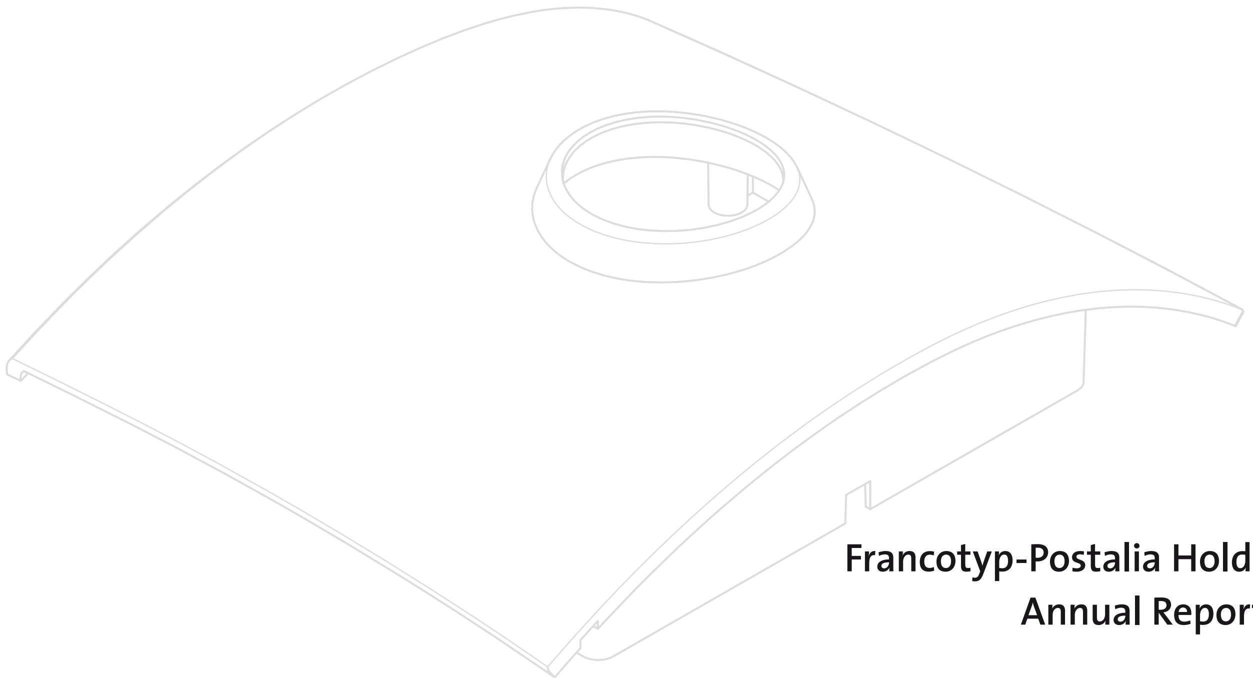
YOUR MAIL IS OUR BUSINESS



Francotyp-Postalia Holding AG
Annual Report 2009

FRANKING
INSERTING
SOFTWARE SOLUTIONS
MAIL SERVICES

OUR EXPERTISE FOR YOUR MAIL

The mail experts

FRANCOTYP-POSTALIA – DEDICATED TO MAIL WITH OVER 85 YEARS

Francotyp-Postalia Holding AG, based in Birkenwerder near Berlin, is a global service provider for professional mail management. Since its foundation in 1923, the FP Group has focused on simplifying post processing procedures in companies.

The company's product range extends from franking and inserting machines to the collection of business mail to online mail for private and business customers. As part of the liberalisation of the postal markets, the long-established company has developed into a mail management provider and can tailor its solutions to suit every customer.

A LETTER (FROM THE LATIN: BREVIS, "SHORT") is generally a message recorded on paper, which is sent by a messenger and contains a personal message intended for the recipient.

THE HISTORY OF LETTERS

The Babylonians were the first people to write letters by carving their messages on clay tablets. While the Greeks and Romans inscribed messages on wooden panels coated with wax, the Ancient Egyptians discovered how to use papyrus as a means of conveying messages. Irrespective of the material used to convey the message, the purpose of a letter has barely changed: we still send and receive love letters, business letters, literary letters or letters of dismissal.

By way of contrast, the form and processing of letters have changed enormously since the days of the Babylonian Empire. Nowadays, we no longer work with wax or clay tablets, but rather paper. And while legend has it that, back in 490 BC, Pheidippides had to run all the way from Marathon to Athens to deliver a message, nowadays we entrust our letters to a sophisticated global network, which starts with the computer and ends with the postman, a chain of highly integrated services, which are presented on the following pages.

DID YOU KNOW?

18 February 1911

The first official mail consignment is sent during an art and trade exhibition in India

400 billion

items of business mail were sent in 2008

129

The total number of certified country-specific variations

406

Number of patent families FP has registered since 1923

MAIL SERVICES AT THE SPEED OF FLIGHT – THE CARRIER PIGEON

Before the invention of the telegraph, carrier pigeons were virtually the only method of sending information – particularly military information – faster than with a rider. Furthermore, they could transport messages over enemy posts without attracting attention. However, the necessity of first transporting pigeons over land from the desired destination posed a significant obstacle, as the potential destinations had to be determined before military deployment began and pigeon lofts already had to have been set up there. Historical examples of the use of carrier pigeons over long distances are the pigeon towers of the Republic of Genoa in the Mediterranean and the transmission of the news of victory in the battle of Waterloo in 1813.

Contents

Key figures

Figures in accordance with consolidated financial statements in EUR millions	2009	2008*	Changes in %
Revenues	129.0	142.4	-9.4
Recurring revenues	95.5	96.6	-1.1
EBITDA	20.6	18.2	13.2
in percentage of revenues	16.0	12.8	
EBITA	9.2	3.5	162.9
in percentage of revenues	7.1	2.5	
EBIT	-15.7	-11.0	-42.7
in percentage of revenues	-12.2	-7.7	
Net income	-16.6	-14.5	-14.5
in percentage of revenues	-12.9	-10.2	
Free cash flow	9.8	3.5	172.2
in percentage of revenues	7.6	2.5	
Equity capital	14.7	14.7	
Shareholders equity	15.3	31.0	-50.6
in percentage of balance sheet total	11.4	19.1	
Return on equity (%)	-108.5	-46.8	
Debt capital	119.0	131.1	-9.2
Net debt	41.1	51.8	-20.7
Net gearing	268	167	
Balance sheet total	134.3	162.1	-17.1
Share price end of the year	1.62	0.85	90.6
Earnings per share	-1.12	-0.96	-16.7
Employees	1,041	1,121	-6.1

* adjusted

Segments

SOFTWARE SOLUTIONS

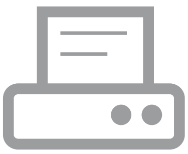
The FP Group provides software solutions for digital mail processing. With hybrid mail products, the entire process can be outsourced and thus more efficiently executed.

FRANKING AND INSERTING

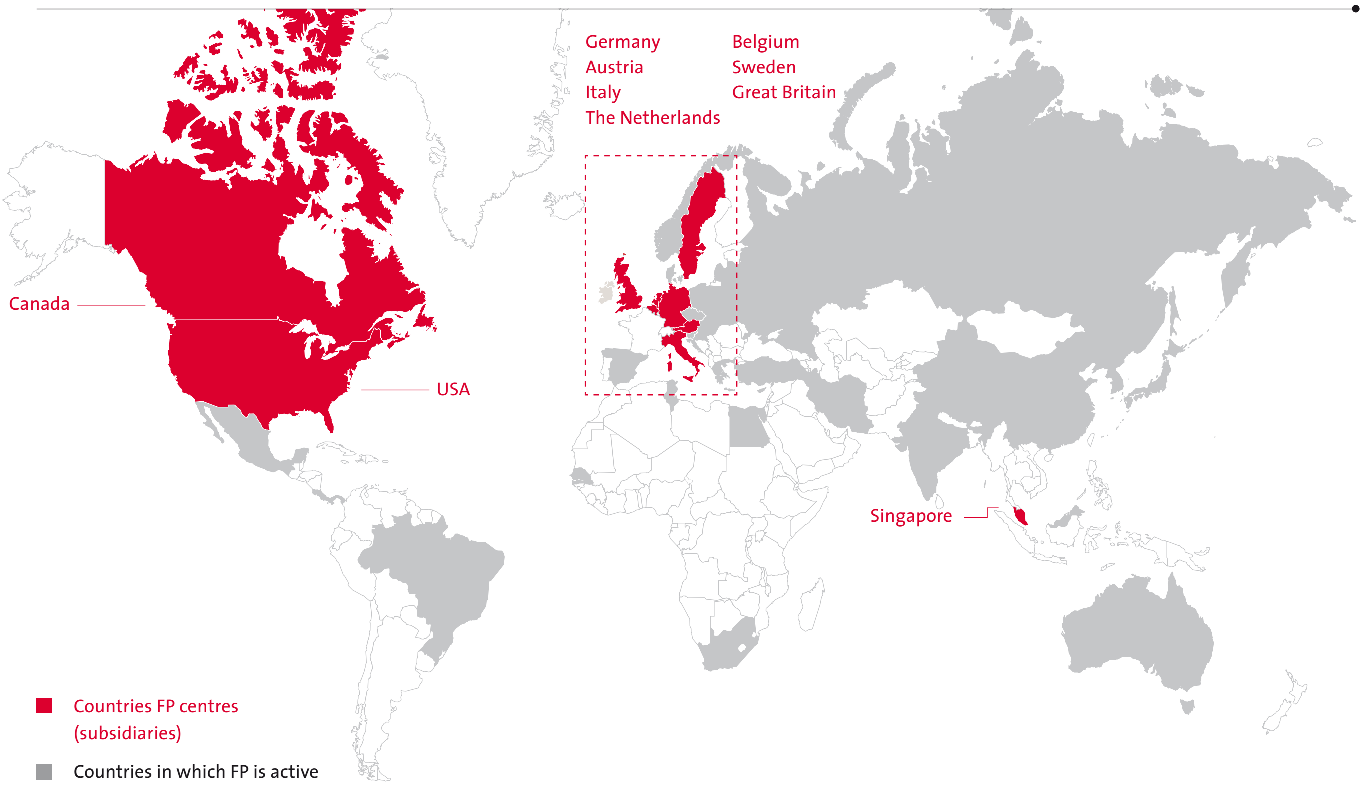
In the traditional Franking and Inserting segment, the FP Group concentrates on developing, manufacturing, selling and leasing franking and inserting machines.

SERVICES

Consolidation services include collecting mail from clients, sorting it by postcode and delivering it, in bundled form, to a mail centre. By availing themselves of this service, even small companies can benefit from postage discounts.



Sites



MAIL MARKET WORLDWIDE: FACTS

MAIL SENT PER INHABITANT PER YEAR

North America:	666
Great Britain:	335
Germany:	253
India:	5

260,000

FP franking machines installed worldwide

5.6 million

Average number of employees in the global postal market

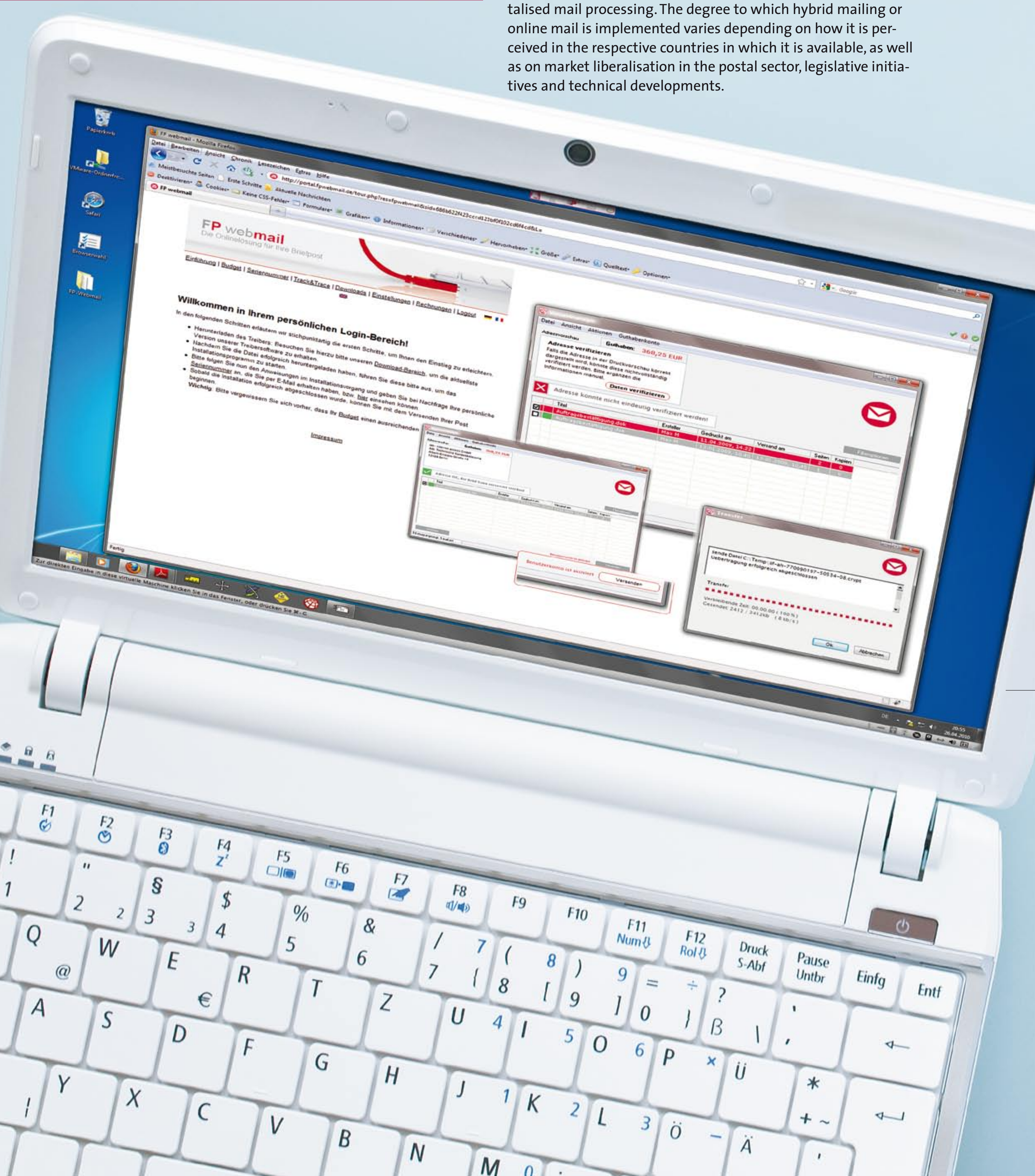
FP sales by region

in EUR millions

59.4	Germany
35.1	Rest of Europe
33.6	North America
0.967	Others

Software solutions

Companies as well as individuals, i.e. business and private individuals, are increasingly recognising the potential offered by digitalised mail processing. The degree to which hybrid mailing or online mail is implemented varies depending on how it is perceived in the respective countries in which it is available, as well as on market liberalisation in the postal sector, legislative initiatives and technical developments.



The key difference vis-à-vis the conventional mailing process: mail items generated via mobile phone, PC or in the IT system – from individualised letters to bulk mailings from marketing, accounting, wage accounting or purchasing departments – are sent encrypted in digital form to a central printing centre where they are printed, further processed to form actual letters and dispatched in a postage-optimised manner to a suitable mail delivery agent. This results in significantly leaner and more efficient processing.

ADVANTAGES AT A GLANCE

1. Security: The data transfer to the FP printing centre is encrypted and fully automated. All processing centre employees are obliged to adhere to the Data Protection Act and are informed in writing that any violation also constitutes a breach of the secrecy of communication by post and telecommunications, which is also protected by law, and shall be prosecuted.

2. Project management: We provide a user-friendly software solution for each mailgenerating computer or employee work station. Letters created in Microsoft Word or other file formats – such as SAP or Navision – are sent in encrypted form to the FP printing centre by means of installed software, which allows access to the virtual printer drive.

All data is deleted after two weeks, unless otherwise indicated.

In addition, there is also the option of bundling the different mail items of a business entity (company, authorities, department, etc.) for a specific recipient and dispatching these in a single envelope, thus allowing our customers to save on postage!

3. Comfort: All that our customers need is a PC or laptop, the FP webmail software and Internet access. They save on printing, folding, inserting, franking, trips to the post office, and, on top of that, receive a postage discount!

4. Speed: Mail items can be immediately sent online. The respective correspondence is professionally produced and of an extremely high quality; it arrives more quickly and less expensively at its desired destination worldwide. This makes customer communication more flexible and efficient.

PHONEBRIEF

FP also offers solutions to suit the future mobile communication market. In 2010, the FP Group will launch PhoneBrief, an iPhone mailing application with which you will be able to send a postcard or letter from your iPhone. PhoneBrief is easy to use and makes mailing simpler than writing a conventional letter or postcard. This is the way forward in terms of modern mail processing in the 21st century.

80 %

The maximum savings potential through using FP businessmail software

The route after the click:

DIGITAL DOCUMENT	PRINT-OUT	FOLDING / INSERTING	FRANKING	DISPATCH
CUSTOMER	FRANCOTYP			

Modern mail processing with innovative software solutions

The Internet has not reduced the popularity of sending mail items. In fact, it has expanded the options available when it comes to mail processing: digital solutions, such as those offered by the FP Group, are much in demand in this respect.

Around 400 billion pieces of mail are written worldwide every year. To put this into perspective, this equates to 60 mail items per person or more than one billion documents per day. Such figures convincingly refute the fear that the Internet will replace traditional mail. In reality, information technology and conventional mailing are growing closer together. In this respect, the modern mail item is adapting to the changing times: it combines the efficiency advantages of an e-mail with the persistently higher attention that physical documents command.

The solutions of the Francotyp-Postalia Group demonstrate how mail can nowadays be processed in a modern and, above all, cost-efficient manner. A study has shown that companies can save up to 80% on their mailing costs with professional mail processing. Yet companies continue to spend more than one Euro per mail item, in addition to the postage costs. Innovative solutions can be used to improve processes and thus save on costs.

With the FP software solutions, you can send online mail at the click of a mouse button. The FP Group takes over the printing out, inserting, franking and handing over of the mail items to a mail delivery agent. This type of mail processing is also called hybrid mail. Sending the respective correspondence from the workplace digitally allows the customer to transmit the content of the letter in one direct step. This eliminates the expenditure on envelopes, paper, and printing, as well as the trip to the post office or letter box, while retaining the advantages of traditional mail. The technological expertise of the FP Group is underlined by its software solutions for business and private customers, which it is deploying internationally in order to open up new market opportunities. For this reason, we are planning to launch the FP webmail solution not only in Great Britain, but also in Italy, Belgium, Canada and the USA.

SENDING MAIL AT THE CLICK OF A MOUSE BUTTON

FP webmail is easy to use and extremely quick. After downloading the software, the user is able to access a virtual printer. From this point on, he sends his mail item via the Internet to the FP printing centre, i.e., he sends it to our printer, not his own. The mail item is further processed at this location. This involves the printing, franking, inserting and the postage-optimised handover of item(s) to a mail delivery agent.

