capitalised as goodwill.

Receivables, liabilities and/or provisions between consolidated companies are offset, as well as Group-internal revenue and other income/expenses. Intercompany gains involving Group-internal receivable/payables – representing material amounts – are adjusted and charged to/against earnings. Deferred taxes are charged against income recognised through consolidation at the average income tax rate for the Group company recognising 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 local 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 recognised 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, noncurrent 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 yearly 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, 2007	Dec. 31, 2006	2007	2006
US dollar (USD)	1.4729	1.3203	1.3707	1.2562
British pound (GBP)	0.7379	0.6743	0.6848	0.6820
Canadian dollar (CAD)	1.4464	1.5399	1.4692	1.4250
Singapore dollar (SGD)	2.1308	2.0260	2.0644	1.9956

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 recognised 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 recognised 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 three-year projections provided by the 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, capitalised development costs and the SAP system capitalised the previous year are written down over a five-year period.

Customer lists were revalued at €38,703 thousand in connection with the organisation of the Group on April 20, 2005. Customer lists for freesort and iab, which were acquired in November 2006, were valued at €2,670 thousand and €1,421 respectively, forming part of the sale price. As of December 31, 2007, customer lists represent a total carrying amount of €20,979 thousand. The 2007 financial year included depreciation of customer lists in the amount of €8,559 thousand.

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 and €9,238 thousand respectively as of the initial consolidation date of freesort and iab. The capitalisation 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 €463 thousand and €7,117 thousand respectively. Depreciation for this software amounted to €1,968 thousand in the 2007 financial year.

Development costs for internally generated intangible assets were capitalised 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. Grants received for development costs were deducted as assets. If the conditions for capitalisation have not been met, expenses are charged against income in the year accrued. Development expenses are shown as own work capitalised (gross) in the consolidated income statement under additions to fixed assets. Capitalised 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 of five years.

Research costs are expensed in the period they occur in line with IAS 38. Research and development costs accrued in the 2007 financial year totalling €11,515 thousand, of which €5,766 thousand was capitalised and €5,749 thousand expensed.

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 franking machines 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	15 to 40 years
Technical equipment and machinery	13 to 15 years
Operating and office equipment	4 to 10 years
Leased products	5 years
Assets under financial lease	5 years

An impairment of intangible assets and fixed assets is recognisable 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 recognised.

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 realisable 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 utilisation. Financing costs for the period of production are not factored in. The net realisable 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 organised into the following categories:
· financial assets at fair value recognised as income,
· receivables and other assets,
· 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.

· The category containing *financial assets at fair value recognised as income* contains the financial assets held for commercial purposes and financial assets classified as being assessed at fair value upon initial recognition. Financial assets are classified as being held for commercial purposes if they have been acquired for the purpose of selling them in the near future. Derivatives are also classified as being held for commercial purposes, with the exception of those derivatives which involve a financial guarantee or those which were designated hedging instruments and are effective as such. Gains or losses from financial assets held for commercial purposes are recognised as income.

· *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.

· *Financial assets available for sale* are non-derivative financial assets which are classified as being available for sale and are not included in the two categories above. After initial assessment, financial assets held for sale are carried at fair value. Non-realised gains or losses are recognised directly in equity. If a financial asset of this nature is derecognised or impaired, the accumulated gains or losses previously recognised directly in equity are recognised as income.

Cash and cash equivalents include 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.

If the Group acquires *own shares*, these are deducted from equity. The purchase, sale, issue or redemption of own shares is not recognised as income.

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 recognised as income or expenses in accordance with the corridor method. 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. An interest rate of 5.4% was applied for measurement to the end of the 2007 financial year. When assessing accruals, the new age limits contained in the Pension Age Amendment Act were used.

In the case of a foreign subsidiary, 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 19.30. No information is available regarding surpluses or deficits.

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 fulfilment amount in view of all identifiable risks pertaining thereto. Noncurrent provisions are carried at present value.

Multiple similar obligations are grouped together to determine the probability of assets being affected. Provision liabilities are recognised 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 recognises severance benefits to which it is demonstrably obligated in connection with the termination, voluntary or otherwise, of current employees on the terms of specific, formalised and irrevocable agreements. Italiana Audion creates scheduled provisions for severance payments in accordance with the legal situation in Italy. These are due upon the departure of employees.

An accrual for restructuring expenses is recognised if the Group has prepared a detailed, formal restructuring plan which gives those concerned a justified expectation that the restructuring measures will be completed by commencing the implementation of the plan or the announcement of its important components to those concerned. Only the direct restructuring expenses are used when assessing a restructuring accrual. This involves only those amounts caused by the restructuring and not those connected with the continued business activities of the Company.

Accruals for partial retirement were assessed with the respective present values of the outstanding settlement amounts and funds set aside. The accrual was balanced in accordance with IAS 19.102 ff. with the corresponding plan assets of an insurance policy used for the reinsurance of partial retirement commitments.

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 amortised cost. Finance leasing liabilities are shown at the present value of lease payments. Derivatives with a negative market value are recognised as income at fair value.

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 realisation. According to this method, deferred taxes are to be recognised for any temporary differences between valuations for tax purposes and their corresponding values reported in the consolidated financial statements.

Deferred tax receivables are recognised for any taxable income to which temporary differences will probably apply. Deferred tax assets were recognised for usable tax loss carryforwards likely to be realised 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 franking machines 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 recognised 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 recognised as income.

Finance leasing by German FP companies concerns franking machines and inserters leased to customers. These are standardised contracts involving full amortisation exclusively. Both new and used machines are leased under finance leasing contracts.

Leasing of franking machines by other FP companies is classified as *operating leasing*, as these contracts provide that economic ownership is retained. Leased machines are thus carried as noncurrent assets.

ACCOUNTING FOR LEASE CONTRACTS WITH FRANCOTYP-POSTALIA AS LESSEE

Sale and leaseback contracts for franking machines to FP GmbH, 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 noncurrent assets. A noncurrent liability is simultaneously recognised. iab and freesort still meet the requirements to constitute financial leasing as lessees for machines used by these companies.

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

In the course of its business activities, the FP Group is exposed to certain financial risks, including in particular exchange rate fluctuations, changes in interest rates and debt defaults. The Group's primary risk management system takes into account the unpredictability of the financial markets and is designed to minimise the negative repercussions for the Group's results of operations. To achieve this goal, the Group employs certain financial instruments, which are generally used to hedge existing items or planned transactions.

The scope for action, areas of responsibility, financial reporting and control mechanisms for financial instruments are governed by the Group's internal provisions. This includes the separation of the recording and control functions for financial instruments. The FP Group's exchange rate, interest rate and liquidity risks are controlled centrally.

Exchange rate risk

Exchange rate risks arising from expected future cash inflows denominated in US dollars are hedged to the extent that they are used to repay a US dollar-denominated loan that was assumed on April 20, 2005.