SOLUTION FOR BUSINESS CUSTOMERS

With FP businessmail, companies can send their documents to a server at the click of a button. From there, the FP Group takes over the further processing and complete handling of the actual letters at the printing centre. Our service can deal with all types of print data in all the usual formats and in any size. The customer can also use their own stationery or envelopes.

Facts and figures: Mailing per Internet

Digital mail processing is on the increase. With De-Mail, it will even be possible to send legally binding and confidential documents via the Internet in the future. The project, which is supported by the German government, can be easily used by consumers and is extremely beneficial for companies.

The success of the online mail of the FP Group shows that digital mail processing is becoming increasingly important. The FP Group is at an advantage here because of its technological expertise and decades of experience as a service provider for professional mail processing. In the coming years it aims to maintain and further expand its leadership in this domain by introducing new software technologies and integrating new processes into its solutions.

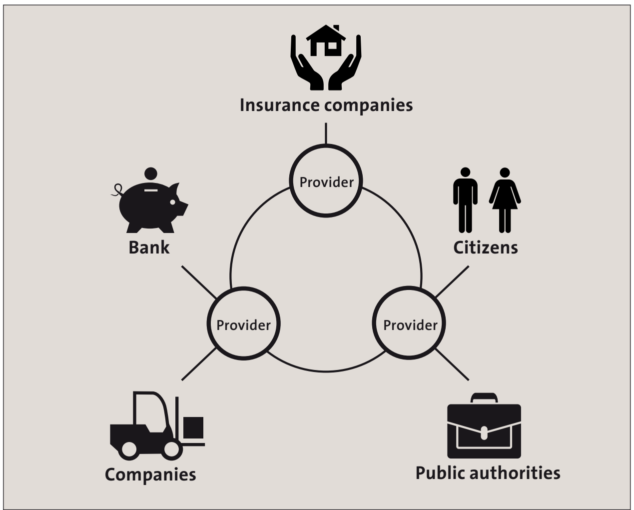
A good example of this is De-Mail, a legally valid mailing process set to commence this year. Its slogan: as simple as e-mail, as secure as postal mail. Until now, companies and public authorities have sent important contract documents predominantly by post, particularly if the receipt by the addressee had to be verified or where the content was confidential—this cannot be guaranteed by conventional e-mail as the receipt of an e-mail can always be disputed. In addition, it cannot always be guaranteed that a specific e-mail address actually belongs to the desired recipient.

De-Mail will make electronic communication legally binding and traceable, even before a court of law. Third persons will not be able to read your digital correspondence and it will be possible to clearly identify both the sender and recipient. This is because the identity behind an e-mail address will be verified when the respective person applies for the service.

The underlying requirements in terms of security and functionality have been developed by the German government together with the future De-Mail providers. The German legislature has compiled precise regulations for online legal security with the aid of technical directives. The De-Mail Act is due to be adopted in autumn 2010.

De-Mail is not a system envisaged solely for use by public authorities. Rather, it is an infrastructure facilitating the secure exchange of electronic messages and is aimed at private individuals as well as companies. Management represents an additional user group. The new process is particularly interesting for large companies that send a lot of mail, for example, banks, insurance companies or telecommunication providers. The potential savings for German insurance companies alone, who send around 800 million pieces of mail annually, is estimated at several hundred million euros per year. Digital mail processing saves on printing and paper costs in particular. But small and medium-sized companies can also benefit from the solution. There is no need to install new software on their computers. De-Mail is based on open interfaces, standardised technologies and the use of familiar processes. As a result, De-Mail is developing as an additional form of digital mail processing in the 21st century – and an interesting application area for the FP Group.

DE-MAIL AT A GLANCE



THE FUTURE STARTS IN FRIEDRICHSHAFEN

A six-month De-Mail test phase started back in October 2009 in the city of Friedrichshafen on Lake Constance. The starting signal was an e-mail sent to Professor Zorn, one of the founding fathers of the Internet in Germany, who was the first person to receive an e-mail in Germany over 25 years ago. The pilot project is showing great promise, with participants reporting a positive response.

DID YOU KNOW?

August 3, 1984

The first e-mail was received in Germany on August 3, 1984 at 10:14 CET.

69 %

of Germans have Internet access. This number is still increasing.

Franking

1,300

the number of product codes stored in Francotyp's FRANKIT machines (e.g. standard letter, registered mail)

For as long as there have been letters, their carriage between senders and recipients has been regulated and, more importantly, paid for. The introduction of stamps definitively clarified who had to pay the postage charges. The disadvantages associated with this procedure became apparent, at the latest, during the economic crisis at the start of the 20th century. During this period, the value of stamps sometimes had to be adjusted on an hourly basis! This heralded the arrival of franking machines.

Since then, not only the franking machine but also franking itself has come a long way from its beginnings in the early 1920s. The processing of outgoing mail can now be largely automated: the weighing, closing and franking can be performed entirely by a machine. This eliminates concerns as to whether enough stamps of the right denomination are available in the office. In addition, franking can be individually designed with the customer-specific cliché. Mailing has never been easier than it is today.

Cliché

This French word literally means printing plate. It can also, however, be used in the sense of an image or photo. In this context, the term actually means an image which can be designed according to the customer's requirements. The franking machines can save and store different motifs. The cliché embellishes the franking depending on the occasion and requirement.

2D barcode (data matrix code)

The data matrix code was developed in the late 1980s in the USA. Nowadays the 2D barcode is increasingly also used as a printed code image for mailing. Information on the postal company, franking type, franking value and date are encrypted, amongst other things, in this code. The franking imprints are read by the postal companies for the purpose of securing payment as well as process control and mail routing.

Frankatur

The image of (postage) franking has changed significantly since the introduction of digital franking machines. The central component here is a 2D barcode (data matrix code), which contains all important data on the sent mail item in a machine readable format. In addition, there is a legible clear text on the right, next to the 2D barcode, which provides information on the postage, date and the identification code. The identification code provides information about the manufacturer, type and serial number of the franking machine. There is space to the left of the 2D barcode for the customisable cliché.

Franking machines save time and money

The FP Group simplifies the procedures involved in mail processing. Our core products continue to be franking and inserting machines. The company was founded in 1923. Today, the franking specialist is active in all important countries.

Many companies have to deal with hundreds of mail items on a daily basis. Franking and inserting machines are the ideal products for processing such volumes of business mail. These machines greatly ease the daily workload; mail items are inserted and franked quickly without a hitch. Costly, excess franking is a thing of the past.

Regardless of whether you need to send 50 or 1,000 mail items per day, FP mail processing machines help our customers to save time and money. An FP inserting machine turns folding and inserting into a simple one-step procedure. FP systems can even automatically insert several pages at a time and then seal the envelope. Postage for the franking machines can be electronically topped up online as they frank each letter automatically. In some countries, customers can additionally save on postage charges, as their national postal organisations give a discount for mail items franked by franking machines.

Every year approx. 16 billion mail items are sent in Germany alone, the home of the FP Group. The company focuses on business mail, which amounts to about 80% of the annual mail volume, including such regular correspondence as invoices and reminders. The classic letter will continue to play an important role in the years to come, particularly in small and medium-sized companies, which represent the largest market for the FP Group.

Here, the FP Group is focusing on developing, manufacturing, selling and leasing franking and inserting machines. Global sales of these products are realised via our ten subsidiaries in key markets as well as a consolidated dealer network in 44 countries. With around 260,000 installed franking machines, Francotyp-Postalia is the third largest provider worldwide in this sector. The company is the market leader in both Germany and Austria with a market share of 45% in each country. The company sees opportunities for further growth, particularly in new markets such as Asia. There is still great potential for professional mail processing solutions in this region, and the FP Group aims to tap into it.

OPTIMAIL

The optimail 30 franking machine is ideal for small to medium volumes of mail. This machine prints advertising motifs and individually programmable text messages together with the franking. The machine has a large display, whose menu is simple to navigate, and has several cost centres as well as a postage modem. The correct postage can be automatically determined via the optional scales.

CENTORMAIL

This high-performance franking machine with contact-free inkjet technology offers ease of use and comprehensive additional functions for medium to high volumes of outgoing mail. Mail items of all formats – from postcards to large letters – can be taken from the stack and processed thanks to this vertical feed, mixed-mail franking machine. In addition, the system supports all FRANKIT services.

Facts and figures: high-tech systems with franking function

Because cryptographic procedures safeguard important security standards in franking machines, technological expertise is indispensable. And in this area Francotyp-Postalia have set the benchmarks.

The advantages of franking machines are obvious. But what technology does a franking machine actually contain? How are letters correctly franked? A franking machine is connected via a field bus to a variety of peripheral devices, which supply it with mail items. Micro processors located in the peripheral devices allow data and commands, e.g. dynamice scales, to be exchanged via the field bus. As a mail item is being sent to the franking machine, it is measured and weighed without stopping the overall process. After receiving the determined, mail-specific values, the machine franks the correct postage onto the respective mail item.

Franking machines are thus much more than mere "stamp printers". Monetary value amounts are saved in each machine. Simply saving such monetary values would not, however, satisfy the security requirements of the national postal organisations. What is required in this respect is adherence to specific security standards. For this reason, Francotyp-Postalia has in the meantime developed the third generation of security modules.

These modules have been designed as supplementary processing units (co-processors). In addition to the special precautions designed into the hardware, cryptographic procedures that secure electronic access to these modules are of particular relevance here.

In addition to ensuring the tamper-proof management of the postage, the cryptographic co-processor generates a digital signature (cryptographic checksum), which is printed on the mail item along with the franking.

DID YOU KNOW?

2.5 years

Time required by a computer network to crack a 768-bit key (a 232-digit number) for the first time – world record.

12345

The most common password used by Germans. "ABCDEF" and "Password" are in second and third place.

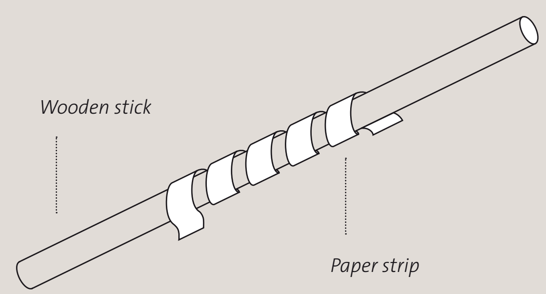
With this checksum, the franking can be correctly assigned to the franking machine responsible for its generation.

The postage account for your franking machine can now be topped up without having to go to the post office. A franking machine can connect with a data centre, via an installed modem or Internet connection, and from there request different services. The most commonly used service is the topping up of the postage account. Additional services can also be installed, such as an updated version of the postage calculation specifications. And that is only the tip of the iceberg when it comes to our innovations: the FP Group is continuously developing new services, which customers can access online. In addition to operating these data centres in a current total of ten countries, Francotyp-Postalia also develops the respective systems in-house. This shows that a franking machine is nowadays not only a machine, but also a high-tech system incorporating franking functions.

CRYPTOGRAPHY (GREEK KRYPTÓS, "HIDDEN, SECRET")

Cryptography is the science of encrypting information. In the cryptographic procedure, the information is encrypted so that only the person who has the decryption code can read the relevant information. Francotyp-Postalia was the first company outside North America to receive a certification in accordance with the Federal Information and Processing Standard (FIPS 140-2) for the first two generations.

ENCRYPTION STICK OF THE ANCIENT WORLD



The first encrypted texts were written on a paper strip, wrapped around a wooden stick. Only addressees with a stick of the same diameter were able to read the message.

Mail services

By now, customers in all liberalised markets have numerous options that allow them to structure their mail processing much more efficiently, not only in terms of how they create their mail items but also in terms of having a choice of mail delivery agents. This not only creates an optimized process but also delivers significant cost savings. One option for mail processing is mail consolidation. Customers can have their daily mail collected, for which they receive a postage discount! This sounds paradoxical, but it makes sense: since 2005, FP freesort has been collecting mail items from customers all over Germany.

The large volumes of mail are sorted according to postcodes and are then delivered to the nearest Deutsche Post mail centre. Deutsche Post AG provides customers with a discount for this service.

Depending on the customer’s requirement, FP freesort can also deliver the collected mail to other mail delivery agents. This represents genuine added value: those who avail themselves of this service in Germany can save up to 30% on postage.

FP freesort helps our customers find the best solution to their needs by offering an optimal mix of the services of Deutsche Post AG and alternative mail delivery agents.

Advantages of external consolidation

COST SAVINGS

With FP konsomail (consolidation mailing), our customers can avail themselves of Deutsche Post discounts, even if they don’t have the required volume of mail. FP freesort collects the business post of many companies every day. Discounts are calculated based on the volume of mail. A large part of these discounts are passed onto the freesort customers in the form of a monthly credit. This postage credit is your saving. Convenient and simple.

FLEXIBLE SELECTION OF MAIL DELIVERY AGENT

FP freesort takes over the selection of a suitable mail delivery agent for you and subjects them to its own “TÜV” according to quality criteria, such as delivery quality, operating times and reliability. All freesort branches guarantee production-related processing according to the alternative mail delivery agent business model. The expansion of the alternative mail delivery partner network throughout Germany is a dynamic and ongoing process. We offer this service under the name FP fleximail.

CONFIDENTIALITY

We are aware of the sensitivity of mail item content. Mail items must be transported across long distances and must arrive intact. In addition, they must reach their addressee quickly – ideally as soon as the next day. To be able to perform this logistic service, a postal service provider needs to be experienced and have a well-established network.

FP freesort has established itself as a high-quality supplier from its many years of experience and attaches great importance to transparent, efficient and verifiable processes. Quality management is examined under two aspects: the FP service quality and the quality of the mail delivery and logistics partners.

FP freesort is certified according to DIN EN ISO 9001:2000.

Hamburg
Hanover
Berlin
Langenfeld
Leipzig
Frankfurt
Nuremberg
Stuttgart
Munich

9

With nine sorting centres, FP freesort is the only independent mail consolidation company in Germany with a nationwide network.

170 million

mail items were consolidated by FP freesort in 2009.

Benefit from mail services

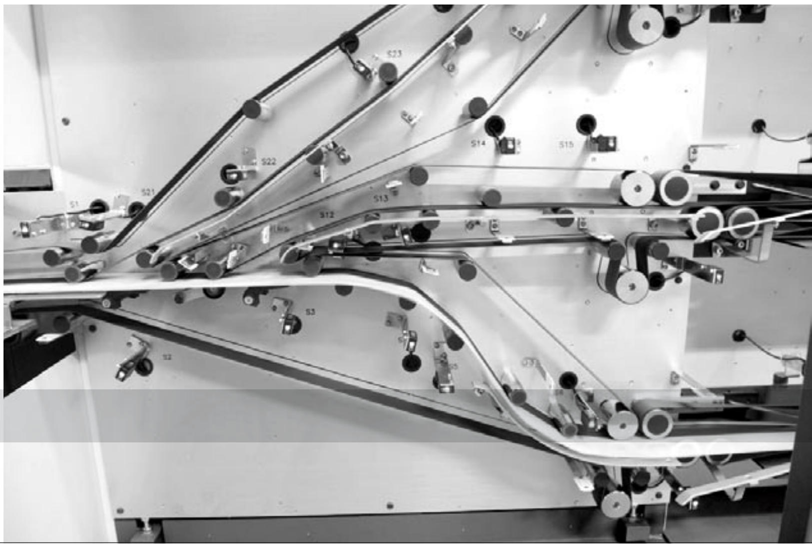
In addition to the traditional franking products, the FP Group in Germany also offers customised services for companies. The "Collection and Save" service capitalises on the savings potential available in the liberalised postal market.

The postal market in all EU Member States is set to be liberalised by 2011 – an attractive opportunity for service providers. The FP Group initially focussed on the German market, which was liberalised at the start of 2008. In this market, it offers a range of services that includes consolidation of outgoing mail.

With this service, our customers no longer have to go to the post office or letter box. In Germany, the FP subsidiary freesort will collect company mail volumes from as low as 50 mail items per day. It sorts the mail items according to postcodes and then delivers them in bundled form to a Deutsche Post mail centre or alternative mail delivery agent. With nine branches in Germany, freesort is one of the leading consolidators in the country.

Deutsche Post awards a discount of up to 26% for such pre-sorted mail. A part of this discount is passed on to the customers by the FP Group, thus creating a win-win situation for both sides. The customer saves on time and money, and benefits from discounts, which it wouldn't have received without the consolidation company.

It is mainly large and medium-sized companies with a correspondingly high volume of mail who are currently availing themselves of the service. In addition to the consolidation service, the FP Group companies also offer customised postage and dispatch solutions as well as overall processing of daily correspondence from a single source. FP freesort is now also busy emptying post boxes on a daily basis as part of its new post box service. It delivers the mail directly to the desk of the respective customer; employees thus no longer have to waste time collecting their mail. Whether through post box service, customised dispatch or consolidation, the liberalisation of the postal markets has expanded the scope for professional service providers – and the FP Group is one of the trailblazers in this field.



FP KONSOMAIL

This service involves the collection, sorting and bundling of business mail from the respective company into large mail packages that are then delivered to the nearest Deutsche Post mail centre. The discount awarded by Deutsche Post is then shared with the customer.

FP FLEXIMAIL

With FP fleximail, companies can cut their postage cost by having their business mail delivered by an alternative mail delivery agent once it has been collected by freesort. Thus, the customer enjoys the twin benefits of optimal mail delivery quality and maximum cost savings.

Facts and figures: cutting costs together

High mail postage discounts are possible with services such as consolidation. Since the start of this service in 2005, the market has experienced high growth rates.

The classic consolidation includes collecting, bundling, pre-sorting and delivering to a mail delivery agent the mail items of individual senders at discounted rates. The Federal Cartel Office paved the way for this service back in 2005 – before the start of the full liberalisation of the postal service.

Since then, Deutsche Post has offered service providers, such as the FP Group, the opportunity to operate a part of this previously monopolised transport and mail delivery service. In this process, the service providers must fully pre-sort and number the mail items before directly delivering them to a mail centre. The discounts apply to all standard Deutsche Post products, from the humble postcard to oversize letters (Maxibrief). Classifying the mail into either OSC (outbound sorting centre) or ISC (inbound sorting centre) is decisive in determining the actual savings.

OSC provides for delivery of mail items to all postcode areas of Germany. The postal service sorts the mail items according to destination and delivers them to the mail delivery centres. Depending on the volume, the postage discounts can amount to between 8% and 23%. In the case of the ISC, only mail items that fall within the postcode area of the respective mail centre are delivered. The mail items are then directly allocated by the mail centre to the local postmen and subsequently delivered. In this case, the discount awarded can be up to 25% plus 1%.

Electronic consolidation, in addition to physical consolidation, is also possible. In this case, the service providers receive the customer data by e-mail, which they then sort according to the mail delivery centres. Printing, inserting and franking are subsequently performed at the FP location nearest to this mail centre. In addition to the electronic form of consolidation, there are also additional preliminary services such as, for example, the addressing of bulk mailings or packing, if letters and brochures are to be sent together.

The market for these services is continuously growing. In Germany, the Federal Network Agency carried out an investigation, as part of a survey of market participants, on the development of consolidated mailings included in partial service contracts. While *only* 530 million mail items were consolidated in 2006, this figure had increased to more than a billion by 2008. Nevertheless, the following should be noted: since only a limited number of discounts for preliminary services are awarded in Germany, the market is not developing as dynamically as it is in other countries. The trailblazer for new business models is the USA, where the postal delivery services offer different rates depending on the preservice, thus providing incentives to the sender or service providers to carry out additional preliminary services. Consequently, a billion dollar market has thus developed there.

DID YOU KNOW?

25 % plus 1 %

Maximum discount for mail consolidation

More than **1 billion**

mail items in Germany in 2008

ARTICLE 28 – OFFER OF PARTIAL SERVICES

(1) If a licensee holds a dominant position in a market for mail services that are subject to licence, where demand exists it must separately offer parts of the carriage services it performs in such market to the extent economically reasonable. This obligation towards another provider of mail services as per Sentence 1 shall only exist if the company placing the demand does not hold a dominant position in the market and if competition in this or in another market would otherwise be seriously impaired. The licensee may refuse the partial service if this would jeopardise the functionality of its institutions or industrial safety or if the capacity available for the required service is exhausted in individual cases.

(2) The fees for the partial services to be offered under (1) shall require approval in accordance with articles 19 and 20 if the partial services are included in the general terms and conditions of business of the licensee subject to the obligation under (1). Fees for offers that are not covered by general terms and conditions of business shall be subject to examination in accordance with article 25. During approval of the fees as per Sentence 1 or examination of fees as per Sentence 2, reasonable account must be taken of the pro rata costs of the entire carriage chain.

(3) If a licensee as per (1) separately offers parts of the carriage service it performs without any obligation to do so under (1), (2) shall apply accordingly.

Letter from the Management Board

Dear Shareholders, Ladies and Gentlemen,

Despite the global economic and financial crisis, the FP Group increased its financial and earnings power in the financial year just ended. Earnings before interest, tax, net financial income, depreciation and amortisation (EBITDA) rose to EUR 20.6 million, compared to EUR 18.2 million in the previous year, despite a fall in revenues due to the economic conditions. At the same time, free cash flow improved to EUR 9.8 million, compared to EUR 3.5 million in the previous year.

"Our strategy of focusing on higher financial and earnings power has proven to be successful."

Our strategy of focusing on higher financial and earnings power combined with optimising the cost structure has proven to be successful. We realised significant increases in efficiency in the areas of Human Resources and Research and Development following restructuring. As a result, staff expenses alone fell to EUR 48.4 million, following EUR 54.8 million the previous year. Two measures were decisive in this context: firstly, we reduced staff numbers in the international subsidiaries of the FP Group and, secondly, the site continuation agreement, which was concluded in Germany in August 2009, yielded positive effects. A wage sacrifice forms a substantial component of this contract, which was concluded with the Works Council and IG Metall. Our sincere thanks are due to all employees for their contribution to the future viability of the FP Group and their achievements and commitment during the challenges of the last financial year.

Together, we have overcome the consequences of the crisis comparatively well despite having to withstand a fall in sales. The reluctance to invest brought about by the economic environment had a negative impact on the new business in franking and inserting machines in particular. By contrast, recurring revenue from service agreements, leasing and the sale of consumables remained stable. Recurring income means recurring customer contacts and thus consolidation of customer relationships throughout the entire economic cycle. These regular sales ensure the stability of our business model.

Starting from this solid basis, we intend to develop new growth potential in the coming years. For many years, the volume of business mail sent worldwide has remained stable at around 400 billion, corresponding to over a billion letters written per day – only a minority of which are currently processed by professional service providers. In addition, contrary to all predictions, e-mail has not replaced the traditional letter. Instead, the Internet and traditional mail are developing in tandem. In this respect, the modern mail item is combining the efficiency advantages of an e-mail with the higher attention that physical documents command.

Andreas Drechsler
(CSO)

Hans Szymanski
(CFO & CTO)

With our solutions, users can send a letter online, for example. We take over the printing out, inserting, franking and handing over of the mail items to a mail delivery agent. This all-in-one solution can be used by business customers and private individuals alike. Accordingly, we are among the pioneers in future market for online mail. With regard to mobile communications, in the coming months we will launch PhoneBrief, an iPhone mailing application, with which you will be able to send a postcard or letter from your iPhone.

"With our services and software solutions we are well positioned and prepared for the future."

These examples highlight a great strength of our company: we offer tailored solutions for the entire mail management process. Since its foundation, the Francotyp-Postalia Group has optimised postal processes in our customers' companies, thus improving their efficiency. The business started in 1923 by developing and selling franking machines. Building on this traditional business we now also offer services and software solutions, taking advantage of the increasing liberalisation of the postal markets. While we initially concentrated on our home market of Germany, which is already fully liberalised, in the future we will drive forward the internationalisation of our software solutions. We have started this with the UK market.

Furthermore, as a global service provider we will also exploit opportunities in our traditional franking and inserting business and enter new countries with fast-growing markets. We see particular potential in emerging economies such as India, Singapore, Malaysia and Indonesia. In early 2010 we laid the foundations for entry into this market with the certification of our franking machines in India, equipping us to participate in the expected growth in the years to come. With our Singapore subsidiary as a base we will steadily expand our business in the Asian / Pacific area.

Whether franking machines or innovative software – we deliver solutions for the entire mail management process and increase our customers' productivity. We would like to take this opportunity to thank all our customers most sincerely for their confidence in the FP Group. We also thank you, esteemed shareholders, for your loyalty. Your confidence spurs us on to safeguard the future viability of the company over the long term and to further expand our market position. Here, our key medium-term objectives are to increase financial and earnings power and to develop new markets. As a professional service provider for mail management, we believe we are well prepared should the weak economic phase persist, as 2009 showed that even in a difficult environment we are able to generate a two-digit EBITDA margin and positive free cash flow.

Birkenwerder, April 29, 2010

Yours sincerly

Hans Szymanski
(CFO & CTO)

Andreas Drechsler
(CSO)

Management Board

Hans Szymanski
Member of the Management Board of Francotyp-Postalia Holding AG (CFO & CTO)

Born in 1963 and an economics graduate, he is responsible for Finance, Production, IT, Research and Development, Human Resources and Legal Affairs.

Andreas Drechsler
Member of the Management Board of Francotyp-Postalia Holding AG (CSO)

Born in 1968, Andreas Drechsler studied and graduated in banking and business studies, and is responsible for Sales, Marketing and Investor Relations.

Report of the Supervisory Board

Dear Shareholders,

In 2009 the Supervisory Board performed the duties required of it according to prevailing law, the Articles of Association and company standing orders, while taking the associated decisions as and when necessary. The Supervisory Board held a total of eight meetings, including two conference call meetings and three extraordinary meetings. The entire Board attended all meetings bar one, for which one member gave his apologies. The Management Board also attended four of the total number of Supervisory Board meetings convened.

Overview of the 2009 financial year – monitoring the Management Board

COMPOSITION OF THE MANAGEMENT BOARD

With effect from 1 January 2008 the Supervisory Board appointed Dr. Heinz-Dieter Sluma a member of the Management Board with individual signatory powers and declared him Chairman of the Management Board of Francotyp-Postalia Holding AG. The appointment of Dr. Sluma as CEO of the company was countermanded by the Supervisory Board for good cause on 13 February 2009, and his contract of employment as a member of the Management Board was terminated extraordinarily for good cause. The Annual General Meeting of the company resolved to strip Dr. Sluma of his powers on 23 June 2009.

In response Dr. Sluma has sued, firstly, for wrongful dismissal (Neuruppin Regional Court, 6 O 26/09) and for compensation (Neuruppin Regional Court, 6 O 27/09) and secondly for rescission (Neuruppin Regional Court, 6 O 73/09). With regard to the action for wrongful dismissal, the company assumes that it will be able to defend itself successfully. The company also considers that there is only a small risk of its being unable to avert the pending action for compensation. By contrast, there is a greater risk of its being unable to defend itself successfully in the case of the action for rescission. The proceedings had not been concluded by April 2010. Information on the current status of the proceedings is available on the Francotyp-Postalia Holding AG website.

After the dismissal of Dr. Sluma and termination of his contract, Andreas Drechsler was appointed as an additional member of the Management Board for one year. In October, the Supervisory Board extended this contract early for a total period of three years. Mr. Drechsler has been at Francotyp-Postalia since 1999 and worked as commercial managing director for Francotyp-Postalia, Inc. in the USA and managing director of FP Direkt GmbH in Germany until he became Senior Vice President for Sales and Investor Relations at the end of 2007. Mr. Drechsler took on Management Board responsibility for Sales, Marketing and Investor Relations.

COLLABORATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The FP Group felt the effects of the recession like many other companies, leading to a particularly difficult economic situation for Francotyp-Postalia at the beginning of the financial year. Consultations between the Management and Supervisory Boards thus focused on this topic. The Management Board reported to the Supervisory Board in writing and verbally at regular intervals exceeding the frequency prescribed by the Rules of Procedure.

The fall in sales and a consolidated net loss made immediate cost reduction and restructuring measures necessary for the entire Group. In addition to a significant reduction in staff in the international subsidiaries, the Management Board entered into negotiations regarding restructuring measures with IG Metall and employee representatives at the company's head office in Birkenwerder. In August 2009 the parties entered into a site continuation agreement, which was approved by the Supervisory Board. The competitiveness of the FP Group will remain a key topic for the Supervisory Board and Management Board in the current financial year, as it was in the last.

cf. Risk report page 56

The consequences of the circumstances described in the 2008 Annual Report, which led to the extraordinary termination of Dr. Sluma's contract for good cause, impacted both the management of the company and the economic performance of the Group in the last financial year. Further explanatory information can be found in the *"Legal and tax risks"* section of the risk report in the Group management report.

Furthermore, the Management and Supervisory Boards discussed all business development planning matters relevant to the company, coordinated the strategic orientation of the FP Group and discussed the status of strategy implementation. With regard to these issues, the Supervisory Board also took an existing conflict of interest into account. The Supervisory Board was promptly notified by the Management Board of all other important events which could be significant in judging the company's current circumstances, direction and ongoing management, including the risk situation and risk management, as well as of any divergent business trends, and has been able to exhaustively discuss such matters on the basis of the written and verbal reports furnished by the Management Board. With respect to the compliance regulations, the Management and Supervisory Boards jointly resolved to update the existing regulations and also to introduce new regulations binding all FP Group companies.

CHANGES TO THE SUPERVISORY BOARD

Mr. George Marton resigned from his post on the company's Supervisory Board with effect from the end of the Annual General Meeting on 23 June 2009. The Supervisory Board would like to thank Mr. Marton for his constructive contribution.

A new Supervisory Board member had to be elected as a result of Mr. Marton's resignation. According to Sections 95 and 96 of the German Stock Corporation Act (Aktiengesetz – AktG) and Section 10 paragraph 1 of the Articles of Association, the company Supervisory Board is composed of three members to be chosen by the Annual General Meeting. In the invitation to the Annual General Meeting held on 23 June 2009, it was proposed that Dr. Claus Gerckens, resident in Augsburg, be elected as a new member of the Supervisory Board of Francotyp-Postalia Holding AG. For formal reasons the Management and Supervisory Boards did not consider it practical to have the Annual General Meeting vote on the election of Dr. Claus Gerckens to the Supervisory Board. The resolution was thus set aside. In an order dated 12 August 2009, the court appointed Dr. Claus Gerckens to the Supervisory Board to serve until the next Annual General Meeting.

Dr. Gerckens was Chairman of the Management Board of BÖWE SYSTEC AG until 31 January 2009 and is managing director of GVG Industrieverwaltungs GmbH in Augsburg. He has held or holds the following supervisory board seats or comparable board seats in German or foreign companies:

- Waltershof Peute Hafen Betriebs G.m.b.H., Hamburg (Deputy Chairman of the Administrative Board)
- EUROKAI KGaA, Hamburg (member of the Supervisory Board)
- Lasermax Roll Systems AB, Ljungby, Sweden (Chairman of the Administrative Board until 16 April 2009)

Other than those listed above, Dr. Gerckens does not hold any further posts on executive bodies.

As an independent member of the Supervisory Board and a former auditor and tax consultant, Dr. Gerckens meets the personal requirements of Supervisory Board members set out in Section 100 paragraph 5 AktG.

COMMITTEES

Due to the corporate size of Francotyp-Postalia Holding AG and the fact that the Articles of Association prescribe that the Supervisory Board must have three members and no more, no other committees were formed. While the Supervisory Board continues to be limited to three persons, the Board as a whole assumes the duties of an Audit Committee.

In this capacity the Supervisory Board examines and monitors the financial reporting process as well as the effectiveness of the internal monitoring system, risk management system and internal audit system. Examination and monitoring is based on the regular reports of the Management Board.

IN-DEPTH DISCUSSIONS OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The Supervisory Board has the task of examining the annual financial statements, management report, consolidated financial statements and Group management report prepared by the Management Board. The same applies to the report and conclusions reached by the independent auditor and independent auditor for the Group. KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, has audited the annual financial statements and management report of Francotyp-Postalia Holding AG to 31 December 2009 as well as the consolidated financial statements and Group management report to 31 December 2009, and in each case has issued an unqualified opinion thereof. In accordance with Section 315a German Commercial Code (HGB – Handelsgesetzbuch), the Group management report and consolidated financial statements were drawn up according to International Financial Reporting Standards (IFRS). The independent auditor conducted his audit in accordance with the generally accepted standards for the audit of financial statements promulgated by the IDW Institute of Public Auditors in Germany. As the Supervisory Board did not form its own audit committee, the Supervisory Board as a whole conducted the audit of the documents specified. The Management Board submitted these documents, together with the audit reports by KPMG AG, to the Supervisory Board in good time.

During the balance sheet meeting held by the Supervisory Board on 25 March 2010, in the presence of the independent auditor, who reported on his main audit findings, the 2009 annual financial statements, 2009 consolidated financial statements and associated management reports and audit reports were subjected to detailed scrutiny.

The Supervisory Board concurs with the Management Board's presentation of the state of the company in its reports and annual financial statements as well as with the results of the audit reports. Accordingly the Supervisory Board raises no objections thereto. The Supervisory Board has approved the financial statements drawn up by the Management Board which are therefore duly adopted in accordance with Section 172 AktG.

CORPORATE GOVERNANCE

The Management Board and Supervisory Board issued a Declaration of Compliance with the German Corporate Governance Code (the Code) pursuant to Section 161 AktG, which now forms part of the Declaration on Corporate Governance pursuant to Section 289a HGB, and will make this declaration permanently available to shareholders on the Francotyp-Postalia Holding AG website. The Management Board and Supervisory Board broadly comply with the proposals and recommendations of the Code. The Declaration on Corporate Governance, which also forms part of the 2009 Annual Report, and the Declaration of Compliance give detailed explanations of points where the Management Board and Supervisory Board depart from the Code's proposals and recommendations.

The Supervisory Board conducted an efficiency audit for the first time in the financial year just ended. This will be repeated at regular intervals.

NOTE OF THANKS

Due to the necessity of making a change to the Management Board and the difficult global economic situation, the FP Group was faced with major challenges at the beginning of the 2009 financial year. Despite the still tense economic situation, FP Group can look optimistically towards the future again. The Supervisory Board would like to thank the Management Board as well as the employees and Works Council for this development. Our thanks are also due to the shareholders, who maintained their confidence in the company over the last year.

April 2010

The Supervisory Board
Francotyp-Postalia Holding AG

Prof. Dr. Michael J. A. Hoffmann

Members of the Supervisory Board

Prof. Michael Hoffmann (left)
Born in 1944, Dr. rer. pol. Dipl.-Ing.
Chairman of the Supervisory Board of Francotyp-Postalia Holding AG

Christoph Weise, born in 1953 (no picture)
Diplom-Kaufmann (business graduate)
Deputy Chairman of the Supervisory Board of
Francotyp-Postalia Holding AG

Dr. Claus Gerckens (no picture)
Born in 1950, Dr. rer. soc.
Member of the Supervisory Board of Francotyp-Postalia Holding AG

Declaration on Corporate Governance

DECLARATION ON CORPORATE GOVERNANCE – CORPORATE GOVERNANCE REPORT

The Management Board and Supervisory Board submit an annual corporate governance report on the corporate governance of the company. Similar to the Declaration of Compliance, this is also a component of the company's Declaration on Corporate Governance pursuant to Section 289a (1) of the German Commercial Code (Handelsgesetzbuch – HGB).

The purpose of the German Corporate Governance Code is to make the rules for the management and supervision of companies prevailing in Germany as transparent as possible for both domestic and international investors. The Code's provisions and rules cover the fields of shareholder interests, the Management Board and Supervisory Board, the transparency of company management, and the duties of the independent auditor. The Management Board and Supervisory Board of Francotyp-Postalia Holding AG are committed to the implementation of the recommendations and proposals of the Corporate Governance Code (Code), in particular where they concern shareholder interests. In line with the principles of the social market economy, the Management Board and Supervisory Board also safeguard the company's existence and ensure sustainable added value. The Management Board and Supervisory Board report on potential deviations from the recommendations of the Code in both the Declaration of Compliance and in the following extensive disclosures with reference to the version of the Code dated 18 June 2009.

2010 DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

Pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG), the Management Board and Supervisory Board of Francotyp-Postalia Holding AG hereby presents its 2010 Declaration of Compliance, setting out which recommendations of the version of the German Corporate Governance Code dated 18 June 2009, as published by the Federal Ministry of Justice in the official section of the electronic version of the Federal Gazette, it has been and is complying with or which recommendations have not been or are not being applied.

3.8 The company has taken out D&O insurance for the Management Board and Supervisory Board. This does not currently include any excess for the Management Board and Supervisory Board. In accordance with statutory transitional provisions, with effect from 1 July 2010 the insurance will be modified to include an excess of 10% of the loss for both the Supervisory Board and the Management Board, limited to one-and-a-half times the annual remuneration in each case.

4.2.1 In accordance with the Articles of Association, the Management Board of Francotyp-Postalia Holding AG comprises one person or several persons. The Supervisory Board may appoint a Management Board member as Chairman of the Management Board. The Supervisory Board has not utilised this option, as the Management Board of Francotyp-Postalia Holding AG currently only consists of two persons who are jointly responsible for the management of the entire company.

5.2 While the Supervisory Board continues to consist of three persons, no committees will be formed in which the Supervisory Board Chairman or any other Supervisory Board member could occupy an additional chairmanship role, as the composition of the committees would be identical to that of the Supervisory Board.

5.3.1 For the same reason, no specialist committees will be formed.

5.3.2 While the Supervisory Board continues to be limited to three persons, the Board as a whole will assume the duties of an Audit Committee.

5.3.3 With regard to the formation of a nomination committee, the same circumstances apply as to the other committees.

5.4.2 One Supervisory Board member is the economic owner of shares in the company. Nevertheless, in the view of the Supervisory Board this does not compromise the Supervisory Board's independence.

5.4.3 Pursuant to Section 10 paragraph 1 of the company's Articles of Association, the Chairman and Deputy Chairman of the Supervisory Board are elected from among the Supervisory Board's members at its constitutive meeting, which takes place after the Annual General Meeting of Francotyp-Postalia Holding AG at which the Supervisory Board members are chosen by said Annual General Meeting. Accordingly, the company cannot follow the recommendation that the candidate nominations for the Supervisory Board chairmanship be disclosed to the shareholders.