The Group has also concluded a number of US dollar currency options. In each case, the term of these options runs from November 14, 2007 until a date between January 14 and December 12, 2008. The option contracts grant Francotyp-Postalia the right to exchange a specified volume of US dollars into euros at already determined exchange rates. As of December 31, 2007, the currency options were written down to the fair value as an expense of €11 thousand.

The following table shows the sensitivity of the consolidated net income before taxes (due to the change in fair values for the monetary assets and liabilities) and of the Group equity (due to the changes in fair value of currency futures and the hedging of a net investment) compared with a possible and perfectly reasonable exchange rate change in percentage points of the US dollar. Effects due to changes in the US dollar exchange rate also include effects from cash flow hedging (2007: effect on profit and loss – €687 thousand and effect on equity – €125 thousand; 2006: effect on profit and loss €–760 thousand and effect on equity €–139 thousand). Also shown is the sensitivity of the British pound, Canadian dollar and Singapore dollar compared with the euro. All other variables remain constant.

Exchange rate risk

€ thousand	Price performance of the foreign currency in percentage points	Effect on the earnings before taxes	Effect on equity
2007			
US dollar (USD)	+5%	+78	–1,306
	–5%	–86	+1,443
British pound (GBP)	+5%	–489	–693
	–5%	+540	+766
Canadian dollar (CAD)	+5%	–122	–178
	–5%	+135	+197
Singapore dollar (SGD)	+5%	–8	–9
	–5%	+9	+9
2006			
US dollar (USD)	+5%	–284	–2,281
	–5%	+314	+2,522
British pound (GBP)	+5%	–518	–712
	–5%	+572	+787
Canadian dollar (CAD)	+5%	–317	–385
	–5%	+350	+425
Singapore dollar (SGD)	+5%	0	–3
	–5%	0	+1

Interest rate risk

The risk of fluctuations in market interest rates to which the Group is exposed primarily relates to noncurrent liabilities with a variable interest rate. In accordance with the terms of the master loan agreement entered into with the financing banks, the Group hedged around 56% of the current loan value resulting from this agreement against interest rate risk at the balance sheet date.

On April 28, 2007, the Group made a repayment of €15,072 thousand (USD 20,500 thousand) on a bank loan denominated in US dollars. The portion of a swap that had become ineffective due to this repayment was used to hedge the variable interest rate of the repaid amount and sold following the repayment. This sale resulted in an income of €354 thousand. On June 18, 2007, the Group entered into a new USD interest rate swap with a nominal volume of USD 18,146 thousand and a term until November 30, 2011. The reference amount decreases over the term of the swap contract in the amount of the scheduled repayments set out in the master loan agreement. Under the terms of the interest rate swap, the Group swaps variable 6-month Libor interest rate payments for a fixed interest rate of 4.29% p.a. The fair value of this financial instrument is determined on the basis of the price quoted by the contracting party at the balance sheet date and equals €–50 thousand.

Effective from June 30, 2006, volumes denominated in euros were also hedged using two cap transactions in the form of maximum interest rate agreements. The reference amounts as of December 31, 2007 are €6,398 thousand and €12,000 thousand, each with a maximum interest rate of 3.50% p.a. and a base interest rate of 6-month Euribor. There is no direct interest rate risk for the term of the hedging transactions (4 and 5 years respectively). The market value of the caps is €417 thousand on the statement date.

The following table shows the sensitivity of consolidated net income before taxes compared with a possible and perfectly reasonable change in interest rates (due to the effects of variable rate loans without interest hedge). All other variables remain constant. There are no effects on Group equity.

Interest rate risk

	Increase/decrease in percentage points	Effect on earnings before taxes (€ thousand)
2007	+1	–233
	–1	+233
2006	+1	–142
	–1	+142

Default risk

The amount of the financial assets recognised on the face of the balance sheet indicates the maximum counterparty default risk in the event that the respective counterparties are unable to meet their contractual payment obligations, irrespective of the securities pledged. For all of the performance relationships underlying the originated financial instruments, counterparty default risk is minimised in order to prevent default by demanding the provision of securities, obtaining credit information/references or using historical data from existing business relationships, and in particular payment histories, depending on the nature and extent of the performance to be provided. In addition to the conclusion of credit insurance for trade receivables, the identifiable default risk for individual receivables and the Group's general credit risk are hedged by charging appropriate specific valuation allowances.

In the case of the Group's other financial assets, such as cash and cash equivalents, available-for-sale financial assets and certain derivative financial instruments, the maximum credit risk on default is the corresponding carrying amount.

Liquidity risk

The Group counteracts liquidity risk by way of a liquidity forecast for the entire Group based on a fixed planning horizon and available unutilised credit facilities.

Please refer to the table in section 19 of these Notes for the maturities of the Group's financial liabilities.

Financial liabilities primarily relate to loans 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. There is additionally a noncurrent working capital facility in place for €10,000 thousand which has not been drawn down as of the statement date. The liquidity forecast contains no plans to draw down the working capital facility in the future.

Assessment of the 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 qualifying for hedge accounting are taken directly to income on the income statement, as are the derivatives which do not qualify for hedge accounting.

Capital management

The Group manages its capital with the objective of maximising the income of company participations by optimising the ratio of equity to debt capital. This ensures a high credit rating and all Group companies can operate under the assumptions of a going concern.

The Group is controlling its capital structure and making adjustments to meet changes in the economic environment where necessary. In order to maintain or change its capital structure, the Group can change its dividend payments to its shareholders. As of December 31, 2007 and December 31, 2006 no changes were made to the Company's objectives, guidelines or procedures. The Company's capital is monitored through the continuous analysis of its assets and its financial and earnings positions.

The management ratio for the Group's capital structure is net debt – the ratio of the net debt to equity. The selected debts include in particular credit liabilities (€55,848 thousand; previous year: €72,001 thousand), liabilities from corporate acquisitions (previous year: €16,773 thousand) and liabilities from finance leasing (€3,155 thousand; previous year: €2,165 thousand). Cash and cash equivalents include the own shares, and postage credit balances administered by the FP Group are eliminated (€19,309 thousand; previous year: €19,741 thousand). The resulting level of net debt is monitored continuously. At the end of the year, it was as follows compared with the previous year:

€ thousand	Dec. 31, 2007	Dec. 31, 2006
Liabilities	59,003	90,939
Cash and cash equivalents	–7,836	–40,985
Net debt	**51,167**	**49,954**
Equity	55,400	60,885
Net liability to capital ratio	92%	82%

The Group met all external minimum capital requirements in the year under review.

Financial key performance figures

A major aim of the Francotyp-Postalia Group is to achieve a sustained increase in the Company's value. The Company's key performance figures are EBITDA, net working capital (inventories plus trade receivables, less trade liabilities) and sales revenue. Compared to the previous year, sales and EBITDA developed per business segment as follows:

As of December 31, 2007 net working capital of the FP Group had increased over the year from €31,371 thousand to €33,416 thousand.

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 characterised 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.

SEGMENT REPORTING

SEGMENT DATA BY REGION

The revenue is assigned according to the headquarters of the end customer, whereas further data are assigned according to the headquarters of the companies.

Segment data by region 2007

€ thousand	A Germany	B USA/Canada	C Europe (without Germany)	Other regions	Total
Revenue					
· with external parties	56,218	41,035	46,528	1,349	145,130
· intersegment revenue	27,200	16,985	15,529	3,626	63,340
Operating result	13,177	4,544	4,193	128	22,042
· including depreciation of	11,259	6,315	1,583	6	19,163
· including additions to accruals	5,209	2,536	1,768	0	9,513
Assets	168,482	29,939	19,905	2,775	221,101
Investments	9,327	6,800	3,314	3	19,444
Liabilities	3,899	976	484	88	5,447

The previous year's segment revenue data was shown according to the headquarters of the companies. The revenue data was therefore adjusted to the form of representation for the 2007 financial year:

Segment data by region 2006

€ thousand	A Germany	B USA/Canada	C Europe (without Germany)	Other regions	Total
Revenue					
· with external parties	51,907	43,706	46,248	1,069	142,930
· intersegment revenue	23,199	19,287	17,110	1,778	61,374
Operating result	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	9,853
Assets	216,334	37,519	21,919	1,861	277,633
Investments	13,258	11,679	2,368	9	27,314
Liabilities	5,617	1,954	802	140	8,513

RECONCILIATIONS FOR 2007

Using the previous form of representation, revenues with external third parties in Germany in the previous year's report amounted to €58,331 thousand, for Europe (not including Germany) €39,900 thousand and for other regions €993 thousand.

Revenue

Revenue for segments A–C	203,495
Other revenue	4,975
	208,470
Less intersegment revenue	63,340
Revenue per statement	**145,130**

Operating result

Operating result for segments A–C	21,914
Other operating results	128
	22,042
Less intersegment operating result	–24,949
Consolidated operating result	**–2,907**
Net interest expense	1,035
Other financial results	–2,586
Tax result	1,675
Consolidated net loss for the year per statement	**–2,783**

Assets

Assets for segments A–C	218,326
Other assets	2,775
	221,101
Effect on consolidated level	–63,426
Assets per statement	**157,675**

Investments

Investments for segments A–C	19,441
Other investments	3
	19,444
Effect on consolidated level	–2,104
Investments per statement	**17,340**

Depreciation and amortisation

Depreciation and amortisation for segments A–C	19,157
Other write-downs	6
	19,163
Effect on consolidated level	8,083
Depreciation and amortisation per statement	**28,146**

Allocations to provisions

Allocations to provisions for segments A–C	9,513
Other allocations to provisions	0
	9,513
Effect on consolidated level	0
Allocations to provisions per statement	**9,513**

Assets are calculated by deducting from the balance sheet total deferred tax claims, other tax receivables and funds with limited availability.

Liabilities

Liabilities for segments A–C	5,359
Other liabilities	88
	5,447
Effect on consolidated level	0
Liabilities per statement	**5,447**

Segment liabilities include trade payables and guarantee provisions.

BUSINESS SEGMENTS

The FP Group is reporting its earnings by secondary segment. A distinction is made between the "Mailroom" and "Mailstream" segments. 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 (franking machines, 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 table below presents financial data for the respective segments:

2007				
€ thousand	A Germany	B USA/Canada	C Europe (without Germany)	Other regions
Mailroom				
a) Revenue	74,914	58,021	62,057	4,975
b) Assets	127,118	29,939	19,905	2,775
c) Investments	7,117	6,800	3,314	3
Mailstream				
a) Revenue	8,511	0	0	0
b) Assets	45,420	0	0	0
c) Investments	2,210	0	0	0

2006				
€ thousand	A Germany	B USA/Canada	C Europe (without Germany)	Other regions
Mailroom				
a) Revenue	73,629	62,993	63,358	2,847
b) Assets	164,039	37,519	21,919	1,861
c) Investments	12,059	11,679	2,368	9
Mailstream				
a) Revenue	1,477	0	0	0
b) Assets	54,139	0	0	0
c) Investments	1,199	0	0	0

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

NOTES ON THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

(1) REVENUE

The following tables show the breakdown of Group revenue; the previous year values were adjusted due to a changed allocation:

€ thousand	2007	2006
Germany	56,218	51,907
USA and Canada	41,035	43,706
Miscellaneous	47,877	47,317
Total	**145,130**	**142,930**

2007			
€ thousand	External revenue	Intercompany revenue	Total revenue
Germany	56,218	27,200	83,418
USA and Canada	41,035	16,985	58,020
Miscellaneous	47,877	19,155	67,032
Consolidations	0	–63,340	–63,340
Total	**145,130**	**0**	**145,130**

2006			
€ thousand	External revenue	Intercompany revenue	Total revenue
Germany	51,907	23,199	75,106
USA and Canada	43,706	19,287	62,993
Miscellaneous	47,317	18,888	66,205
Consolidations	0	–61,374	–61,374
Total	**142,930**	**0**	**142,930**

(2) OWN WORK CAPITALISED

€ thousand	2007	2006
Capitalised development costs	5,766	4,462
Leased machines	6,349	6,758
Total	**12,115**	**11,220**

(3) OTHER OPERATING INCOME

€ thousand	2007	2006
Expense allowances	672	84
Income from the reversal of provisions	531	1,057
Income from the sale of swaps	354	0
Costs passed on to others	260	431
Investment allowances from the sale of assets	132	42
Carrying amount of receivables	72	131
Miscellaneous income	534	1,213
Total	**2,555**	**2,958**

(4) COST OF MATERIALS

€ thousand	2007	2006
Cost of raw materials and supplies	35,433	33,393
Costs of purchased services	10,470	9,300
Total	**45,903**	**42,693**

(5) PERSONNEL EXPENSES

€ thousand	2007	2006
Salary and wages	46,464	42,381
Social security contributions	7,238	6,731
Pensions and other benefits	636	987
Total	**54,338**	**50,099**

Pensions and other benefits include expenses of €225 thousand (previous year: €581 thousand) from the transfer to pension accruals. The total breakdown of defined benefit pension commitments is as follows:

€ thousand	2007	2006
Pension benefits accruing during the fiscal year	225	581
Interest expense	543	490
Total	**768**	**1,071**

(6) OTHER OPERATING EXPENSES

€ thousand	2007	2006
Rental/lease	6,040	4,862
Commissions	5,960	5,650
Packing and shipping	2,971	2,460
Repair and maintenance	2,559	1,520
Travel expenses	2,266	1,737
Marketing	2,157	1,485
Communications and postage	1,983	1,875
Charges, fees, consulting	1,792	1,923
Outsourced IT services	974	1,234
Carrying amount of receivables	959	916
Patent and licensing costs	944	1,374
Personnel-related costs	931	1,264
Office supplies	749	630
Warranty-related third-party charges	328	867
Miscellaneous	2,721	5,671
Total	**33,334**	**33,468**

(7) FINANCIAL RESULT

€ thousand	2007	2006
Income from other securities and loans of financial assets	0	1
Other interest and similar income	**2,832**	**2,119**
from finance leasing	883	897
from bank balances	1,468	993
from third parties	481	229
Interest and similar expenses	**5,418**	**5,749**
liabilities to banks	3,676	3,608
liabilities to shareholders	0	1,349
thereof interest from addition to the pension provision	543	490
liabilities to third parties	1,199	302
Net interest expense	**–2,586**	**–3,629**
Other financial income	**3,037**	**1,126**
Other financial expenses	**2,002**	**1,290**
Total	**–1,551**	**–3,793**

(8) TAXES

Tax expenses break down as follows:

€ thousand	2007	2006
Current tax expenses	4,040	4,722
Deferred tax expenses	4,445	4,425
Income tax	**8,485**	**9,147**
Other taxes	0	40
Total	**8,485**	**9,187**

Deferred taxes were computed using the applicable country-specific rates (28.08%–31.41% for Germany; international 25%–38%).