5.4.6 The Articles of Association do not provide for performance-related remuneration for members of the Supervisory Board. A discussion on possible adjustments is planned.

7.1.2 As a consequence of the extensive consolidation work involved, the consolidated financial statements are drawn up within four months of the end of the financial year. Likewise, and again due to the large amount of consolidation work involved, the quarterly and half-yearly reports are published, at the latest, within two months of the end of the reporting period, in compliance with the Stock Exchange Rules (Börsenordnung) and the Transparency Guidelines Implementation Act (Transparenzrichtlinien-Umsetzungsgesetz).

BASIC INFORMATION ON THE STRUCTURE OF AND UNDERLYING RULES FOR CORPORATE MANAGEMENT

Francotyp-Postalia Holding AG is domiciled in Birkenwerder and, as a German company, is subject to German stock corporation law. German stock corporations are required to have a dual management system composed of a management board and a supervisory board. In accordance with the Articles of Association, the Supervisory Board of Francotyp-Postalia Holding AG comprises three members elected by the Annual General Meeting. The Chairman and Deputy Chairman are elected from among the Supervisory Board's members. Accordingly, the company is unable to apply the recommendation of subsection 5.4.3 of the Code concerning the disclosure to shareholders of candidate nominations for election as Supervisory Board Chairman. The Supervisory Board's Rules of Procedure, which the committee drew up for itself, govern its working method.

In accordance with the Articles of Association, the Supervisory Board of Francotyp-Postalia Holding AG holds four meetings each calendar year, two of which are to take place every six calendar months. Extraordinary meetings are convened by the Supervisory Board Chairman if required and after due assessment of the circumstances.

Pursuant to the Articles of Association, the Supervisory Board may appoint one or more persons to the Management Board of the company. The Management Board of Francotyp-Postalia Holding AG currently comprises two members. The Management Board manages the company independently in line with the company's best interests with the aim of creating sustainable added value while taking into account the concerns of shareholders, its employees and other groups affiliated with the company. In accordance with the Rules of Procedure for the Management Board issued by the Supervisory Board, the Management Board manages the company's businesses in line with uniform plans and guidelines, with the Management Board bearing joint responsibility for the management of the entire company. As part of the overall responsibility for managing the company, each Management Board member is required within the remit of tasks allocated to him to cooperate with the other Management Board members in a collegial and trustful manner for the benefit of the company.

The Management Board develops the strategic direction of the company and coordinates this with the Supervisory Board. In addition to complying with statutory provisions and internal company guidelines, the Management Board also ensures appropriate risk management and monitoring within the company and the Group companies. More detailed information can be found in the risk report contained in the Group management report. Management Board meetings are held at regular intervals, every two weeks if possible.

SUPERVISORY BOARD COMMITEES

Due to the corporate size of the company and the fact that the Articles of Association prescribe that the Supervisory Board must have three members and no more, as a rule no other committees are formed. For this reason the Supervisory Board as a whole decides on and monitors issues relating to the Management Board remuneration system, including the principal elements of contracts. Likewise, the Supervisory Board as a whole assumes the duties of an Audit Committee, with the Supervisory Board Chairman acting as Chairman of said committee. At least one member of the Supervisory Board possesses the requisite specialist knowledge in the area of accounting.

COLLABORATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Achieving sustained increases in company value is the common goal of the collaboration between the Management Board and the Supervisory Board. The two Boards meet at regular intervals to discuss the strategic direction of the company as jointly coordinated by the Management Board and the Supervisory Board. The Management Board also provides the Supervisory Board with regular information on all issues relating to planning, business trends, risk, risk management, the internal monitoring system and compliance. In its reporting the Management Board discusses and gives reasons for any discrepancies between the actual course of business and the company's plans and targets. The Supervisory Board has drawn up Rules of Procedure setting out the details of the Management Board's disclosure and reporting duties. These Management Board Rules of Procedure also stipulate that the Supervisory Board has the right of veto with respect to decisions or measures which could materially affect the company's assets, financial situation or earnings position, and also concerning transactions of major importance.

To date, Francotyp-Postalia Holding AG has taken out D&O insurance with no excess for members of either the Management Board and the Supervisory Board. In accordance with statutory transitional provisions, with effect from 1 July 2010 the D&O insurance taken out for the executive bodies of Francotyp-Postalia Holding AG will be modified to include an excess of 10% of the loss, limited to one-and-a-half times the annual remuneration in each case.

REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Francotyp-Postalia Holding AG adheres to the recommendations of the Code concerning disclosure of the remuneration of individual Management Board and Supervisory Board members. The basic features of the remuneration system and remuneration are presented in the remuneration report contained in the notes to the consolidated financial statements.

CONFLICTS OF INTEREST

When taking decisions and performing their duties, the Management Board and Supervisory Board are bound to act in the company's best interests and may neither pursue personal interests nor confer advantages on other persons or make personal use of business opportunities which are the purview of the company itself. All members of the Management Board must disclose any conflicts of interest to both the Supervisory Board and other members of the Management Board. Likewise, all members of the Supervisory Board must disclose any conflicts of interest to the Supervisory Board. Furthermore, in its report the Supervisory Board must notify the Annual General Meeting of any conflicts of interest and how they were dealt with.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

The Management Board convenes an Annual General Meeting at least once a year. The purpose of the Annual General Meeting is to resolve on the acceptance of the adopted consolidated and annual financial statements and associated management reports, to resolve on the appropriation of the net profit and to formally approve the actions of members of the Supervisory Board and Management Board. The ordinary Annual General Meeting is also responsible each year for choosing the independent auditor. At the Annual General Meeting, the shareholders of Francotyp-Postalia Holding AG have the opportunity to exercise their rights to participate in the administration and control of the company. They have the option of either exercising their voting rights personally or nominating a proxy / authorised representative of their choice, which may also be an association of shareholders, to exercise those rights on their behalf. To make it easier for shareholders to exercise their rights, the company also offers the services of a proxy who is available before and during the General Meeting.

The documents required for the Annual General Meeting, including the Agenda / Invitation, are readily available to shareholders on the company's website. Wherever the corresponding authorisation has been granted, Francotyp-Postalia is glad to provide all domestic and foreign financial service providers, shareholders and shareholders' associations with the Invitation to the Annual General Meeting plus associated documents in electronic form. It is of course in both the company's and the shareholders' interests to conduct the business of the Annual General Meeting as swiftly as possible, and accordingly the Articles of Association allow the person chairing the Annual General Meeting to place reasonable limits on the time allotted to shareholders to pose questions and exercise their right to speak. On cost grounds, and also due to the high degree of organisational effort involved, full Internet transmission of the Annual General Meeting is not planned.

TRANSPARENCY

For Francotyp-Postalia Holding AG, corporate governance means responsible and transparent leadership and control of the company. In particular, this entails treating shareholders equally when it comes to the provision of information and its content. We disclose all new facts and circumstances to shareholders, financial analysts and the like without delay. This involves disseminating the information in German and English both on the Francotyp-Postalia Holding AG website and through the use of systems which ensure the simultaneous publication of information both in Germany and abroad. All important regular publications and dates are published well in advance on the financial calendar.

ACCOUNTING PRACTICE

The principal sources of information for shareholders and third parties are in the company's consolidated financial statements as well as, during the financial year, the quarterly and half-yearly reports. Contrary to the recommendations of the Code and due to the extensive consolidation work involved, Francotyp-Postalia's consolidated financial statements are drawn up within four months of the end of the financial year. Due to the large amount of consolidation work involved, the quarterly and half-yearly reports are published, at the latest, within two months of the end of the reporting period, in compliance with the Stock Exchange Rules (Börsenordnung) and the Transparency Guidelines Implementation Act (Transparenzrichtlinien-Umsetzungsgesetz).

The consolidated financial statements and interim reports are drawn up in accordance with International Financial Reporting Standards (IFRS). The individual financial statements required by law for tax and dividend payment purposes are drawn up in compliance with the German Commercial Code.

A list of relationships with shareholders qualifying as Related Parties, within the meaning of IAS 24, is published by the company in its consolidated financial statements.

AUDIT

In accordance with the 2009 Annual General Meeting resolution on the matter, the Supervisory Board has appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, to conduct the audit of the 2009 annual financial statements and consolidated financial statements. In compliance with the recommendations of the Code, it was agreed with the auditor that the Chairman of the Supervisory Board is to be informed immediately of any grounds for exclusion or bias which might arise during the audit, unless said grounds are eliminated without delay. The auditor is also required to report immediately any material findings or occurrences arising during the execution of the audit which may be relevant to the Supervisory Board's performance of its duties. The auditor is further required either to notify the Supervisory Board or make a corresponding note in its audit report should it discover circumstances indicating inaccuracies in the Declaration of Compliance with the Code given by the Management Board and Supervisory Board, pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG).

Good stock market year for FP share

SHARE PRICE INCREASE

The FP share performed positively in 2009 in an increasingly favourable stock market environment. The FP share started 2009 at a price of EUR 0.85. The weak first-quarter performance of the stock attributable to the general market trend was followed by a sharp price increase in the second quarter. The share reached its year high of EUR 2.60 in XETRA trading on 5 June 2009. It then followed a volatile price course until closing at EUR 1.62 at year-end.

The share's performance was supported by rising confidence in the medium-term prospects of the Group. Over the course of the year, the success of the restructuring at Francotyp-Postalia and positive analyst comments provided significant impetus for the share price increase. The price gains in the first half of the year also increased the attractiveness of the share to private and institutional investors.

RECOVERY ON THE CAPITAL MARKET

The FP share significantly outperformed the capital markets with a price increase of 90% over the course of the year. During the course of the year, the leading US index, Dow Jones, gained 20% and the German stock exchange indicator, DAX, rose by 24%. The German second-tier stock index, SDAX, climbed 27% in 2009. The FP share also performed well compared to its listed competitors, US-based Pitney Bowes and French-based Neopost. Both companies suffered price declines in 2009 amounting to -10.7% for Pitney Bowes and -8.5% for Neopost.

The FP share's trading volume also rose in parallel to the share price. In 2009, an average of 26,500 shares changed hands per trading day compared to just 17,600 in the previous year. This reached a peak at over 300,000 FP shares traded on one day.

BROAD SHAREHOLDER BASE

Francotyp-Postalia has a diversified shareholder structure. As historic shareholders, the two pre-IPO shareholders, Quadriga Capital Private Equity Fund II L.P. and Quadriga Capital Limited, had shareholdings of 22.4% and 3.9% respectively at the end of 2009, giving a total of 26.3% of FP shares; 71.2% of the shares were in free float and 2.5% were held by the company itself.

Performance of the Francotyp-Postalia share (2 January 2009 – 30 January 2010 [Share price in EUR, volume in shares]

As of 31 December 2009, notifications received showed that the following investors each held voting rights in excess of 3%: Amiral Gestion (11.30%), Baillie Gifford & Co (5.39%), Financiére de L'Echiquier (5.11%), KBL Richelieu (4.85%) and Eric Spoerndli (3.28%).

This means that the FP Group has a broad base of European institutional investors behind it. Additionally, the financial institutes SES Research and Hauck & Aufhäuser both publish regular studies on the company.

INVESTOR RELATIONS WORK PAYS OFF

Continuous open dialogue with all capital market participants is essential for a sustainable long-term corporate strategy. In the difficult 2009 financial year, it was especially important to the FP Group to maintain intensive contact with investors. The Management Board and the investor relations team used one-on-one meetings, investor conferences and roadshows to explain the Francotyp-Postalia business model and to highlight the Group's potential, following its initial restructuring successes. In November 2009, Francotyp-Postalia participated for the second time in the German Equity Forum in Frankfurt, Europe's most important platform for equity capital finance for medium-sized companies. The Forum was an opportunity for the FP Group to present itself to investors and analysts. The company also offered conference calls covering each publication of its quarterly figures. This enabled Management to present the latest developments and answer questions from analysts and investors.

In addition, the company held an Investor's Day at its Birkenwerder headquarters for the first time in 2009. This event was successfully held at the iab subsidiary in Adlershof at the beginning of 2010 and from now on will take place once a year. Management places great value on direct contact with analysts, investors and banks, as confidence in the company and the business model is established to no small degree through face-to-face discussions with the people who run the businesses.

The FP Group's Annual General Meeting held on 23 June 2009 in Berlin was thus an important platform for direct dialogue with the shareholders in attendance, who represented around 80% of voting rights. At the meeting, the Management faced critical questions from shareholders in an open discussion.

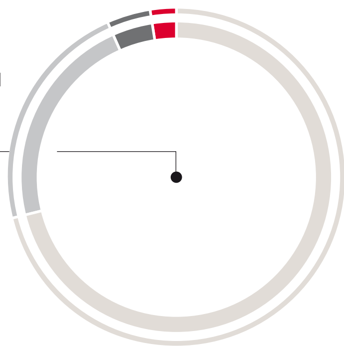
The investor relations area of the Francotyp-Postalia website is a central source of information for shareholders. At http://www.francotyp.com visitors will find comprehensive background information about the company as well as all relevant publications, such as annual and quarterly reports, ad-hoc disclosures and press releases. Further information can be obtained by phoning the investor relations team directly on +49 (0)3303 525 410.

Key data on the FP share

Number of shares	14.7 million
Type of share	Bearer share
Capital stock	EUR 14.7 million
Voting rights	Every share has one vote
WKN	FPH900
ISIN	DE000FPH9000
Stock exchange code	FHP
Trading segment	Official market (Prime Standard)
Stock exchanges	Xetra and regional German exchanges
Designated sponsor	Close Brothers Seydler Bank
Coverage	SES Research, Hauck & Aufhäuser
Official announcements	Electronic Federal Gazette
Closing price Xetra 31 December 2009	EUR 1.62
Year high Xetra	EUR 2.60
Year low Xetra	EUR 0.51 (31 March 2009 / 8 April 2009)
Closing price Xetra 30 December 2009	EUR 1.62 (5 June 2009)
Market capitalisation 31 December 2009	EUR 23.8 million
Earnings per share	EUR -1.12

Shareholder structure (in %)

71.2 Free float
22.4 Quadriga Capital Private Equity Fund II L.P.
3.9 Quadriga Capital Limited
2.5 Treasury shares



Distribution of shares in free float (in %)

Amiral Gestion	11.3
Financière d L'Echiquiere	5.11
KBL Richelieu	4.85
Baillie Gifford & Co.	3.78
Eric Spoerndli	3.28

Group Management Report for financial year 2009

BUSINESS AND GENERAL ENVIRONMENT

Business activity

Francotyp-Postalia Holding AG (FP Group), based in Birkenwerder near Berlin, is a global service provider for professional mail management.

As postal markets have become increasingly *liberalised*, the company has moved from being a producer of franking machines to being a mail management provider specialising in letter post. But with new services such as the collection of business mail and innovative software solutions for outbound mail, like hybrid mail, the company is expanding its traditional product portfolio comprising franking and inserting machines. Today, the FP Group covers the entire mail management processing chain and can thus offer tailored mail management solutions to corporate clients of all sizes. The company divides its business into three segments: Franking and Inserting, Software Solutions, and Services.

cf. Information on the liberalisation of European postal markets page 30

KEY PRODUCTS, SERVICES AND BUSINESS PROCESSES

Franking and Inserting
In the traditional Franking and Inserting segment the FP Group concentrates on the development, manufacture, sale and leasing of franking and inserting machines. The product range includes machines for small and medium volumes of mail. The company also offers related after-sales services and products.

By using franking machines, clients can frank their mail automatically in a short space of time. The efficiency of processing outbound mail is increased dramatically as any relevant postal charges are loaded directly into the machine, followed by the franking process which automatically stamps the correct value on each item. In some countries, customers can save on postage charges, as their national postal authorities give a rebate on letters stamped by a franking machine. All franking machines are certified by the national, legally authorised, public or private postal companies, guaranteeing smooth letter processing. These certificates also include the different inks required by postal authorities as consumables.

Products on offer range from the small mymail franking machine right up to the centormail, which franks up to 150 letters per minute. This full-blown professional franking system gathers all mailing data in one step, performs individualised printing at the same time and stores all the mailing data for further use in other applications. An attached sorting module sorts the franked mail according to predefined criteria, thereby further increasing the efficiency of mail processing.

The Group’s most important revenue generator in the franking machine segment is its after-sales business with *recurring revenues* for consumables and services. These include the electronic loading of postage into the franking machine, the sale of consumables, the compilation of clichees, services or even software solutions for cost centre management. In detail, this includes the following: each franking machine can be automatically loaded with a credit for the requisite postage, so-called teleporto. For this service, FP receives a service fee. In essence, consumables comprise the various inks for the franking machines. These are supplied in the form of a ribbon cartridge or as a cartridge depending on the model of franking machine. The compilation of a customer-specific clichees, which adds advertising or informative text and pictures to the franking imprint, also counts as consumables. In terms of services, FP offers the entire range of maintenance and servicing contracts.

Feature chapter Recurring revenues page 44

Software Solutions and Services

The liberalisation of postal markets presents extensive growth opportunities for the Software Solutions and Services segments. Initially, the FP Group concentrated on the German market, which has been fully liberalised since the beginning of 2008 and where the Group benefits from having developed its expertise in mail management at an early stage. Following flotation, the company acquired freesort GmbH and a majority stake in *iab – internet access GmbH* in late 2006 for this purpose.

www.internet-access.de

iab is a software specialist in the area of digital mail processing. The company allows the entire mail management system to be outsourced on the basis of Internet-based software. This means that a letter can be posted with just a single mouse click, but is subject to the highest security standards. iab is responsible for printing the letters as well as for inserting, franking and delivering them to the distributor. With its hybrid mail products, webmail, businessmail, systemmail or inboundmail, iab covers the requirements of the largest and smallest customers, who can make major savings in costs and time. Sending the letter digitally from the workplace in one direct step reduces or eliminates expenses for paper, envelope and printer, working time and the trip to the post office or letter box.

www.freesort.de

With nine branch offices throughout Germany, *freesort* is one of the leading independent consolidators of outbound mail in the German market. The company collects letters from its clients, sorts them by postcode and then delivers them in batches to a letter centre of Deutsche Post or an alternative postal distributor. Using this service, companies can increase the efficiency of their outbound mail and save postage at the same time. This is because, since liberalisation, Deutsche Post has to give discounts of up to 26% on pre-sorted and franked postal deliveries. freesort passes on part of the discount to its customers, creating a win-win situation.

KEY SALES MARKETS AND COMPETITIVE POSITION

The FP Group is present with its franking machines in the main markets worldwide, including Germany, the USA and Great Britain. With an installed base of some 260,000 franking machines, the company has a global market share of 9.9%. The FP Group operates via branch offices in nine countries and has dealer networks in 44 countries. The Group is particularly well represented in Germany and Austria, where it has a market share of 44% and 48% respectively.

The company has been operating in the fast-growing Asian market since the beginning of 2009 through its subsidiary Francotyp-Postalia Pte. Ltd. in Singapore. From there the FP Group is expanding its sales business and its presence in Asia with new partners and customers. Core markets here are to be Singapore first, followed by India and Malaysia. The company is the only franking machine manufacturer in the world that also produces in Singapore.

Liberalisation of the European postal markets*

"The European policy of liberalising the postal services is an integral component for the realisation of the single European market." [1] The liberalisation of the European postal market got off the ground in 1992 when the Green Paper on the development of the single European market for postal services was published. Germany adopted the Postal Act back in 1997 and fully opened up its postal market in 2008. It was closely followed by countries such as Great Britain and the Netherlands. All European postal markets must be fully liberalised by 2011 and 2013.

* The information provided in this box is not part of the audited Group management report.

[1] Comment on the Postal Act of 2004, page 55

In the area of software solutions and services, the FP Group is currently concentrating on the German market. However, a programme of internationalisation is planned for the next few years. Software solutions are to be introduced on the British market during 2010.

KEY SITES

The company's registered offices and the FP Group's largest site is situated at Birkenwerder, near Berlin. Along with Singapore, this is where the franking machines are developed and manufactured. Head office departments such as accounting, purchasing and Group controlling are also based in Birkenwerder. Global franking and inserting machine sales take place via nine subsidiaries in key markets, as well as through a tightly meshed dealer network. An overview of the subsidiaries is provided in the notes to the consolidated financial statements.

GROUP LEGAL STRUCTURE

Francotyp-Postalia Holding AG is the parent company of the FP Group and acts primarily as a holding company. The company holds 100% of the shares in Francotyp-Postalia GmbH; the operating business of the FP Group in the Franking and Inserting segment is combined here and in its direct and indirect subsidiaries. Francotyp-Postalia Holding AG also holds 100% of the shares in freesort GmbH and 51% of iab – internet access GmbH. These two companies offer consolidation and software solutions.

In financial year 2009, FP InovoLabs GmbH was established as a 100% subsidiary of FP Holding AG. You will find more information on this topic in the section on research and development under point *"Focus of R & D Activities"* .

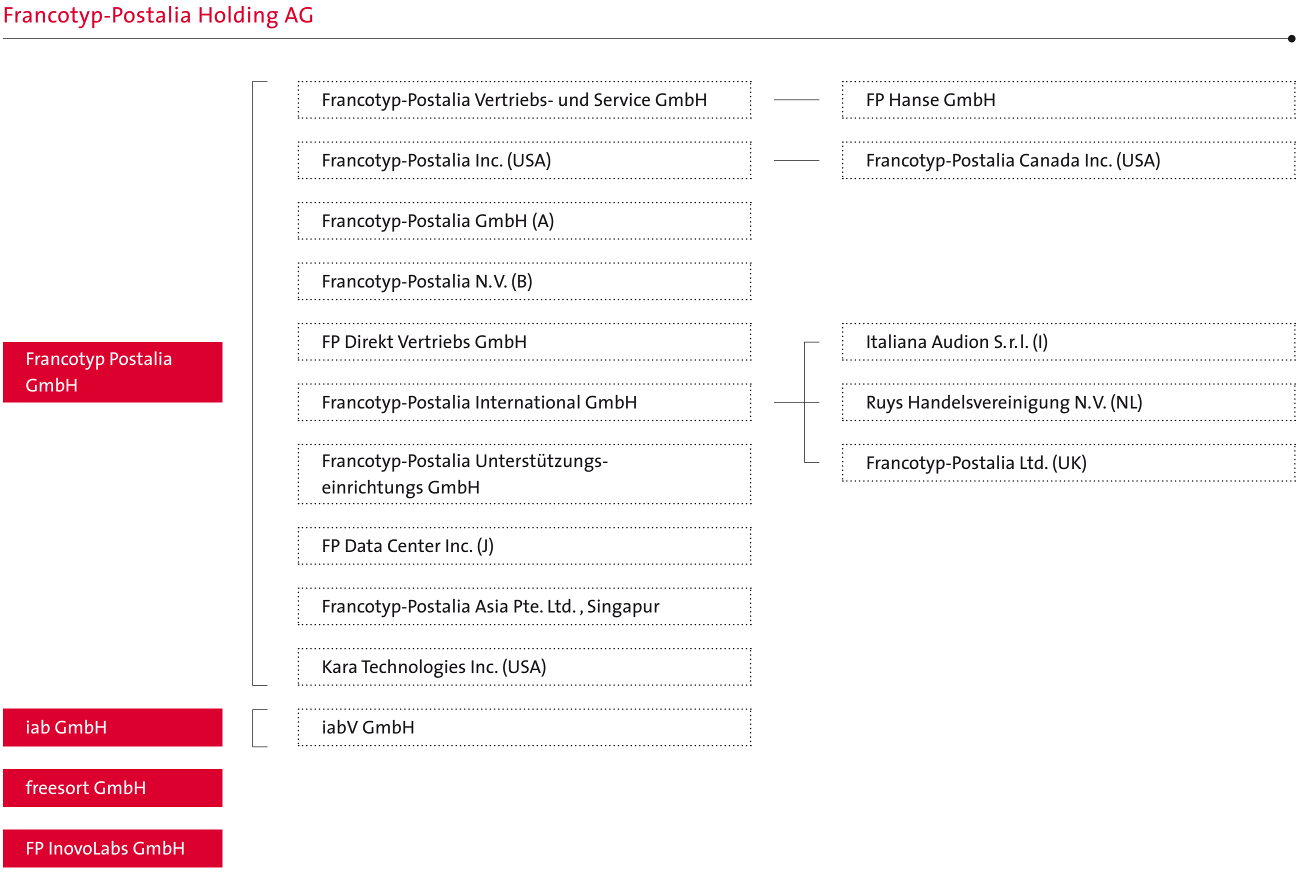
cf. Information on R & D page 39

Installed base*

The franking machine market is rated according to the number of installed franking machines. At the end of 2009, the worldwide franking machine market included approx. 2.6 million machines. Around 1.4 million of these are in the USA, followed by France, in a distant second place, with around 0.3 million, Germany and Great Britain, who each have approx. 0.2 machines. The world's largest franking machine manufacturer is Pitney Bowes followed by Neopost. With approx. 260,000 machines, the FP Group has a worldwide market share of 9.9% and is thus the third largest supplier in this sector.

* The information provided in this box is not part of the audited Group management report.

The equity interests are shown in the following diagram of the Group structure.

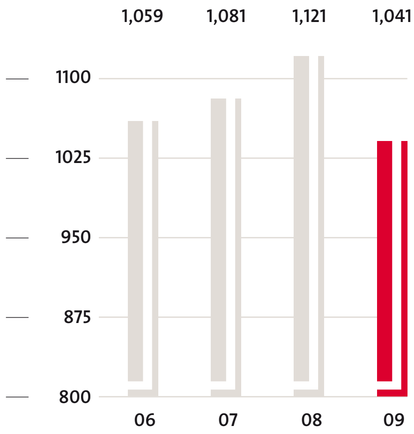


MANAGEMENT AND CONTROL

The FP Group business is managed by a two-member Management Board. Hans Szymanski is responsible for Finance, Production, IT, Supply Chain, Business Development, Research and Development as well as Human Resources and Legal. His Management Board colleague, Andreas Drechsler, is responsible for Sales, Marketing, Investor Relations, Quality Management and Internal Audit. In October 2009, the Supervisory Board resolved on the early extension of his Management Board contract. The contract, which was scheduled to run until February 2010, has now been extended by an additional two years. A three-member Supervisory Board monitors the activity of the Management Board and advises it.

EMPLOYEES

As of 31 December 2009, the FP Group employed a total of 1,041 people worldwide, compared with 1,121 employees the previous year. This fall is, in essence, a consequence of the measures taken to increase efficiency since 2008. Accordingly, at the end of 2009, 691 employees were attributable to the German companies (previous year: 708) and 350 to foreign subsidiaries (previous year: 413).



Headcount development*

The decline in FP Group staff numbers is essentially attributable to staff reduction across the international subsidiaries.

* This chart is not part of the audited Group management report.

In Germany, a total of 466 employees belonged to the segment Franking and Inserting (previous year: 510) and 225 to the segments Software Solutions and Services (previous year: 198). At the end of 2009, 172 people were employed at freesort, compared with 149 employees the previous year. At iab, the number of employees rose from 49 in the previous year to 53. The increase in personnel in these segments underlines the increasing significance of mail management for the entire company.

ENVIRONMENTAL REPORT AND QUALITY MANAGEMENT

The FP Group sees protection of the environment and resources as an integral part of the responsibility it systematically assumes on the part of staff, customers, partners and the general public alike. Responsible usage of resources and materials is of major significance here. The company applies strict environmental criteria to all processes and procedures to ensure that all environmental regulations can be complied with at all times.

The British subsidiary Francotyp-Postalia Ltd. has had the ISO 14001 certificate since the end of May 2009. The international environmental management standard ISO 14001 stipulates globally recognised requirements for an environmental management system and is part of a group of standards. This group of standards contains numerous additional standards on various areas of environmental management, such as life cycle assessments, environmental indicators and environmental performance evaluation. It can be applied to both manufacturing and service companies.

In 2010, Francotyp-Postalia GmbH and Francotyp-Postalia Vertrieb und Service GmbH will also obtain certification under DIN EN ISO 14001. FP aims to use the environmental management system to set its own environmental targets and to develop an environmental programme. An assignment, which will affect all segments of FP, cut across the departments and will be completed—after roughly a year—with an environmental certificate audit. This environmental management structure will be continually developed to meet the constantly evolving demands of environmental protection on a permanent basis.

With this step, FP is investing in sales and the marketing of its product range. ISO 14001 is now mandatory for participation in many international tenders. However, existing and, in particular, new customers are increasingly looking for environmentally friendly factors in our products.

The issue of environmental protection also played a major role in product development in the past financial year. In 2009, the company launched the first *franking system* with GO-GREEN functionality and is consequently supporting Deutsche Post's climate protection programme; this records the CO_2 emissions generated in transporting a GO-GREEN letter for each individual customer. In this way, the FP Group allows environmentally-aware companies to transport letters that are franked appropriately in a climate-neutral manner. Using a revised franking machine, the necessary logo can be printed on every envelope that is franked.

http://www.francotyp.de/frankiermaschinen/frankiermaschine-centormail.php

Quality management also forms an important part of corporate responsibility at the FP Group. At the end of 2009, following a monitoring audit, Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb und Service GmbH and FP Direkt Vertriebs GmbH again obtained certification under DIN EN ISO 9001 for three years. Here, the auditors attested to a positive development in the management system in particular. They also registered improvements in areas such as development, procurement and production.

As part of the audit, processes were also compared with the processes in comparable industries. In this benchmark analysis, the FP Group achieved top marks, particularly in the area of customer orientation. The company also achieved above-average results in an overall comparison.

Parallel to certification of the management system, the subsidiary freesort again received a certificate from the quality association of the Bundesverband Deutscher SachverständigenRat e.V.. iab GmbH is also certified in accordance with DIN EN ISO 9001: 2000.

SOCIAL RESPONSIBILITY

The FP Group is aware of its responsibility to the community and gets involved in those locations in which it operates. The programme of cooperating with schools, which the company carries out at its headquarters is one example of this. The FP Group supports the German-wide project "Jugend denkt Zukunft", which is an initiative by the business community where pupils play the role of consultant and develop products and services that will equip a company for the future during a five-day "game". This scheme helped Year 11 and Year 12 pupils from a comprehensive school to become familiar with business and engineering in a "hands-on" manner in 2009.

For the FP Group, social commitment also means supporting disabled persons. For instance, the subsidiary freesort has followed a barrier-free and disability-friendly policy since it was established The company employs many deaf and deaf-mute individuals, and was distinguished for this as a barrier-free and disability-friendly business by the City of Frankfurt am Main.

Company management, aims and strategy

INTERNAL MANAGEMENT SYSTEM

The Management Board uses a group-wide reporting system and strategic group planning as its management system. Group planning is drawn up for three and five years, but reviewed annually during a comprehensive budget process and adjusted on a rolling basis over the year.

As part of group-wide reporting, all subsidiaries report monthly on revenue, earnings and balance sheet figures; these are then consolidated to form the published quarterly and annual reports for the Group. Subsidiaries also provide an assessment of their current and forecast business performance.

Group management takes place by means of the indicators: sales, EBITDA, net working capital, free cash flow, consolidated net income and the number of franking machines placed on the market weighted by product type. This enables the FP Group to ensure that decisions always take sufficient account of the relationship between growth, profitability and liquidity.

Revenue serves to measure success in the marketplace. With earnings before interest, tax, depreciation and amortisation (EBITDA) the Group measures operating performance and the success of individual business units. In addition, the Group uses the EBITDA margin as an indicator which expresses EBITDA as a percentage of revenue.

Net working capital is calculated from inventories plus trade receivables less trade payables. Reporting on *free cash flow* ensures that the Group's financial substance is preserved. Free cash flow is calculated as the sum of cash flow from current operating activities and cash flow from investing activities.

cf. Consolidated cash flow statement page 78

In essence, the following components secure compliance with the Group's internal management system:

- regular meetings of the Management Board and Supervisory Board
- regular meetings of all international and German executives
- Risk and opportunity management
- Liquidity planning
- Monthly reports from the subsidiaries
- Internal Audit
- Quality management

FINANCIAL TARGETS

The entrepreneurial activity of the Francotyp-Postalia Group is focused on increasing long-term enterprise value and profitable growth. This is why the FP is concentrating its energies on further expanding its strategic competitive advantages and systematically reinforcing the success factors of its business model. To this end, the company pursues a management approach which takes account of stakeholder interests and non-financial values.

NON-FINANCIAL TARGETS AND SUSTAINABLE PERFORMANCE INDICATORS

There are material non-financial targets which are important for the success of every company, and consequently for the FP Group, too:

optimal service for customers	→	customer satisfaction
fairness vis-à-vis suppliers	→	quality
appreciation of employees	→	motivation
protection of resources	→	environmental awareness
responsibility for the social environment	→	trust

In addition to an efficient and well-managed organisation, these non-financial performance indicators play a crucial part in the Group's, long-term success.

Customer satisfaction*

The FP customer survey is carried out every year. The results are based on approx. 300 responses. Comparable statements have been made, based on the same survey, for a period of five years. The results are as follows: the quality and user friendliness of the products as well as the sales and service have performed very well overall. The design, prices, advertising and Internet presence were evaluated overall as "good". FP was awarded top marks for friendliness, competence and reliability.

* The information provided in this box is not part of the audited Group management report.

Worldwide market opportunities for the FP Group*

In the industrialised countries, digitalisation and the professionalization of mail processing are spreading quickly. In contrast, the newly industrialised countries are at the beginning of this development. This is where the future holds a great potential. With its products and services, the FP Group is well positioned on a worldwide level and sees good opportunities for its further development.

From the time of the first officially franked letter in 1840 until the turn of the twentieth century, the postal market saw slow development. But with the inflation triggered by the global economic recession, it became necessary to frequently adjust postage according to wide price fluctuations and to change the way mail was handled. This led to the need for franking machines. Since then, the industry has developed rapidly. As the biggest markets, the USA, France and Germany witnessed the emergence of a new business area—one that was characterised by two key features: stable recurring revenues and significant barriers to entry. Mail is still being delivered at the beginning of the 21st century. However, stamps and franking machines must now also make way for software solutions for mail processing and for services for transporting post. The monopolies in the respective postal markets are beginning to break up. Significant market opportunities are opening up.

THE MARKET FOR FRANKING MACHINES

The global market volume is around 2.6 million franking machines (installed base). The USA remains by far the largest market, followed by France, Great Britain and Germany. The past few years have seen the FP Group steadily increase its market share in the two English-speaking countries, where the current figures are 4.7% and 8.6%, respectively. In its domestic market, i.e. Germany, FP is the undisputed market leader with a market share of around 45%. The company is not represented on the French market due to the significant barriers to entry that exist there. The FP Group maintains a global presence through its 10 sales companies and around 44 dealers. In the traditional franking machine business, the FP Group has a global market share of around 9.9%, equating to roughly 260,000 franking machines.

SOFTWARE SOLUTIONS—THE MARKET FOR ALTERNATIVE FRANKING METHODS

Developments in the USA demonstrate how the markets in the industrialised nations are changing. Companies with high mail volumes (more than 2,000 mail items per day) are increasingly switching from high-volume franking machines to software solutions. The FP Group positioned itself at an early stage to take advantage of the growing demand for software solutions. The globalisation of postal markets opens up excellent growth opportunities, particularly in this market. As a result, the coming years will see the FP Group consistently offer its software solutions in a growing number of countries. This also coincides with efforts to streamline postal communication in the European market and offer legally secure digital solutions. The FP Group also sees excellent opportunities for itself in this area.

MAIL SERVICES

With the complete liberalisation of its postal market on January 1, 2008, Germany cemented the country's position as a trailblazer in this domain in the European Union. However, this was only the interim end point of a process started many years, earlier with the aim of opening up the postal market to alternative providers. Supported by the introduction of the Postal Act in 1997, these providers were able to take over some of the services from Deutsche Post. Consolidation is one of these services. The development of this market is regularly examined by the Federal Network Agency or the monopoly commission, who have established that the market for alternative services is continually growing.

WORLDWIDE MARKET DEVELOPMENT

Whereas the process of digitising and professionalising mail processing continues apace in industrialised countries, emerging economies are only at a very early stage. The as yet untapped potential of these markets is illustrated by the following comparison: in the USA, more than 600 mail items per head of population are sent annually; in India, the figure is just 5 letters per year. Taking this into account, the FP group will use its Singapore base to tap into the significant growth potential that it sees in the Asian market.

DID YOU KNOW?

45% market share

in Germany—Francotyp is the undisputed market leader

* The information provided in this box is not part of the audited Group management report.

For the FP Group, customer satisfaction plays a central role. The company wishes to provide its customers with the best possible advice and offer tailored solutions for mail management. Many customers associate the name Francotyp-Postalia with outstanding support and flawless, rapid service. Assessments of this kind are also reflected in regular customer surveys in which the company always performs very well. It is a particular motivation for the company and its employers to maintain this high level and to improve continuously.

Product quality is crucial to achieving high levels of customer satisfaction. The FP Group offers outstanding products and services. These also include high-quality suppliers. Here, intensive collaboration with suppliers makes an important contribution to ensuring the FP Group is competitive. Suppliers are selected in accordance with important criteria such as cost effectiveness, economic stability and technological potential.

The Group's employees are a key part of its capital. Their identification with the company and their commitment to its targets make a crucial contribution to the company's success. Financial recognition of individual performance is just as important as rewarding the workforce's overall performance. In addition, among other things, employees' potential is recognized and encouraged through a substantial degree of individual responsibility.

Another important non-financial target of the FP Group is responsible usage of resources and the protection of the environment. Nationally and internationally, protection of the environment and resources is playing an ever greater role. For the FP Group, this is not just an inescapable duty but part of the responsibility it assumes towards staff, customers, partners and the general public alike.

The FP Group is also aware of its responsibility to the community and gets involved in those locations in which it operates.