Pursuant to IAS 12.48, actual and deferred tax assets and accrued taxes are generally to be evaluated on the basis of the tax rates and tax regulations currently in force. The Group tax rate used to calculate deferred taxes decreased from 37.34% to 28.08% as a result of the 2008 German corporate income tax reform, which was adopted in 2007. The important changes concern the decline in the nominal rate of corporation tax from 25% to 15%, the abolition of the tax deductibility of trade income tax and the so-called "interest deduction ceiling rule". Accordingly, deferred taxes of €1,267 million that were recognised in previous years were reversed to income in the 2007 financial year. As FP Group is organised 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.

The Group is posting income from capitalised deferred taxes amounting to €10,160 thousand, leading to a positive tax result of €1,675 thousand. Income from capitalised deferred tax arises from temporary differences between IFRS accounting and the tax balance accounts (€9,725 thousand), as well as from capitalisation of deferred taxes from loss carryforwards (€435 thousand).

The actual amount from taxes on income of €1,675 thousand is €415 thousand higher than the expected amount of €1,260 thousand which would result when applying the Group income tax rate to the year-ending pre-tax profit for the Group. In the previous year the actual taxes on income of €3,718 thousand were €2,764 thousand higher than the projected figure of €965 thousand. The Group income tax rate is calculated from the relevant tax rate of the FP companies weighted according to their relevant contribution to Group results. Where losses are reported the absolute tax amount is used.

€ thousand	2007	2006
Pre-tax Group profit	**–4,253**	**3,386**
Projected tax income (projected tax expense for previous year) (29.6%; PY: 28.5%)	–1,260	965
Tax effect of the corporate tax reform	–1,267	0
Tax effect of non-deductible expenses and non-taxable income	459	219
Other variations	393	2,534
Actual tax expense	**–1,675**	**3,718**
Tax rate in %	**39.4**	**111.2**

NOTES TO THE CONSOLIDATED BALANCE SHEET

(9) FIXED ASSETS

The change in individual items under fixed assets for the period under review is presented in the statement of changes in the appendix to the Notes. 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 €47,699 thousand include in particular customer lists valued at €20,979 thousand stemming from corporate acquisitions, development costs of €12,918 thousand for internally generated intangible assets (including €2,980 thousand in progress) and an amount of €7,580 thousand for internally generated software acquired with the corporate acquisitions.

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

Fixed assets include leased products carried at €12,305 thousand (PY: €11,430 thousand) and assets under finance lease with FP Group as lessee, carried at €3,356 thousand (PY: €1,948 thousand). Assets under financial lease contain leased machines under sale and leaseback agreements, involving Francotyp-Postalia (Österreich) GmbH, Vienna, Austria. freesort continues to report finance leasing items especially for sorting machines.

(10) FINANCE LEASING RECEIVABLES

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

December 31, 2007	Total	Remaining duration		
€ thousand		< 1 year	1–5 years	> 5 years
Future lease payments	6,286	2,119	3,701	0
Interest portion	1,425	542	417	0
Finance leasing receivables	**4,861**	**1,577**	**3,284**	**0**

December 31, 2006	Total	Remaining duration		
€ thousand		< 1 year	1–5 years	> 5 years
Future lease payments	4,116	1,281	2,754	81
Interest portion	822	362	450	10
Finance leasing receivables	**3,294**	**919**	**2,304**	**71**

(11) INVENTORIES

€ thousand	Dec. 31, 2007	Dec. 31, 2006
Raw materials and supplies	8,451	7,428
Work/services in progress	1,640	1,668
Finished products and goods	9,510	9,062
Advance payments	94	104
Total	**19,695**	**18,262**

Depreciation and amortisation of inventories increased in the financial year by €468 thousand to €7,550 thousand.

(12) TRADE RECEIVABLES

Trade receivables break down as follows:

€ thousand	Dec. 31, 2007	Dec. 31, 2006
Trade receivables – Germany	5,525	6,465
Trade receivables – international	12,764	13,848
Total trade receivables	**18,289**	**20,313**

Write-downs were performed to appropriately reflect all identifiable specific risks. The impairment loss recognised for fiscal year was €179 thousand (PY: €39 thousand).

As of December 31, 2007, trade receivables in the nominal value of €20,011 thousand (2006: €21,945 thousand) were written down. The development of the valuation account is as follows:

€ thousand	Individual write-downs	Portfolio-based write-downs	Total
Balance on January 1, 2006	335	1,369	1,704
Provisions charged to expense	39	741	780
Utilisation	199	648	847
Reversals	5	0	5
Accumulation	0	0	0
Balance on December 31, 2006	**170**	**1,462**	**1,632**
Provisions charged to expense	179	780	959
Utilisation	58	766	824
Reversals	4	41	45
Accumulation	0	0	0
Balance on December 31, 2007	**287**	**1,435**	**1,722**

As of December 31, the age structure of trade receivables was as follows:

€ thousand	Total	Neither overdue nor impaired	Overdue, but not yet impaired (or remaining amount of trade receivables impairment)				
			< 30 days	30–60 days	60–90 days	90–120 days	> 120 days
2007	**18,289**	8,110	4,347	2,153	680	946	2,053
2006	**20,313**	10,354	5,149	2,042	419	711	1,638

(13) OTHER NONCURRENT ASSETS

€ thousand	Dec. 31, 2007	Dec. 31, 2006
Deferred payments	4,120	5,201
Tax refunds due	1,376	3,406
Miscellaneous assets	2,366	2,415
Total	**7,862**	**11,022**

(14) CASH AND CASH EQUIVALENTS

€ thousand	Dec. 31, 2007	Dec. 31, 2006
Bank balances	26,202	60,398
Checks and cash on hand	391	328
Total	**26,593**	**60,726**

Bank balances of €19,309 thousand (PY: €19,741 thousand) were subject to limited availability, representing customer Teleporto balances on deposits which are redeemable on demand. A corresponding amount is posted under other liabilities.

The development of cash and cash equivalents is shown in the cash flow statement as well as in the section "Notes on the cash flow statement".

(15) EQUITY

The statement of changes in equity is shown on in reporting the statement of changes in equity.