STRATEGY

As a global service provider for mail management, the FP Group pursues a growth strategy, which focuses on four main areas:

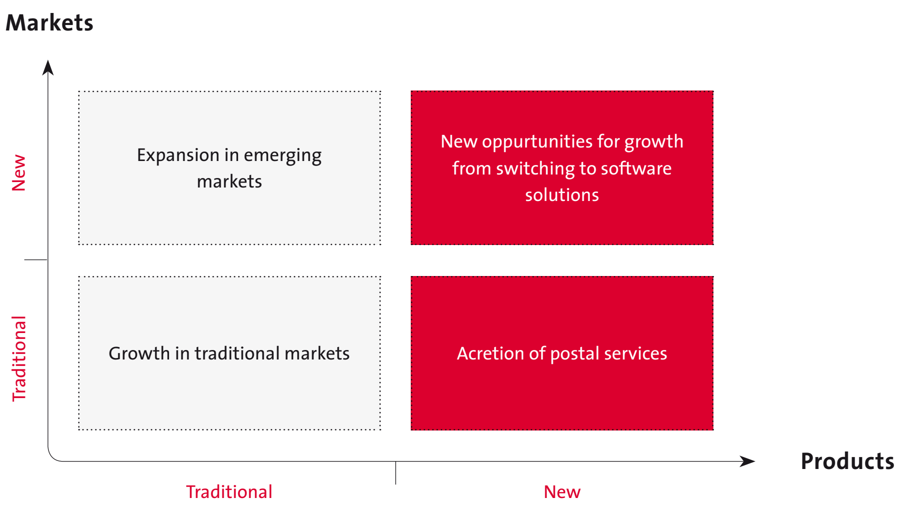
1. Expanding the franking and inserting machine business in traditional markets where market share to date has been low
2. Early entry into new, fast-growing markets; in particular, India, Singapore, Malaysia and Indonesia
3. Extending the *postal services business* in Germany
4. Exploiting growth opportunities from the switch to new franking methods and new types of mail management (online mail and outsourcing)

In the annual report of 2008, the business segments Services and Software Solutions were still combined under the segment Mailstream.

Strategy—deregulation*

International markets reveal a heterogeneous scenario. While monopolistic structures still exist in countries such as China, countries such as India are beginning to open up their postal market to new technologies and services. Nor have the markets in Europe been fully deregulated, and fair competition is not yet in place. Lawsuits between Royal Mail and TNT before the European Court of Justice, or legislative initiatives with regard to VAT and minimum wages, illustrate the range and dynamic of these markets.

* The information provided in this box is not part of the audited Group management report.



With its strategy, the FP Group is taking advantage of trends in industrialisation, globalisation, technology and regulation in its markets.

Source: UPU, postal organisations

Globalisation is leading to companies being increasingly networked across national borders, which also opens up new opportunities for postal service providers. New markets and major growth potential is also emerging from the industrialisation of emerging economies. A brief comparison makes it obvious: in the USA, 666 letters are sent per inhabitant per year, while an Indian citizen only receives 5 letters per year at present. The anticipated increase in the volume of mail in countries such as India will also increase the demands on a professional letter processing system.

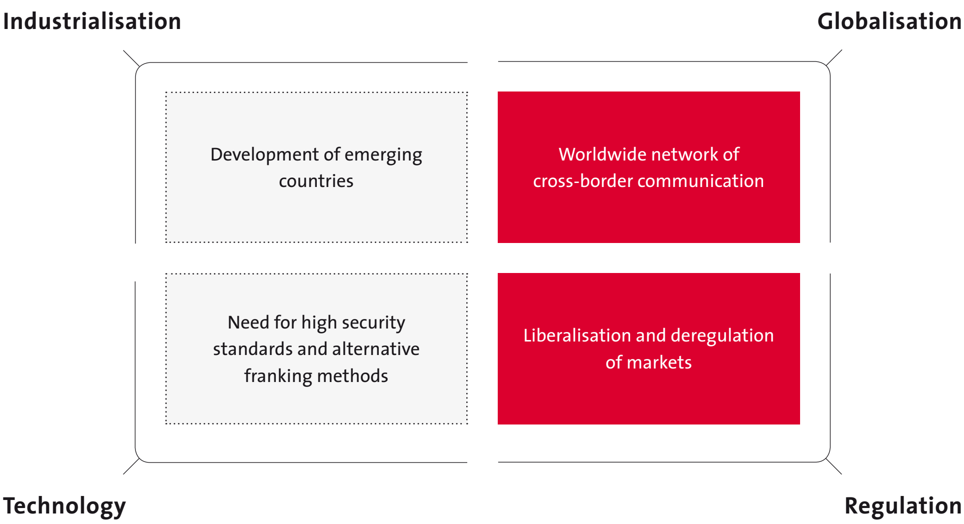
Companies in developing and industrialised countries will continue to employ constantly evolving technology which meets the most stringent security requirements. Thanks to innovative technologies, a trend towards parallel use of different methods of mail processing is becoming apparent throughout the world. Besides traditional letter post, software solutions that allow outbound mail to be largely digitalised but, at the same time, ensure physical delivery of post to customers with all the benefits associated therewith is coming to the fore.

With its products and services the FP Group is benefiting from the increasing liberalisation of postal markets. The German market has been fully liberalised since the beginning of 2008, and most EU countries will follow over the next few years.

Market studies*

Below, you will find a range of sources should you wish to learn more about the ongoing development in the postal markets: Universal Postal Union (www.upu.int), Federal Network Agency (www.bundesnetzagentur.de), postal organisations (www.usps.com, www.dpag.de, www.royalmail.com, www.laposte.fr), European Commission – The single European market (http://ec.europa.eu/internal_market/post/index_de.htm), Postunion e. V. (www.postunion.de),Scientific Institute for Communication Services (WIK-Consult) (www.wik.org)

* The information provided in this box is not part of the audited Group management report.



The changes in all four areas will open up growth potential for the FP Group over the next few years. The FP Group endeavours to strengthen its opportunities to successfully develop markets by cooperating with suitable partner companies from the mail management market. The company will also tap the new markets with a focused sales strategy and will seize opportunities for growth selectively in existing markets.

Research and development

FOCUS OF R & D ACTIVITIES

In its research and development, the FP Group concentrates on developing new products and refining existing ones, continually optimising security aspects, and networking machines with appropriate server and software solutions. The FP Group ensures that all its innovations can be integrated as smoothly as possible into customer's existing processes to increase efficiency. As the Group continues to develop into a full provider of mail management solutions, the integration of software and server concepts and the development of outsourcing interfaces become increasingly important.

On 22 December 2009, *FP InovoLabs GmbH* was established as a 100% subsidiary of FP Holding AG. FP InovoLabs' purpose comprises the provision of development, consultancy and online services. It is also involved in the assumption and management of development projects, the sale of innovative products and the supply of temporary staff.

cf. http://www.fp-usa.com/fp_mailone.cfm

FP InovoLabs fulfils the personnel requirement for Research and Development by directly appointing previously external or new employees using part development or temporary staff ccontracts. This will reduce the dependency of R & D on employment agencies in the future and allow some of the associated costs to be saved.

In recent years, Research and Development has developed basic technologies, which have so far only been used in franking systems but can also be used in other areas of application. FP InovoLabs aims to obtain development contracts from outside the postal environment in order to reduce its dependence on the physical mail management market in the future and tap into high-margin areas of application.

R & D EMPLOYEES AND PURCHASE OF R & D EXPERTISE

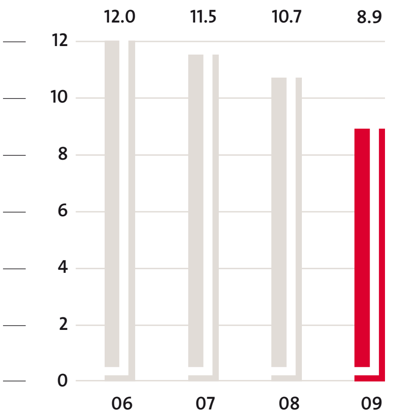
At the end of 2009, 57 permanent staff were employed in Research and Development. External staff were also employed. This means that more than 5% of the Group's workforce was employed in Research and Development at the end of 2009.

Research and Development consists of five specialist departments, Mechanics and Electronics Development, Transition to Production, Software Development, Compliance (Lifecycle Management and Data Centre Administration) and Project Management / Control.

Today, this segment is responsible for all the FP Group's development and product maintenance orders. External staff are employed under contract, in addition to the company's own staff, to complete orders. In recent years, they have accounted for between 15% and 35% of the entire R & D workforce. At the end of 2009, the figure stood at 19%.

R & D EXPENSES AND INVESTMENT

In the past financial year, research and development expenses came to EUR 8.9 million. This is lower than the previous year's figure of EUR 10.7 million. Of this figure, EUR 2.8 million was capitalised in accordance with IAS 38, compared with EUR 3.7 million in the previous year. EUR 6.1 million was expensed, compared with EUR 7.0 million in the previous year. At 6.9%, the research and development ratio, measured against revenue, was down from the previous year's level of 7.5%.



Research and development costs*

EUR million

In fiscal 2009, R & D costs were cut through consistent implementation of restructuring and cost reduction measures.

* This chart is not part of the audited Group management report.

R & D RESULTS

After the FP Group had brought a new generation of franking machines onto the market in 2007 and R & D activities in 2008 focused on ongoing optimisation work, 2009 was dominated by work on the development of a new generation of machines. This was supplemented by process innovations for integrating outsourcing and consolidation services into existing solutions.

Overview of the course of business

MACROECONOMIC ENVIRONMENT

As a consequence of the global financial and economic crisis, the global economy shrank by 2.2% in the past year. The global recession also affected critical markets for the FP Group: in the USA, economic output fell by 2.5%, while it fell by 3.9% in the euro zone. At the same time, the economy in industrialised countries has gradually been recovering, following a massive slump in growth in the first quarter of 2009, thanks largely to massive government programmes to stimulate the economy.

The global recession hit export-oriented economies like Germany particularly hard. According to information from the *Federal Office for Statistics*, German gross domestic product fell by 5.0% in 2009. This meant that Germany had to cope with the worst economic slowdown in almost 80 years. While domestic consumption softened only a little, companies spent 20% less on new machinery and equipment than in 2008.

http://www.destatis.de

The developing companies, particularly in Asia, coped far better with the global recession. In China, economic growth came to 8.7% in 2009, while growth in India is estimated at 5.6%. The rate of growth in the Asian / Pacific area created a good environment for the FP Group to press ahead with its growth strategy in these markets of the future.

The at times sharp appreciation of the euro against the US dollar also depressed exports including those of the FP Group. While the US dollar rose in the first quarter, it subsequently lost value steadily. In November 2009, the euro was trading at around 1.50 to the US dollar.

SECTORAL OPERATING CONDITIONS

The economic slump reduced many companies' willingness to invest last year, thereby affecting demand for franking and inserting machines. This trend hit the market for larger machines, the so-called C Segment, particularly hard.

A-Segment	B-Segment	C-Segment
1–200 letters / day	200–2000 letters / day	> 2000 letters / day

Traditionally, the FP Group has specialised in the A and the B segment for machines with small to medium letter volumes. These markets are characterised by very stable growth, mainly because companies are increasingly replacing larger franking machines with smaller ones.

Developments in the USA, which is currently the largest market for franking machines, show this trend clearly. Since 2004, the C Segment has shrunk by around 16%, while the A Segment has recorded slight growth of around 3%.

Product types*

The FP Group has focussed, with its product portfolio, on the small (1–200 mail items/day) and medium-sized (200–2,000 mail items/day) franking machine sector. Here it offers a wide range of products, from the mymail entry-level model through to the outstanding optimail and ultimail franking machines all the way to the high-performance centromail.

* The information provided in this box is not part of the audited Group management report.

Universal Postal Union, postal statistics

The number of letters delivered worldwide has remained stable for several years, according to various *postal statistics*, at around 400 million. The majority of global mail traffic still takes place in European and North American markets. There are opportunities for growth in new markets, such as India, Malaysia or even Singapore. There is evidence of great interest in entry-level models here.

The increasing liberalisation of postal markets is also opening up attractive growth opportunities. In Germany, the postal monopoly was abolished on 1 January 2008. This is the result of an EU directive providing for the liberalisation of all European postal markets by 2011. As a result of liberalisation, companies can make use of alternative products and services, such as consolidation and outsourcing, to increase the efficiency of their mail management. Attractive new markets are emerging here, as developments in the USA, which has been a liberalised market for years, show.

cf. www.bundesnetzagentur.de – study by WIK-Consult

In May 2009, the Federal Network Agency in Germany published a *study on demand for postal services* by businesses, which are responsible for 92% of all letters posted in Germany. The study shows that businesses are still not yet fully exploiting the opportunities of a liberalised market. This results in considerable market potential for service providers like the FP Group.

The Federal Network Agency is also expecting far-reaching changes in the letter post market over the next few years as a result of the market-wide introduction of electronic letter services. These products are also directed at private customers and can combine electronic delivery with delivery of printed letters. The Federal Network Agency expects that new products and services with additional options in the letter market will revive and change the market. With its solutions, the FP subsidiary iab ranks among the frontrunners in this market of the future.

SIGNIFICANT EVENTS AFFECTING THE COURSE OF BUSINESS

At the beginning of the financial year 2009, it was apparent that the recession would impact the FP Group's main sales markets. The very weak economy, particularly in the first half of the year, and the lack of willingness on the part of many customers to invest depressed growth in the FP Group's revenues last year. In addition, the consequences of the circumstances described in the 2008 Annual Report, which led to the extraordinary measure of terminating of a Management Board member's contract for good reason, impacted both the management of the company and the economic performance of the Group in the last financial year. A detailed explanation can be found in the "Legal and tax risks" section of the risk report.

cf. Information on staff expenses page 47

Despite this, the FP Group improved its operating results in 2009. This was primarily the result of the successful restructuring programme and rigorous *cost management*. Nevertheless, as a result of depreciation and amortisation and write-downs, the company again achieved only a negative net result.

Secondly, in August 2009, the company concluded a far-reaching site continuation agreement with its employee representatives and IG Metall. The extensive programme, which in essence consists of a salary waiver on the part of employees and reduced working hours, should lead to savings of up to EUR 9 million for a period of two years, in return for which employees are guaranteed a job for a period of 24 months.

The site continuation agreement was concluded by the Management Board of Francotyp-Postalia Holding AG and the management of the German subsidiaries Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb- und Service GmbH as well as FP Direkt Vertriebs GmbH. In detail, the contract includes the following provisions:

- the conclusion of a works agreement on the introduction of short-time work for a maximum period of two years starting on 1 August 2009
- a salary waiver of around 10% by wage-scale employees by way of collective agreements to safeguard the companies Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb und Service GmbH and FP Direkt Vertriebs GmbH
- a salary waiver of 15% by non-scale office employees
- a 20% reduction in Management Board remuneration
- no compulsory redundancies for a period of 24 months

In the financial year 2009, the measures contained in the site continuation agreement led to savings totalling EUR 2.5 million.

COMPARISON BETWEEN ACTUAL AND FORECAST COURSE OF BUSINESS

When the half-year figures were presented on 27 August 2009, the FP Group presented an initial forecast for 2009 as a whole, since the economic and financial crisis had not permitted the publication of quantitative expectations previously. Planning figures had indicated revenue of between EUR 133 and 136 million and EBITDA before restructuring expenses of between EUR 19 and 21 million.

The company sharpened this forecast when it presented the nine-month figures. The FP Group now expected revenues at the lower end of the range of EUR 133 to 136 million for 2009 as a whole, announced in August. By contrast, because of the increase in earnings power over the year, the FP Group continues to expect EBITDA before restructuring expenses of EUR 19 to 21 million. The company estimated the restructuring expenses at around EUR 2.0 million.

The company exceeded this earnings forecast with EBITDA, net of restructuring expenses, of EUR 22.0 million; restructuring expenses were limited to EUR 1.4 million. In terms of revenues, the company remained below expectations, at EUR 129.0 million.

OVERALL STATEMENT ON THE COURSE OF BUSINESS BY THE COMPANY MANAGEMENT

Francotyp-Postalia Holding AG increased its earning power last year despite the global economic and financial crisis. Although there was a fall in revenues caused by the economic crisis, the company improved its EBITDA result to EUR 20.6 million after EUR 18.2 million in 2008. In 2009, the FP Group increased its financial power despite the difficult environment. Free cash flow, the sum of cash inflows from operating activities and cash outflows from investing activities rose sharply last year from EUR 3.5 million to EUR 9.8 million. In a very difficult economic environment, the company concentrated on strengthening its financial and earnings power. This strategy has paid off overall.

Success factor of recurring revenues*

74% of the revenues of the FP Group are recurring in nature. They serve as a key stabilising factor in the business model of Francotyp-Postalia and ensure a certain degree of predictability. These recurring revenues are made up of various revenue components:

RENTAL

The market for franking machines has a special characteristic: in countries such as the USA or Canada, postal companies require franking machine manufacturers to lease the franking machine, or at least the billing module, also referred to as the meter or PSD. In these countries, the FP Group leases entire product types such as mymail or optimail, as the PSD is linked to the machine. In the case of ultimail or centormail, parts of the machine can be sold, and the PSD leased at the same time. In classic purchasing countries such as Germany, the FP Group also offers rental or leasing models to provide customers with cost-effective solutions that do not require high upfront investments.

SERVICES / CUSTOMER SERVICE

The well-developed service network of the FP Group is a key benefit in terms of the company's customer rating. Swift service and close contacts with customers serve to ensure the kind of stable customer base that is essential for generating recurring revenues. Francotyp-Postalia offers a broad range of maintenance and customer services. In addition to agreements concluded on the customer side, some postal companies also require maintenance agreements, as they do in the Netherlands.

CONSUMABLES

Consumables primarily include the various inks for the franking machines. These are supplied in the form of a ribbon cartridge or as a cartridge, depending on the model of machine in which they are used. Different colours of ink are sold according to the specific requirements of the respectivenational postal organisation.

Whereas all franking machines in Germany print in blue, franking in the Netherlands, USA or Great Britain is carried out using red ink. The FP Group does not manufacture the certified inks itself, but sources them from a range of leading ink manufacturers. Consumables also include the creation of a customer-specific cliché, which adds advertising or informative text and pictures to the franking imprint. Franking machines can store multiple clichés, which means customers always have a selection of advertisement options from which to choose—an option which they are also keen to avail themselves of.

TELEPORTO

Another special feature of the franking machine business is teleporto, a major source of recurring revenue for the FP Group. The modern franking machines are linked to the internal FP teleporto data centre. Via this link, customers can load a corresponding postage credit balance onto the franking machine as required. This is then offset with the respective postal company based on the amount used. For this service, Francotyp-Postalia receives a service fee, referred to as teleporto.

SOFTWARE AND MAIL SERVICES

Along with the franking business, the FP Group also generates recurring revenues from the consolidation of outgoing mail as well as through income from its software business. Overall, roughly three quarters of total revenues are recurring in nature—representing a key success factor for the stability of the FP Group's business model.

DID YOU KNOW?

EUR 95.5 million

is the sum of the recurring revenues of FP

¾ of total revenues

of the FP Group are generally recurring in nature

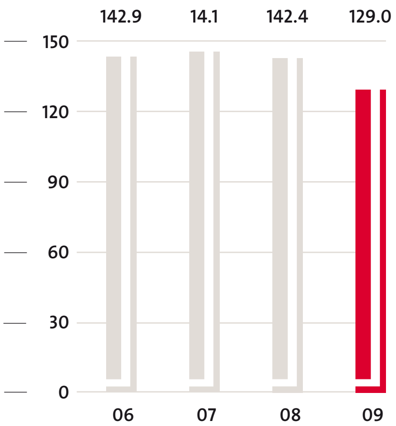
* The information provided in this box is not part of the audited Group management report.

NET ASSETS, FINANCIAL AND EARNINGS POSITION

Earnings position

REVENUES

In a difficult macro and sectoral economic environment, the FP Group generated revenue of EUR 129.0 million in 2009 in comparison with EUR 142.4 million the previous year. Revenue remained stable in Germany at EUR 59.4 million (previous year: EUR 62.1 million), while revenue abroad was down from the previous year's figure of EUR 80.4 million, to EUR 69.6 million.



Group and revenue development*

EUR million

Stable recurring revenues could not offset the decline in revenues from product sales.

* This chart is not part of the audited Group management report.

The global recession hit the FP Group's product sales in particular: revenue came to EUR 33.2 million here in 2009 after EUR 45.6 million the previous year. The price pressure that had been apparent in 2008 also continued in this area of business, as did the trend towards smaller machines.

By contrast, services, leasing and teleporto business proved far more stable. In 2009, revenue came to EUR 58.1 million, compared to EUR 57.6 million the previous year. As far as consumables were concerned, revenue decreased to EUR 21.2 million last year—due to the recession—compared with EUR 23.6 million in 2008. At the same time, *recurring revenue* from service agreements, leasing, teleporto and the sale of consumables for more than 260,000 franking machines worldwide, remained stable by and large. In 2009, it came to EUR 95.5 million, compared with EUR 96.6 million in the previous year.

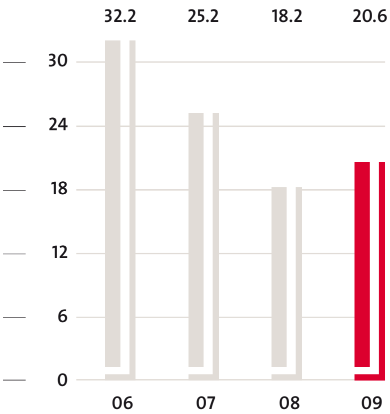
cf. Feature chapter Recurring revenues page 44

Revenues by product and service

EUR million	2009	2008
Recurring revenue	**95.5**	**96.6**
Leasing	19.9	19.6
Services / Customer Service	26.3	26.0
Consumables	21.2	23.6
Teleporto	11.9	11.9
Mail Services	11.8	11.2
Software	4.4	4.2
Income from Product sales	**33.2**	**45.6**
Franking	24.0	31.5
Inserting	8.0	12.6
Other	1.2	1.5
Total	**128.7**	**142.2**
Recurring revenue	74.2%	68.0%
Non-recurring revenue Revenue	25.8%	32.0%
Natural hedges	0.3	0.3
Total	**129.0**	**142.4**

Earnings development

Earnings before interest, tax, net financial income, depreciation and amortisation (EBITDA) rose to EUR 20.6 million in the reporting year, compared with EUR 18.2 million the previous year. Adjusted for restructuring expenses of EUR 1.4 million, the FP Group reached an EBITDA of EUR 22.0 million in 2009.



EBITDA*
EUR million

With an EBITDA margin of 16 percent, the FP Group has significantly improved its profitability again.

* This chart is not part of the audited Group management report.

CHANGES IN MATERIAL ITEMS IN THE GROUP STATEMENT OF COMPREHENSIVE INCOME

Disclosures re the Group statement of comprehensive income

EUR million	1.1. – 31.12.2009	1.1. – 31.12. 2008[1]	Change
Revenue	**129.0**	**142.4**	**-9.4%**
Inventory changes	-3.0	0.6	n/a
Other capitalised own work	5.4	8.2	-34.1%
Overall performance	**131.4**	**151.2**	**-13.1%**
Other operating income	2.0	2.6	-23.1%
Cost of materials	32.5	43.3	-24.9%
Staff expenses	48.4	54.8	-11.7%
Depreciation and amortisation	36.2	29.1	+24.4%
Other operating expenses	32.0	37.6	-14.9%
Operating income before special income and expenditure	**-15.7**	**-11.0**	**-42.7%**
Net interest income / expense	-3.5	-3.1	-12.9%
Other financial results	0.0	-0.4	n/a
Net taxes	2.5	0.0	n/a
Consolidated Net income	**-16.6**	**-14.5**	**-14.5%**
EBIT	**-15.7**	**-11**	**-42.7%**
EBITDA	**20.6**	**18.2**	**+13.2%**

[1] The figures cited for 2008 differ from disclosures in the last Annual Report. More detailed explanations of this can be found in the notes in the section entitled “changes in accounting methods and in disclosures made in the notes” and “correction of amounts in earlier periods”.

Cost of materials

In the financial year 2009, the cost of materials and services fell to EUR 32.5 million from EUR 43.3 million the previous year and consequently fell considerably more sharply than revenue. The improved cost of materials ratio amounts to 25.0% after 30.4% in the previous year.

Expenses for raw materials, consumables and supplies were also far lower in 2009 than the previous year at EUR 23.2 million, compared with EUR 33.2 million in 2008. The reasons for this are negative changes in inventory as part of the working capital project (WOC) and less capitalisation of leased products as well as a shift in revenue structure to types of revenue which are less intensive in terms of material costs. There was also a fall in purchased services, which came to EUR 9.3 million in 2009, compared to EUR 10.1 million in the previous year. The success of restructuring programme is also evident here.

Staff expenses

The FP Group reduced staff expenses in financial year 2009 by 11.7% to EUR 48.4 million in comparison with EUR 54.8 million the previous year. The site continuation agreement signed with the workforce in August 2009 led to cost savings of EUR 2.5 million. The other cost savings of 7.1% are the result of reductions in the workforce. The restructuring expenses for this area fell to EUR 0.7 million, compared to EUR 1.4 million the previous year.

Other operating expenses
Other operating expenses fell to EUR 32.0 million, compared with EUR 37.6 million in the previous year. This decrease is attributable, most notably, to lower one-off expenses as part of the restructuring. These fell to EUR 0.7 million in 2009, compared with EUR 2.6 million in the same period in the previous year.

EBITDA
In 2009, the FP Group increased EBITDA despite falling revenue: earnings before interest, tax, net financial income, depreciation and amortisation (EBITDA) improved to EUR 20.6 million, compared with EUR 18.2 million the previous year. Adjusted for restructuring expenses, it stood at EUR 22.0 million after EUR 22.2 million the previous year. In 2009, restructuring expenses of EUR 1.4 million were incurred, compared with EUR 4.0 million in the previous year.

Depreciation and amortisation
In financial year 2009, depreciation and amortisation rose to EUR 36.2 million, compared with EUR 29.1 million in the previous year. This increase is the result of *the one-off impairment loss on goodwill* for freesort GmbH of EUR 12.5 million, which is explained in more detail in the notes to the consolidated financial statements. In the previous year, depreciation and amortisation included a one-off impairment loss on iab GmbH amounting to EUR 1.3 million. Because of the recession in Germany and the resultant consequences for the consolidation specialist, a reduction in the goodwill reported at the end of 2008 was unavoidable. By contrast, depreciation on property, plant and equipment decreased to EUR 6.8 million in 2009, compared with EUR 7.5 million in the previous year.

cf. Notes page 112

Net interest income / expense
In 2009 net interest expense came to EUR -3.5 million, compared with an expense of EUR -3.1 million the previous year. Interest income fell to EUR 1.6 million from EUR 2.5 million the previous year because of the very low level of interest rates.

Net financial income
In the financial year 2009, the FP Group achieved a balanced financial result of EUR 0.0 million solely because of interest rate developments. In the previous year, it incurred a loss of EUR -0.4 million.

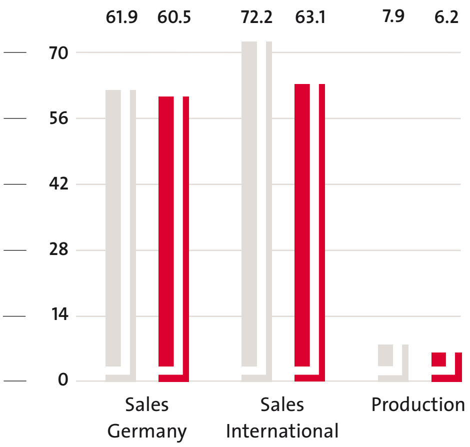
Net taxes
The tax result is made up of tax income of EUR 5.6 million and tax expenses of EUR 3.1 million, giving an overall total of EUR 2.5 million, compared with a balanced result of EUR 0.0 million in the previous year. This is primarily due to the fact that previously unrecognised deferred tax assets on unused tax losses in the amount of EUR 1.6 million were capitalised in 2009.

Consolidated net income
Although the FP Group significantly increased its earning power in the past financial year and generated a higher EBITDA, consolidated net income before minority interests, at EUR -16.6 million, remained below the level of the previous year of EUR -14.5 million. This is due to the one-off impairment loss on the goodwill for freesort. Earnings per share therefore came to EUR –1.12 in comparison with EUR -0.96 for 2008.

Course of business by segments

The FP Group has adapted its segment reporting in line with the new version of IFRS 8. Francotyp-Postalia is divided into four segments, namely Production, Domestic Sales, International Sales and head office functions. The new segmentation corresponds with the FP Group's internal reporting and also takes account of the company's development into a mail management provider.

Since the segments report in accordance with the local financial reporting framework, both the adjusting entries in accordance with IFRS and the Group consolidation entries are included in the reconciliation with the consolidated financial statements. The Group consolidation entries comprise the consolidation of business relationships between the segments. Intra-Group transactions are effected at market prices. Since the figures from the separate financial statements must be aggregated to produce total segment earnings, the segment totals include both intra-segment figures and interim profits.



Revenue by Segments*, **

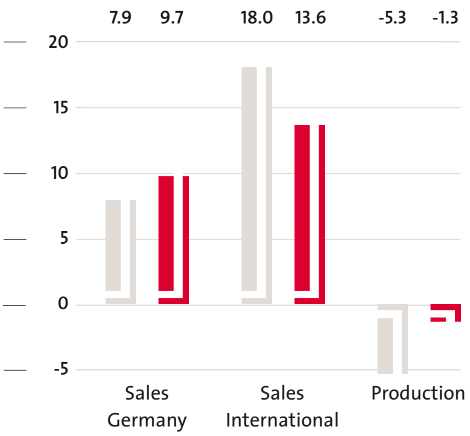
EUR million

While revenues remained stable in Germany, the international subsidiaries suffered declining revenues.

2008

2009

* This chart is not part of the audited Group management report.
**figures according to HGB



EBITDA by segment*

EUR million

Sales Germany and Production developed particularly positively.

2008

2009

* This chart is not part of the audited Group management report.

DOMESTIC SALES

Despite the worst recession since the Second World War, the FP Group's revenue in its German domestic market remained comparatively stable at EUR 60.5 million, compared with EUR 61.9 million the previous year. In the Services segment, revenue generated by the consolidation specialist freesort increased slightly to EUR 11.7 million, compared with EUR 11.2 million in 2008.

Nevertheless, revenue failed to meet original expectations. In Software Solutions, revenue also improved slightly to EUR 4.4 million, compared with EUR 4.2 million in 2008. Francotyp-Postalia Vertrieb und Service (VSG), which is responsible for franking and inserting, achieved revenue of EUR 44.3 million after EUR 46.5 the previous year and, in doing so, benefited particularly from stable recurring revenue. By contrast, in terms of new business, VSG, like the foreign subsidiaries, suffered from companies' reluctance to invest because of the recession.

Despite the slowdown in new business, the FP Group underlined its market leadership in Germany with a market share of 43.9% in franking machine business. The company's participation in major trade fairs such as the CeBIT in Hanover and the POST EXPO in Hanover—one of the leading global trade fairs for the international post, express delivery and mail order segment—provided impetus for its product business. The FP Group displayed both its franking and inserting machines and its innovative software solutions and postal services there.

The decision by the FP Group to support its customers in Germany in their participation in the GO-GREEN CO_2 reduction programme initiated by Deutsche Post also promoted sales at the end of 2009. Using a revised version of its centormail franking machine, the necessary logo can be printed on every envelope that is franked. This means that centormail is the only FRANKIT franking system to allow environmentally-aware companies to transport letters that are franked appropriately in a climate-neutral manner.

Stable recurring revenues and the success of the restructuring programme led to the FP Group increasing its EBITDA result to EUR 9.7 million in Germany in 2009, as against EUR 7.9 million.

INTERNATIONAL SALES

www.francotyp.com - FP International

In its *International segment*, in which all activities by the foreign subsidiaries are combined, the FP Group generated revenue of EUR 63.1 million in 2009, in comparison with EUR 72.2 million in the same period in the previous year. The global economic and financial crisis and the consequent marked reduction in companies' willingness to invest had a negative impact on revenue, which could not be offset by stable recurring revenues. The strength of the euro at various times of the year also depressed international business.

In a very difficult environment, revenue in the USA—the FP Group's most important foreign market—fell by EUR 2.7 million in 2009. Adverse exchange rate effects and the consequences of the recession led to a fall in sales of EUR 2.1 million in the UK. In the third major foreign market, the Netherlands, revenue fell by EUR 4.3 million in 2009. However, the fact that there has been no business with large inserting systems since 31 December 2008 should also be taken into account.

Against a fall in sales of EUR 9.1 million, the EBITDA result in the International segment decreased by EUR 4.4 million to EUR 13.6 million. The FP Group also benefited from the success of its restructuring programme and cost management in its international business. On the other hand, higher intra-Group transfer prices depressed the segment's EBITDA result. In the reporting year, Francotyp-Postalia commissioned a study on international Group transfer prices that has not yet been completed. As an initial result of the study, Francotyp-Postalia has already amended the transfer prices for 2009.

PRODUCTION

The FP Group combines its production activities in Germany and Singapore in the Production segment. In 2009, revenue came to EUR 6.2 million after EUR 7.9 million in the same period in the previous year. The fall is due, in essence, to the decline in FP GmbH's dealer business.

The FP Group sees opportunities for growth in its Asian business. At the end of 2008, the FP Group assumed responsibility for the remaining 45% of the shares from the original joint venture FP / GPS Assembly PTE Ltd., and the Group has been represented through a 100% subsidiary in Singapore since 2009. Francotyp-Postalia Asia Pte. Ltd. is developing a dealer network in the Asian / Pacific area from Singapore. This will allow it to selectively exploit the potential that is available for growth.

While EBITDA of EUR -5.3 million was reported in Production in 2008, the company was able to achieve EBITDA of EUR -1.3 million in financial year 2009. The above-mentioned increase in transfer prices had a positive impact on the Production segment.

Summary of results per segment

	Revenue			EBITDA		
EUR million	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Domestic Sales	60.5	61.9	-2.3%	9.7	7.9	+ 22.8%
International Sales	63.1	72.2	-12.6%	13.6	18.0	-24.4%
Production	6.2	7.9	-21.5%	-1.3	-5.3	-75.5%
FP Group[1]	129.0	142.4	-9.4%	20.6	18.2	+13.2%

1 The segment "Head Office Functions" is also shown in the segment reporting. The segment achieves no revenue with external third parties. Revenue was generated from services for subsidiaries. Further information on this segment and on the Group reconciliation can be found in the notes to the consolidated financial statements.

Financial position

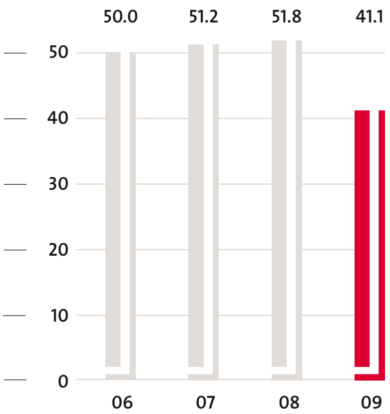
PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

The central goal of financial management is to avoid financial risks and ensure financial flexibility. The FP Group achieves this through the use of various financial instruments. These are chosen on the basis of flexibility, terms of covenants, existing maturity profile and financing costs. The longer-term liquidity forecast is based on operating budgets. As a rule, a significant portion of FP Group's liquidity comes from the segment's operating businesses and the cash inflows they generate. The company also uses finance leases and bank loans. A key management indicator for the capital structure of the FP Group is net indebtedness. This is derived from the relationship between net debt and shareholders' equity. As of 31 December 2009, the figure was 268%; in the previous year the ratio was 167%.

FINANCING ANALYSIS

In the past financial year, the FP Group was able to increase its financial power significantly. To finance its business it primarily used cash flow from operating activities as well as existing borrowing arrangements with banks. These liabilities decreased to EUR 55.2 million as of 31 December 2009, compared with EUR 60.2 million the previous year. On the other hand, cash and cash equivalents rose to EUR 29.6 million, compared with EUR 21.9 million as of 31 December 2008.

The indicator for the Group's capital structure is net indebtedness. This is derived from the relationship between net debt and shareholders' equity. The selected debt particularly includes borrowing (EUR 51.8 million; 2008: EUR 55.9 million), liabilities from company acquisitions (EUR 0 million; 2008: EUR 0.4 million) and liabilities from finance leases (EUR 3.4 million; 2008: EUR 4.3 million). Cash and cash equivalents include treasury shares (EUR 1.8 million; 2008: EUR 1.8 million) and securities (EUR 0.7 million; 2008: EUR 0.7 million) and excludes postage credit balances managed by the FP Group (EUR 17.9 million; 2008: EUR 15.6 million).



Changes in net debt*
EUR million

Net debt was significantly reduced during 2009.

* This chart is not part of the audited Group management report.

The resulting net indebtedness is monitored permanently. As of the year-end, the figure compared to the previous year was as follows:

Changes in net debt

EUR million	31.12.2009	31.12.2008
Liabilities	55.2	60.6
Cash and cash equivalents	-14.2	-8.8
Net debt	**41.1**	**51.8**
Shareholders' equity	15.3	31.0
Net indebtedness	**268 %**	**167 %**

In 2005, Francotyp-Postalia GmbH as borrower and Francotyp-Postalia Holding AG as guarantor signed a loan agreement with BNP Paribas S.A., Frankfurt am Main, for EUR 89.5 million. The loan initially served to finance the purchase price for the acquisition of the FP Group by what became Francotyp-Postalia Holding AG. EUR 69.5 million of the entire credit amount, part of which was drawn in US dollars, was attributable to the financing of the acquisition.

The terms of the loan agreement were altered in October 2006, partly with regard to the stock market flotation. Firstly, the lending banks undertook to provide a further loan of EUR 16 million which FP Group used to redeem a shareholder loan. Further, it was agreed that acquisitions could also be financed under the framework agreement in the future. After the flotation, the FP Group used EUR 5 million to finance the purchase price for the equity investment in iab. The amounts drawn down under the loan agreement, including lines of credit used for working capital, are to be repaid in full by the fifth anniversary of the stock market flotation at the latest, in accordance with a fixed repayment schedule. In 2009, repayments of EUR 3.6 million were made. More detailed information is to be found in the notes section of the annual financial statements and under the point *"Liquidity Risk"* .

cf. risk report page 60

INVESTMENT ANALYSIS

Following the restructuring, the FP Group is pursuing a focused investment strategy and concentrating on investment, which will facilitate the company's development into a mail management provider. As a result, investment fell to EUR 7.4 million in 2009, following EUR 16.4 million the previous year. Capitalised development costs sank in 2009 to EUR 2.8 million, compared with EUR 3.7 million the previous year, as the FP Group dedicated more development capacity to increasing the quality of products already in the market.