FP Group capital consists of share capital of €14,700 thousand and additional capital reserves of €45,708 thousand paid in by shareholders. Differences resulting from currency translation deriving from the financial statements of international subsidiaries, the deviations between average monthly exchange rates in the profit and loss account from the exchange rate as of the statement date 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 thousand, 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.

FP Holding AG shares were listed on the Prime Standard segment of the Frankfurt Stock Exchange on November 30, 2006, involving additional post-listing requirements. FP Group raised gross proceeds of €51,300 thousand through its initial public offering of 2,700,000 shares, €48,600 thousand of which was written to capital reserves representing funds from new shareholders. Expenses in connection with the public offering totalled €4,603 thousand, of which €84 thousand in the year under review. Of the total expenses, €1,510 thousand affected payments in 2007. Of this amount, €2,832 thousand was charged against capital reserves instead of earnings in the consolidated financial statements, of which €60 thousand in the year under review, recognising deferred taxes of €1,711 thousand.

FP Group shareholders passed resolutions on October 16, 2006 authorising €6.0 million in additional capital, amendment of the Articles of Association accordingly and a contingent increase in share capital by a maximum €6.0 million through the issuance of new individual bearer shares, each representing €1.00 of share capital. The Management Board was further authorised 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 authorised to purchase and sell its own shares pursuant to Section 71 (1), no. 8 AktG in an amount up to 10% of Company share capital.

On November 30, 2007, the Management Board of Francotyp-Postalia Holding AG resolved to implement a share buy-back programme for Company shares based on the resolution authorised by the Company's Annual General Meeting on October 16, 2006, in order to be able to acquire companies or participations in companies using own shares as an acquisition currency.

To implement the authorisation of the Annual General Meeting passed on October 16, 2006, up to 500,000 Company shares are to be acquired on the stock exchange. This equals a proportion of up to 3.40% of the Company's share capital. The equivalent amount per share (not including ancillary acquisition costs) paid by the Company as part of the share buy-back programme may not exceed or fall below, by more than 10%, the share price determined by the opening auction in the Xetra trading of the Frankfurt Stock Exchange on the day of trading. The share buy-back programme will continue up to April 15, 2008 (inclusive). The Management Board reserves the right to discontinue or terminate the share buy-back programme early at any time or to acquire in total fewer than 500,000 Company shares.

For the purposes of carrying out the share buy-back programme, the Company has commissioned an investment bank to implement the buyback taking into consideration in particular the stipulations contained in Section 5 of European Commission Directive no. 2273/2003 dated December 22, 2003 (EC Directive).

A total of 102,132 shares were acquired by the statement date, which in the balance sheet were deducted from equity at cost of €552 thousand in accordance with IAS 12.33. As of December 31, 2007, the own shares equal 0.69% of the share capital, and had a market value of €669 thousand. The number of shares outstanding is derived from the following reconciliation:

	Number of outstanding shares
Balance as of January 1, 2007	14,700,000
Buyback of own shares	–102,132
Balance as of December 31, 2007	**14,597,868**

The shares were bought back in the following periods:

Period of acquisition	Number of own shares acquired	Amount in share capital in € thousand	Proportion of share capital in %
November 2007	38,283	38,283	0.26
December 2007	63,849	63,849	0.43
Total	**102,132**	**102,132**	**0.69**

Minority interests show 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 €7,068 thousand and €80 thousand 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. There are no net plan assets for these occupational pension plans and therefore no deficits requiring disclosure.

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 December 30, 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.

The primary actuarial parameters applied are:

p.a.	Dec. 31, 2007	Dec. 31, 2006
Interest rate	5.40%	4.60%
Salary trend	3.00%	2.50%
Pension trend	2.00%	1.75%

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

Reconciliation of projected unit credits with accruals for pensions carried:

€ thousand	Dec. 31, 2007	Dec. 31, 2006
Project pension unit credits	11,007	12,591
Adjustment amount due to unrealised actuarial gains/losses	1,063	–690
Accruals for pensions	**12,070**	**11,901**

Projected unit credits for pension commitments represent non-expiring claims, without exception.

The change in accruals for pensions was as depicted below:

€ thousand	2007	2006
Balance at beginning of period	11,901	11,395
Pension benefits accruing during the financial year	+225	+581
Interest expense	+543	+490
Pension benefits remitted	–599	–565
Accruals for pensions	**12,070**	**11,901**

(17) ACCRUALS FOR DEFERRED TAXES AND TAX PROVISIONS

€ thousand	Dec. 31, 2007	Dec. 31, 2006
Deferred tax income	6,202	10,377
Current tax income	758	855
Other taxes	231	314
Tax provisions	**7,191**	**11,546**

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

€ thousand	December 31, 2007			December 31, 2006			Transactions resulting in a profit or loss
	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance	2007
Fixed assets	3,778	9,703	–5,925	3,866	14,733	–0,877	4,972
Other assets	1,628	179	1,449	1,691	691	1,000	449
Accruals	3,008	1,009	1,999	3,248	1,308	1,940	59
Liabilities	266	1,112	–846	147	224	–77	–769
Tax loss carryforwards	4,681	0	4,681	4,150	0	4,150	531
Total	**13,361**	**12,003**	**1,358**	**13,102**	**16,956**	**– 3,854**	**5,212**

(18) OTHER ACCRUALS

€ thousand	Starting balance Jan. 1, 2007	Currency difference	Used up	Written back	Added	Final balance Dec. 31, 2007
Personnel-related accruals	5,248	–8	3,085	95	2,274	4,334
Warranty related accruals	1,309	–82	1,047	180	879	879
Accruals for restructuring	0	0	0	0	850	850
Accruals for outstanding invoices	1,146	0	1,146	0	273	273
Accruals for equalisation payments remitted to agents	617	–59	546	0	452	464
Accruals for losses resulting from orders	470	0	470	0	205	205
Accruals for auditing expenses	218	0	218	0	253	253
Accruals for inventor royalties	150	0	150	0	159	159
Miscellaneous accruals	4,412	–22	4,134	256	4,168	4,168
Other accruals	**13,570**	**–171**	**10,796**	**531**	**9,513**	**11,585**

Other accruals totalling €1,663 thousand (PY: €2,321 thousand) 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.

The *accruals for restructuring* relate to planned restructuring of FP Direkt Vertriebs GmbH and Francotyp-Postalia Vertrieb und Service GmbH and basically include severance payments and litigation settlements.

Miscellaneous accruals include provisions for process costs and auditing risks.

(19) LIABILITIES

	December 31, 2007			December 31, 2006		
	Total	Duration < 1 year	Duration > 1 year	Total	Duration < 1 year	Duration > 1 year
Liabilities to banks	55,848	5,502	50,346	72,001	5,911	66,882
Loans from other parties	0	0	0	106	6	100
Finance leasing liabilities	3,155	560	2,595	2,165	546	1,619
Financial debts	**59,003**	**6,062**	**52,941**	**74,272**	**5,671**	**68,601**
Trade payables						
to third parties	4,568	4,568	0	7,204	7,204	0
from advance payments received from orders	2	2	0	0	0	0
Trade payables	**4,570**	**4,570**	**0**	**7,204**	**7,204**	**0**
Other liabilities taxes	2,213	2,213	0	2,353	2,353	0
(thereof tax income)	*(507)*	*(507)*	*(0)*	*(521)*	*(521)*	*(0)*
Social security	226	226	0	219	219	0
from Teleporto	19,309	19,309	0	19,741	19,741	0
due to employees	248	248	0	693	693	0
deriving from acquisitions	0	0	0	16,773	16,773	0
deriving from deferred items	11,520	11,480	40	12,278	12,278	0
Miscellaneous liabilities	2,586	2,561	25	1,936	1,710	227
Other liabilities	**36,102**	**36,037**	**65**	**53,994**	**53,767**	**227**
Total	**99,675**	**46,669**	**53,006**	**135,470**	**66,642**	**68,828**

Liabilities with a remaining duration of more than five years are only incurred for liabilities from finance leasing and equal €162 thousand.

Liabilities due to banks represent 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. There is additionally a noncurrent working capital facility in place for €10,000 thousand which has not been drawn down as of the statement date. A Libor- as the case may be Euribor-pegged interest rate was negotiated varying by tranche and hedged by means of swaps and caps (see "Hedging policy and risk management"). The discount subtracted from liabilities due to banks is amortised as an expense over the duration through to maturity.

Acquisition liabilities of €16,773 thousand reported last year represent the freesort buyout in an amount of €14,273 thousand and the increase of €2,500 thousand in the iab sale price and were settled in full in the year under review.

Reconciliation of future lease payments and finance lease liabilities:

€ thousand	Total	Remaining durations		
		< 1 year	1–5 years	> 5 years
Future lease payments	3,923	816	2,935	172
Interest portion	768	256	502	10
Finance lease liabilities	**3,155**	**560**	**2,433**	**162**

(20) CONTINGENCIES

€ thousand	Dec. 31, 2007	Dec. 31, 2006
Guarantee obligations	62	43
Total	**62**	**43**

Guarantee obligations chiefly represent security deposits for sales office facilities.

(21) OTHER NOTES REGARDING OPERATING LEASES

The nominal values of other financial obligations totalled €15,655 thousand as of December 31, 2006 (2005: €19,104 thousand), breaking down by maturity as follows:

€ thousand	Total	December 31, 2007		
		< 1 year	1–5 years	> 5 years
Rental/lease obligations	15,655	3,838	8,617	3,200

Rental/lease obligations represented exclusively rental contracts under which FP Group 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 (€11,200 thousand through 2014).

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

(22) FINANCIAL INSTRUMENTS

The following table shows carrying values of the financial instruments recognised in the consolidated financial statements:

€ thousand	2007	2006
Financial assets and liabilities at fair value recognised as income		
Cash	26,593	60,726
Derivative financial instruments with positive fair value	482	897
Derivative financial instruments with negative fair value	–50	0
Receivables and other assets		
Trade receivables	18,289	20,313
Other assets	9,927	12,838
Financial investments available for sale		
Own shares	552	0
Financial liabilities		
Liabilities due to banks	55,848	72,001
Liabilities from finance leases	3,155	2,165
Other financial liabilities	0	106

The carrying values of the assets and liabilities, assessed at cost, correspond in the main to their fair values. The respective market is used to determine the fair value of the financial investments recorded as available for sale. The fair value of the derivative financial instruments was determined by discounting the expected future cash flows using normal market interest rates.

Hedging relationships

As of December 31, 2007, there was one loan payable in USD, which was classified as a hedging transaction used to hedge against expected cash/liquidity injection/inflow in USD from sales. Loans payable declined by €1,799 thousand year-on-year due to changes in the US dollar exchange rate in 2007. The resulting difference of €766 thousand was taken to total equity in line with hedge accounting rules. Currency differences resulting from redemption of the €607 thousand loan were taken to revenue.

Hedge accounting accounts for currency fluctuation impacting USD income under the contractual amortisation schedule through the November 30, 2011 maturity date.

Currency options were acquired to limit further the currency risk. These were capitalised as of the statement date at their fair value of €65 thousand.

Interest rate hedging (swaps and caps) was engaged in to limit interest rate risks accruing to variable rate obligations. The caps were capitalised as of the statement date at their fair value of €417 thousand, while the swap was recognised as a liability at its negative fair value of €50 thousand.

€ thousand	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Currency options				
Fair value	65	0	0	0
Interest rate swaps				
Fair value	0	50	537	0
Interest rate caps				
Fair value	417	0	360	0

The changes in the fair values of the swaps and caps were taken directly to equity and classified as cash flow hedging in cumulative equity (totalling €292 thousand after taking into account deferred taxes); by contrast, the changes in the fair values of the currency options were recognised in income and reported as fair value hedging.

As at December 31, 2007, no ineffectiveness from hedging relationships has been recorded.

(23) NOTES ON THE CASH FLOW STATEMENT

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

Postage credit balances administered by the FP Group (restricted cash) were eliminated from cash and cash equivalents. The corresponding offsetting position is shown under other liabilities. Cash and cash equivalents are calculated as follows:

€ thousand	Dec. 31, 2007	Dec. 31, 2006
Cash and cash equivalents	26,593	60,726
less postage credit balances administered	– 19,309	– 19,741
Total	**7,284**	**40,985**

The substantial cash outflow was primarily the result of deferred purchase price payments for freesort (€14,417 thousand) and iab (€5,421 thousand), both acquired in November 2006, and considerable repayments of bank loans (€15,072 thousand).

Of the expenses in the course of the IPO amounting to €4,603 thousand, €1,510 thousand still had an effect on payments in the 2007 financial year.

(24) EARNINGS PER SHARE

On November 20, 2007, the Management Board of Francotyp-Postalia Holding AG resolved to implement a buy-back programme for Company shares based on the resolution authorised by the Company's Annual General Meeting on October 16, 2006. A total of 102,132 own shares had been acquired by the end of the year.

The weighted average number of shares outstanding in the period under review is used to calculate the earnings per share. In accordance with IAS 33.20, the number of shares was adjusted by the number of shares bought back. Accordingly, the weighted average number of no-par shares for the 2007 financial year came to 14,692,195 yielding earnings per share of €–0.18 on consolidated net loss for the year of €2,578 thousand.

OTHER DISCLOSURES

AVERAGE STAFFING LEVELS

	2007	2006
thereof in		
Germany	671	557
Netherlands	111	114
USA	112	91
Great Britain	84	67
Austria	23	25
Canada	47	47
Belgium	15	13
Italy	15	13
Singapore	14	12
Total	**1,092**	**939**

The increase in the average staffing level in Germany is primarily due to the fact that the staffing levels for the subsidiaries iab, iabV and freesort, which have been part of the FP Group since November 2006, were included for the whole year for the first time.

MANAGEMENT BOARD AND SUPERVISORY BOARD

The Company's Management Board is currently constituted by three members. The following table shows Management Board members active in 2007 and their respective functions.

Name	Appointed	Current term ending	Responsibilities
Hans Christian Hiemenz, Diplom-Kaufmann (German MBA equivalent)	September 2006	September 2010	· Controlling, Finance and Accounting · IT · HR, Legal · Investor Relations
Hartmut Neumann, Diplom-Kaufmann (German MBA equivalent)	September 2006	September 2010 (resigned December 31, 2007)	· Service · Sales · Marketing · Business Development
Manfred Schwarze, Diplom-Wirtschafts-ingenieur (German MBA equivalent)	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 Chairman of the Management Board of Francotyp-Postalia Holding AG, Hartmut Neumann, left the Company at the end of the year. The Supervisory Board appointed Dr. Heinz-Dieter Sluma as his successor. He has managed the operations of Francotyp-Postalia as Chairman of the Management Board since January 1, 2008.

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 Supervisory Board · LANXESS AG, Leverkusen – Vice-Chairman of the Supervisory Board · Biesterfeld AG, Hamburg – Member of the Supervisory Board · Deutsche BP, Hamburg · Reed Elsevier N.V., Amsterdam · TNT N.V., Amsterdam – Member of the Board of Directors · JSC Severstal, Russia · Reed Elsevier plc, London · Smith & Nephew plc, London – Advisory Board Vice-Chairman · HOYER GmbH, Hamburg
Christoph Weise (Deputy Chairman)	Management consultant	– Managing Director · QCR 1 GmbH · Quadriga Capital GmbH · Quadriga Capital Services GmbH · W.E.R.F. 1 Vermögensverwaltungsgesellschaft mbH
George Marton	Management consultant	None

SHAREHOLDER STRUCTURE

In the 2007 financial year, FP Holding AG received the following notifications from its shareholders in accordance with Section 21 (1) of the German Securities Trading Act:

- Threadneedle Asset Management Limited announced on its own behalf and on behalf of Threadneedle Asset Management Holding Limited, both with their headquarters in London, United Kingdom, and Ameriprise Financial Inc. with its headquarters in Minneapolis, USA, that on May 10, 2007 the share of the voting rights fell below the threshold of 5% of the share capital of Francotyp-Postalia Holding AG, which on May 24, 2007 again exceeded the threshold and fell below it once again on August 31, 2007. On September 6, 2007, it finally fell below the threshold of 3% of the share capital of Francotyp-Postalia Holding AG and now equals 2.8% (411,529 shares).

- Deka Investment GmbH, with its headquarters in Frankfurt am Main, Germany, informed the Company that on May 14, 2007 its share of the voting rights in Francotyp-Postalia Holding AG fell below the threshold of 3%. The share is now 2.95% which equals 433,600 voting rights.

- The share of the voting rights of INVESCO UK Limited, with its headquarters in Oxfordshire, Great Britain, exceeded on May 11, 2007 the threshold of 5% and now equals 5.1124% (751,528 voting rights).

- Financière de l'Echiquier, Paris, France, exceeded the threshold of 3% for its share of the voting rights in Francotyp-Postalia Holding AG on March 7, 2007 and the threshold of 5% on November 1, 2007. The share of the voting rights is now 5.112% which equals 751,510 voting rights.

- J O Hambro Capital Management Limited, J O Hambro Capital Management Group Limited and J O Hambro Capital Management Umbrella Fund plc, the headquarters for each being in London, Great Britain, are associated companies with the result that the voting rights of their participations in Francotyp-Postalia Holding AG are allocated in accordance with Section 22 (1) sentence 1 no. 6 of the German Securities Trading Act.

  – J O Hambro Capital Management Limited announced that its share of the voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 3% on May 18, 2007 and on this day was 3.10% (455,960 voting rights) of the voting rights. 3.10% (455,960 voting rights) of the voting rights are to be allocated to J O Hambro Capital Management Limited in accordance with Section 22 (1) sentence 1 no. 6 of the German Securities Trading Act.

  – J O Hambro Capital Management Group Limited announced that its share of the voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 3% on May 18, 2007 and on this day was 3.10% (455,960 voting rights) of the voting rights. 3.10% (455,960 voting rights) of the voting rights are to be allocated to J O Hambro Capital Management Group Limited in accordance with Section 22 (1) sentence 1 no. 6 of the German Securities Trading Act in association with Section 22 (1) sentence 2 of the German Securities Trading Act.

  – J O Hambro Capital Management Umbrella Fund plc announced that its share of the voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 3% on May 22, 2007 and on this day was 3.02% (444,651 voting rights) of the voting rights.

  – Furthermore, J O Hambro Capital Management Umbrella Fund plc informed the Company that its voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 5% on July 4, 2007 and on this day was 5.69% (835,956 voting rights) of the voting rights.

  – J O Hambro Capital Management Limited announced that its voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 5% on July 4, 2007 and on this day was 6.01% (882,960 voting rights) of the voting rights. 6.01% (882,960 voting rights) of the voting rights are to be allocated to J O Hambro Capital Management Limited in accordance with Section 22 (1) sentence 1 no. 6 of the German Securities Trading Act. The voting rights are to be allocated to J O Hambro Capital Management Limited via J O Hambro Capital Management Umbrella Fund plc.

– J O Hambro Capital Management Group Limited announced that its share of the voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 5% on July 4, 2007 and on this day was 6.01% (882,960 voting rights) of the voting rights. 6.01% (882,960 voting rights) of the voting rights are to be allocated to J O Hambro Capital Management Group Limited in accordance with Section 22 (1) sentence 1 no. 6 of the German Securities Trading Act in association with Section 22 (1) sentence 2 of the German Securities Trading Act. The voting rights are allocated to J O Hambro Capital Management Group Limited via J O Hambro Capital Management Umbrella Fund plc, which holds directly 3% and more of the voting rights.

– J O Hambro Capital Management Umbrella Fund plc announced via FP Holding that its voting rights in Francotyp-Postalia Holding exceeded the threshold of 10% on September 5, 2007 and on this day was 10.41% (1,530,435 voting rights) of the voting rights.

– J O Hambro Capital Management Limited announced that its share of the voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 10% on September 5, 2007 and on this day was 10.84% (1,593,452 voting rights) of the voting rights. 10.84% of the voting rights (1,593,452 voting rights) are to be allocated to J O Hambro Capital Management Limited in accordance with Section 22 (1) sentence 1 no. 6 of the German Securities Trading Act. The voting rights are allocated to J O Hambro Capital Management Limited via J O Hambro Capital Management Umbrella Fund plc, which holds directly 3% and more of the voting rights.

– J O Hambro Capital Management Group Limited informed the Company that its voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 10% on September 5, 2007 and on this day was 10.84% (1,593,452 voting rights) of the voting rights. 10.84% (1,593,452 voting rights) of the voting rights are to be allocated to J O Hambro Capital Management Group Limited in accordance with Section 22 (1) sentence 1 no. 6 of the German Securities Trading Act in association with Section 22 (1) sentence 2 of the German Securities Trading Act. The voting rights are to be allocated to J O Capital Management Group Limited via J O Hambro Capital Management Umbrella Fund plc, which holds directly 3% or more of the voting rights.

• INVESCO Fund Managers Limited, with its headquarters in Oxfordshire, Great Britain, announced on July 17, 2007 that its share in Francotyp-Postalia Holding AG exceeded the threshold of 3% and is now 3.9366% (578,687 voting rights).

RELATED PARTY DISCLOSURES

In addition to controlling individuals and companies, 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, membership of the Management Board of the FP Group and/or other key positions within the organisation may constitute a material influence on FP Company financial and business policy.

Accordingly, associated companies and individuals of the FP Group in the year under review were as follows: Quadriga Capital Private Equity Fund II L.P., Quadriga Capital Limited, Stockwell Fund L.P. and the Management Board and Supervisory Board members of FP Holding.

In line with the share in the issue volume placed as part of the initial public offering, three Management Board members were each charged €13 thousand, Quadriga Capital Private Equity Fund II L.P. €146 thousand and Quadriga Capital Ltd. €35 thousand in advance costs for the initial public offering. All receivables were settled in full in the year under review.

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

The remuneration of the members of the Management Board is determined by the Supervisory Board at an appropriate amount based on a performance assessment and taking into account any payments by Group companies. The criteria for determining the appropriateness of remuneration are, in particular, the tasks of the respective member of the Management Board, his/her personal performance and the performance of the Management Board as a whole, as well as the economic situation and the performance and outlook of the Company, taking into account its peer group. The employment agreements entered into with the members of the Management Board include a fixed annual salary and a performance-related bonus. In the 2007 financial year, the direct remuneration paid to the members of the Management Board totalled €1,008 thousand, of which €619 thousand related to the fixed annual salary, €300 thousand to the performance-related bonus, and €90 thousand to remuneration in kind. Remuneration in kind primarily relates to the amounts to be recognised for the use of a company car under tax law and the individual insurance contributions.

No stock-based components are in place, nor has it introduced any stock option plans for the 2008 financial year. Remuneration for the 2007 financial year breaks down as follows:

€ thousand	Fixed salary	Bonus 2006	Remuneration in kind	Total remuneration
Hans Christian Hiemenz	206	100	29	335
Hartmut Neumann	206	100	32	338
Manfred Schwarze	206	100	29	335
Total	**618**	**300**	**90**	**1,008**

Provisions in the amount of €993 thousand were created for pension commitments to current and former members of the Management Board, 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 remitted in the final month of the fiscal year. The Chairman receives 2.5 times the fixed remuneration and his Deputy twice the fixed remuneration. Provisions were thus created in the amount of €60 thousand for accruing Supervisory Board compensation including expenses.

AUDITOR'S FEES EXPENSED

Expenses of €231 thousand were shown on the single-entity German financial statements for fiscal year 2007 for auditing services provided to FP Group by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Berlin. Of this amount, €194 thousand were for auditing and €37 thousand for tax advisory services.

CORPORATE GOVERNANCE

The German Corporate Governance Code (the "Code") adopted February 2002, last revised on June 14, 2007, 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.

The Management Board and Supervisory Board of Francotyp-Postalia Holding AG identify with the objectives of the Code to promote a responsible and transparent corporate management and monitoring oriented towards a sustainable increase in enterprise value. They feel committed to the recommendations and best practices of the Code and in particular to the interests of the shareholders if in some areas this involves deviating from the recommendations. The deviations were explained in more detail in the declaration of conformity submitted by the Management Board and Supervisory Board referring to the version of the Code dated June 14, 2007 and made permanently available to the shareholders on the Company's website in accordance with Section 161 of the German Stock Corporation Act.

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.

Affidavit of the Management Board in accordance with Section 37y (1) of the German Securities Trading Act in association with Sections 297 (2) sentence 3 and 315 (1) sentence 6 of the German Commercial Code has been made in the management report.

Birkenwerder, March 20, 2008

Management Board of Francotyp-Postalia Holding AG

DR. HEINZ-DIETER SLUMA
Management Board Chairman

HANS CHRISTIAN HIEMENZ
Management Board member

MANFRED SCHWARZE
Management Board member

Independent Auditors' Report

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, segment report (as part of the notes) and cash flow statement – and the group management report for the business year from January 1 to December 31, 2007. 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 Section 315a (1) of the 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 Section 317 of the 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 Section 315a (1) of the 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, March 25, 2008

DELOITTE & TOUCHE GMBH
Wirtschaftsprüfungsgesellschaft

ROHMANN	PP KEMPE
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

7 **And it's off …**

Daily, and on the minute, sorted mail from freesort's sorting centres and the iab mail centre is handed over to a carrier.

The carrier agreed upon with the customer is given priority. Usually this is Deutsche Post, as that is the only supplier currently able to guarantee delivery of business correspondence by the next working day throughout Germany. Naturally a regional mail delivery provider can be used as an alternative service.

FP's mailstream processing chain is always optimised to meet the customer's precise needs.

Financial Calendar

Event	Date
FY 2007 Analysts' Conference	April 24, 2008
FY 2007 Financial Press Conference	April 24, 2008
Q1 2008 Results	May 29, 2008
Annual General Meeting	June 18, 2008
H1 2008 Results	August 28, 2008
Q3 2008 Results	November 27, 2008
FY 2008 Analysts' Conference	April 23, 2009
FY 2008 Financial Press Conference	April 23, 2009

Terms and Definitions

A segment	Designation for postage meter segment comprising customers with low mail volume (less than 200 letters per day)
Batch communications	Non-standardised daily mail collected centrally
B segment	Designation for postage meter segment comprising customers with medium mail volume (200 to 2,000 letters per day)
Certification	Operating permit for postage meters
Consolidation	Refers to the pre-sorting of letters by postal code prior to delivery to the mail distribution centre in return for a postage discount
C segment	Designation for postage meter segment comprising customers with high mail volume (over 2,000 letters per day)
Custom tag	Customisable imprint next to postage such as sender company logo
Decertification	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).
DPAG	The former German state monopoly Deutsche Post AG
FRANKIT®	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
Hybrid mail	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 centre
Installed base	The number of postage meters installed with customers

Corporate department responsible for company mail services	**Mailroom**
Term encompassing mail processing and transport	**Mailstream**
Innovative programme introduced by the Dutch Postal Service in connection with increased security requirements for postage meters	**NetSet**
The contracting out of production or other services to external providers	**Outsourcing**
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	**Postage printing**
Standardised letters to customers and business partners sent out on a recurring basis (e.g., invoices)	**Recurring communications**
Internet-based postage tool provided by Deutsche Post AG geared mainly towards low mail volume customers	**STAMPIT**
Service allowing the remote loading of postage meters via phone or modem	**Teleporto**
Weltpostverein, Bern (Union postale universelle/Universal Postal Union)	**UPU**
U.S. Postal Service	**USPS**

Credits/Contact

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