There was a sharp reduction in investment in property, plant and equipment to EUR 1.3 million, after EUR 3.6 million in 2008, because of stringent cost management. Investment in intangible assets also fell sharply. They came to EUR 0.6 million, compared with EUR 3.8 million in 2008. In the previous year, this was largely the result of capitalisation in connection with the acquisition of the customer base from Direkt Express Brief AG by freesort GmbH and the capitalisation of new software installed to optimise the production and supply chain.

Capital expenditure

EUR million	2009	2008
Capitalised development costs	2.8	3.7
Investment in intangible assets	0.6	3.8
Investment in property, plant and equipment	1.3	3.6
Investment in leased products	2.7	4.9
Investment in financial investments	0.0	0.0
Investment in enterprise values	0.0	0.4
Capital expenditure	**7.4**	**16.4**

LIQUIDITY ANALYSIS

In the financial year 2009, cash flow from operating activities, at EUR 17.5 million, remained below the figure for the previous year of EUR 19.3 million. In this connection, net working capital, i.e. inventories plus trade receivables less trade payables, decreased to EUR 20.1 million in 2009 after EUR 27.3 million in 2008.

The cash outflow from investing activities came to EUR 7.7 million in 2009, compared with EUR 15.8 million the previous year. As a result, free cash flow, the sum of cash inflows from operating activities and cash outflows from investing activities increased to EUR 9.8 million, compared with EUR 3.5 million in the same period in the previous year.

Cash flow from financing activities amounted to EUR -4.4 million in 2009, after EUR -3.6 million in 2008. This is due to cash outflows for repayment of bank debt and the repayment of finance leases. In 2008, this was offset by cash inflows from bank borrowing of EUR 4.0 million as well as a dividend payment of EUR 2.2 million and the purchase of treasury shares of EUR 1.3 million.

The cash and cash equivalents shown are produced from the balance sheet items “cash and cash equivalents” as well as “securities“ less “teleporto funds”.

Liquidity analysis

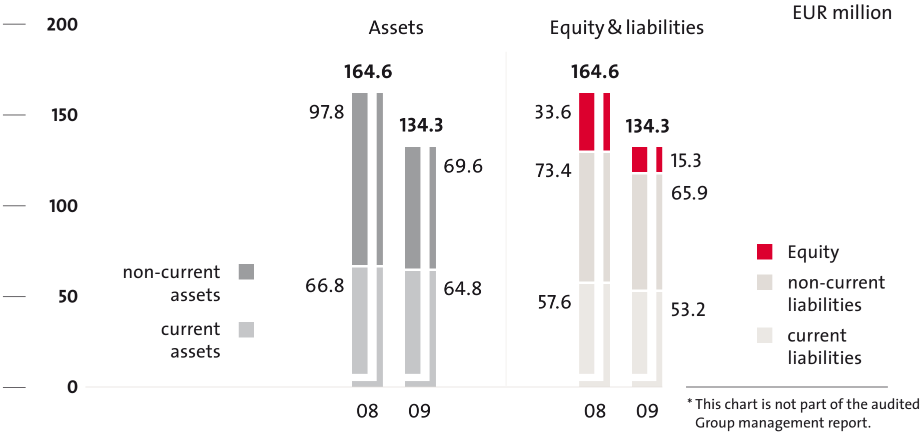
EUR million	1.1. – 31.12.09	1.1. – 31.12.08
1. Cash flow from operating activities		
Cash flow from operating activities	17.5	19.3
2. Cash flow from investing activities		
Cash flow from investing activities	-7.7	-15.8
3. Cash flow from financing activities		
Cash flow from financing activities	-4.4	-3.6
Cash and cash equivalents		
Change in cash and cash equivalents	5.4	0.0
Change in cash and cash equivalents due to currency translation	0.0	-0.2
Cash and cash equivalents at beginning of period	7.0	7.3
Cash and cash equivalents at end of period	**12.4**	**7.0**

Asset situation

ASSET STRUCTURE ANALYSIS

The balance sheet as of 31 December 2009 is characterised by a reduction in non-current assets and current liabilities and equity.

Balance sheet structure*



* This chart is not part of the audited Group management report.

Compared with 31 December 2008, total assets shrank by EUR 27.8 million to EUR 134.3 million. Here, the proportion of non-current assets in total assets shrank from 58.7% to 51.8%. As of 31 December 2009, the ratio of current assets to current liabilities was 121.8%, compared with 116.0% a year ago.

Non-current and current assets

Within non-current assets, intangible assets decreased from EUR 58.7 million to EUR 32.7 million as of 31 December 2009. Important items included herein are *goodwill* at EUR 8.5 million (2008: EUR 21.0 million), client lists EUR 3.9 million (2008: EUR 12.4 million) and development costs for internally generated intangible assets, in addition to development projects in progress at EUR 12.4 million (2008: EUR 12.6 million). The change in goodwill is attributable to impairment charges totalling EUR 12.5 million on the freesort goodwill. Customer lists were amortised as planned. Property, plant and equipment declined from EUR 22.1 million the previous year to EUR 19.7 million as of 31 December 2009. Assets under finance leases decreased from EUR 4.8 million to EUR 4.4 million. There was a decline in leased products from EUR 11.4 million to EUR 10.3 million. Deferred tax assets increased from EUR 9.7 million to EUR 12.8 million.

cf. Information on goodwill page 112

Among current assets, inventories declined from EUR 16.1 million to EUR 11.0 million. Securities held at EUR 0.7 million are used by freesort GmbH as a cash deposit for a guarantee towards Deutsche Post AG. Cash and cash equivalents rose from EUR 21.9 million to EUR 29.6 million.

Shareholders' equity

Shareholders' equity decreased to EUR 15.3 million as of 31 December 2009, compared with EUR 31.0 million at the end of 2008, because of the consolidated net loss.

As of 31 December 2009, Francotyp-Postalia Holding AG's share capital came to EUR 14.7 million, divided into 14,700,000 non-par bearer shares. No shares have been issued with special rights. At the end of 2009, the company held a total of 370,444 own shares, corresponding to 2.52% of capital stock. Further information on authorised and contingent capital, as well as on conversion and option rights, can be found in the Management Board's explanatory report in accordance with Section 315, paragraph 4 of the German Commercial Code (HGB) in conjunction with Section 120, paragraph 3, sentence 2 of the Stock Corporation Act (AktG).

Liabilities

As of 31 December 2009, current liabilities declined to EUR 53.1 million, compared with EUR 57.6 million a year previously. Trade payables fell to EUR 4.8 million, compared with EUR 7.5 million as of 31 December 2008. Provisions shrank from EUR 10.3 million to EUR 8.5 million. Non-current liabilities changed from EUR 73.4 million to EUR 65.9 million in the past financial year, which is largely due to the sharp reduction in financial liabilities, from EUR 56.0 million to EUR 51.3 million. The value of deferred tax liabilities also declined by EUR 2.4 million. The ratio of net liabilities to equity (gearing) rose, because of these changes, to 268% at year-end 2009, compared with 167% a year earlier.

RISK REPORT

Risk and opportunity management

Entrepreneurial activity involves opportunities and risks. To be permanently successful in the market, the FP Group must be familiar with and manage the risks inherent in its ongoing business. Effective risk management is therefore a major success factor for the Group. The FP Group's risk policy is aimed at securing the company's existence on a long-term basis and continually improving its competitiveness. The Management Board has set up an integrated opportunity and risk management system for this purpose, which is embedded in the Group's value oriented management and existing organisational structures.

The management of risks and opportunities are closely associated at the FP Group. The company primarily bases its opportunities management on its strategic goals, in order to achieve an appropriate balance between risks and opportunities. Operating management in the business segments and the subsidiaries is responsible for the early and regular identification, evaluation and organisation of opportunities. The Group therefore looks closely at detailed market and competitive analyses, forecast scenarios, relevant cost drivers and critical success factors affecting the company, including those in the political arena. Concrete potential opportunities specific to the segments are then developed from these.

The FP Group continually and systematically identifies external and internal risks for all business segments and subsidiaries. The Management Board and senior management analyse and evaluate potential areas of risk, including the probability that risks will materialise, and the amount of potential losses. For the purposes of managing risks within the company and defining areas of responsibility the risks are also allocated to the following categories:

Areas of risk

Market risks
- Macroeconomic risks
- Sector-specific risks
- Performance risks

Strategic company risks

Performance risks
- Procurement and purchasing risks
- Technical production risks
- Information technology risks
- Personnel risks

Financial risks
- Exchange risks
- Interest rate risks
- Liquidity risk
- Default risk

Other risks
- Environmental risks
- Legal and tax risks
- Organisational risks
- Compliance risks

The Group has drawn up a risk map based on the results of the classification and allocation of risks to segments. For Francotyp-Postalia Holding AG and its subsidiaries, market risks, strategic risks, performance and financial risks have been identified.

Registration and allocation of risks takes place in line with the business areas and responsibilities defined in the Group's organisational structure. This means that the responsibilities, information and reporting systems in place are integrated into the risk management system. The risk management system is therefore developed from the Group's basic processes and responsibilities and makes use of established reporting lines. A risk manager has been appointed to coordinate the entire risk management system (adjustments, refinement of risk areas, preparing meetings and minutes, reporting, etc). In accordance with statutory requirements this risk management system provides the basis for information to and decisions by the Management Board, which in turn uses it to inform the Supervisory Board and company shareholders about the company's current performance and any changes in risks.

MARKET RISKS

Macroeconomic risks

The main risks for the FP Group stem from general economic trends and exchange rate risks. The company generates around one-third of its total revenue in the USA, Canada and Great Britain. As the FP Group is exposed, to a certain extent, to its customers' cyclical investment behaviour, it is affected by economic trends. The company's history over more than *85 years* has always demonstrated that economic cycles can be mastered, however. Moreover, some 68% of FP Group revenue consists of recurring income, which is much less affected by economic swings than new business. Overall, from today's viewpoint, no risks are discernible from macroeconomic development that would jeopardise the company's existence.

↗ *http://www.francotyp.com/de/unternehmen/geschichte.html*

Sector specific risks

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2002:176:0021:0025:DE:PDF

The opening of the European letter market to competition is governed by the *EU directive* on further liberalisation of the market for Community postal services (Directive 2002/39/EC). The necessary implementation of the directive into national law is expected to result in several providers of postal services operating on national postal markets in the future.

The German postal market was already fully liberalised as of 1 January 2008. The German Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railways (Federal Network Agency) has now issued several hundred licences to various providers of postal services. It cannot be ruled out that new providers will extend their services to areas reserved exclusively to Deutsche Post AG (DPAG) until the end of 2007, gain market share from DPAG and deliver their mail without postage stamps, which could reduce the overall need for franking machines.

A major factor influencing the development of a liberalised postal market in Germany is also the current legislative debate on adopting VAT for postal services, for instance. This development can also take place in other European and international postal markets where Francotyp-Postalia operates. This could have significant adverse effects on the company's business and on its net asset, financial and earnings position.

In this context current developments at private postal service providers need to be watched closely. The introduction of a minimum wage for postal workers had a powerful effect on the liberalisation process and reduced competitive pressure in letter delivery. In January 2010, the Federal Administrative Court in Leipzig ruled that the minimum wage is invalid. It is still unclear how the situation will develop, but experts expect that this will improve opportunities for private mail and delivery services.

The deployment of new technologies in the outbound mail market and an increase in private letter distributors can lead to a fall in demand for franking machines. As with a shift in the market towards smaller franking machines, this can lead to changes in market shares and alter pricing structures. This risk is matched by an opportunity as the FP Group participates in liberalisation via its subsidiaries, freesort and iab. Through *mail management solutions* , such as consolidation, outsourcing and hybrid mail, the FP Group has created the conditions allowing it to benefit from this liberalisation in the future.

cf. Chapter Company management, aims and strategy page 34

In the area of centralised communications, an important business for iab GmbH, the Group is also witnessing increasing numbers of competitors. The FP Group counters this risk by increasingly dovetailing the two segments, "Franking and Inserting" and "Software Solutions and Services", and thereby bundling the potential of the Francotyp-Postalia Group. Nevertheless, both freesort GmbH and iab GmbH are new companies that are still expanding. As a result, there is a risk that they will be not able to achieve the growth targets, economies of scale, cost savings, advantages in terms of margins, or other potential synergies for which they are striving. This is why the FP Group monitors the sector-specific risks very closely, since they could have significant adverse effects on the company's business and on its net asset, financial and earnings position. At present, no risks that could jeopardise the company's existence are discernible.

STRATEGIC COMPANY RISKS

The FP Group aims for profitable and sustainable growth. This criterion is therefore the fundamental yardstick for capital expenditure and the acquisition of companies or equity investments in them. In essence, strategic company risks comprise misjudgements when deciding on investments and possible M & A activities. Risks can also arise when expectations, relating to investments for instance, are not met. The company limits these risks by early analyses of risks and opportunities and highly qualified specialists in the decision-making phase, if necessary with the support of external advisers. At present, the FP Group sees no strategic risks that could lead to the company's existence being threatened.

PERFORMANCE RISKS

Procurement and purchasing risks

The FP Group is dependent on suppliers and third-party providers in some areas of raw material supply and in the provision of services. Supplier failures, problems with quality and delivery bottlenecks for special raw materials, consumables or supplies can lead to potential procurement risks. The FP Group minimises these risks by careful selection of suppliers, long-term supply contracts and quality standards. The company considers the overall procurement risk to be low.

Technical production risks

The company identifies production risks in advance by the use of monitoring and control systems. The risks are reduced by means of numerous *quality control measures*, certification and permanent refinement of equipment and products. In view of these precautionary measures the company considers the potential for production risks to be moderate.

cf. Section Environmental report and quality management page 33

Information technology risks

The company deals with potential IT risks by using modern hardware and software in line with current security standards. IT systems are reviewed regularly to ensure that business processes are carried out securely. The FP Group minimises risks of this kind by using trained experts and professional project managers. The company considers information security risk or risks from the information technology in use to be low.

Personnel risks

The success of the company is fundamentally dependent on the commitment, motivation and skills of its employees. There is a risk of not being able to find high-performing individuals for vacant positions or of not being able to retain them. The FP Group limits these risks through intensive training programmes as well as performance-related remuneration and substitution arrangements. Important positions are regularly assessed in terms of forward-looking succession planning, and suitable candidates are prepared for these responsibilities. Overall, personnel risks are considered to be low.

Financial risks

In the course of its business the FP Group is exposed to certain financial risks, including those of currency fluctuations, interest rate changes and defaulting debtors. The Group's risk management system takes account of the unpredictability of financial markets and is aimed at minimising any adverse effects on the Group's earnings position. To achieve this goal the Group makes use of certain financial instruments. These are generally used to hedge existing or planned underlying transactions. The framework, responsibilities, financial reporting and control mechanisms for *financial instruments* are laid down in internal Group regulations. These include a separation of responsibility between recording and controlling financial instruments.

cf. Chapter Financial position page 52

Currency, interest rate and liquidity risks for the FP Group are managed centrally. The company considers the financial risks to be controllable.

Currency risk

cf. Section Derivatives page 95

The FP Group is exposed to *currency risks* because of its international focus. Its subsidiaries in Great Britain, Singapore, Canada and the USA are located outside the euro zone. The use of derivative financial instruments is seen to limit currency risks.

Currency risks from anticipated future cash inflows in US dollars are partly hedged by using them to repay a loan taken out on 20 April 2005, which is also denominated in US dollars. At present, there are no hedging transactions in addition to this. The company assesses possible risks in this area as controllable.

Interest rate risk

The risk of changes in market interest rates results primarily from non-current liabilities with a floating rate of interest. Under the terms of the main lending agreement with the financing banks, the Group had hedged around 54% of the outstanding loan amount under this agreement against interest rate risks, as of the reporting date. The interest rate structure for the current loan agreement is fixed until November 2011. The company will be subject to the full market rate when negotiating the follow-up financing.

On 18 June 2007, the company closed an interest rate swap in US dollars for a nominal amount of USD 18.1 million, maturing on 30 November 2011. The reference amount decreases over the duration in line with the scheduled repayment of the loan under the lending agreement. Under this interest rate swap the Group swaps floating 6-month Libor interest against a fixed rate of 4.29% p.a. The market value of this instrument is measured on the balance sheet date using the quoted price from the counterparty.

As of 30 June 2006, euro amounts were also hedged using two interest rate caps. As of 31 December 2009, the reference amounts are EUR 3.5 million and EUR 12.0 million, each with caps of 3.50% p.a. and base interest rates of 6-month Euribor. As of 30 December 2009, more euro amounts were hedged using an additional interest rate cap. As of 31 December 2009, the reference amount was EUR 5.0 million with a cap of 3.50% p.a. and base interest rates of 3-month Euribor. There is no direct interest rate risk for the duration of the hedging transactions. Overall, the risks are considered to be low.

Liquidity risk

cf. Section Net debt page 52

The Group deals with liquidity risk by means of a liquidity forecast with a fixed planning horizon for the whole Group and available, unused credit lines. In accordance with the lending agreement with the banks, the Group has to maintain certain financial ratios based on EBITDA and *net indebtedness*, whereby these two figures are slightly corrected with regard to certain items in accordance with the loan agreement definition. At the end of 2008, this financial ratio was adjusted to the current circumstances of FP Group after negotiations with the banks involved. A further reduction in the financial ratio compared with the situation as of 31 December 2009 has also been agreed. The agreed financial ratio was complied with as of 31 December 2009. As things stand at present, it is assumed that this financial ratio will also continue to be complied with. However, if the future course of business should turn out to be worse than is currently expected, a breach of this financial ratio cannot be ruled out. As a consequence of non-compliance with the financial ratio, the consortium of banks would be contractually entitled to call in the loan. However, it is assumed that, should this financial ratio not be complied with in the future, agreement can be reached with the banks involved in subsequent negotiations regarding the continuation of the loan, which may, if necessary, lead to higher financing expenses. Overall, the FP Group considers the liquidity risk to be manageable.

Default risk

Financial problems may occur with our contractual partners, which could impact upon the FP Group's receivables. Possible risks are therefore assessed before contracts are concluded and possible safeguards stipulated.

The carrying amount of financial assets represents the maximum default risk in the event that counterparties cannot fulfil their contractual payment obligations, irrespective of any collateral. Depending on the type and amount of the transaction, collateral is required and credit scores / references are obtained for all the contractual relationships on which original financial instruments are based, and historic data from the prior business relationship, especially payment history, are used to avoid defaults. Credit insurance is used for trade receivables and, in addition, the identifiable default risks of individual receivables and the Group's general credit risk are covered by appropriate write-downs. In principle, the Group avoids transactions where the risks cannot be calculated, so the FP Group considers these risks to be manageable and controllable.

For other financial assets, such as cash and cash equivalents, available-for-sale financial instruments and certain derivative financial instruments, the maximum credit risk on default is equivalent to the carrying amount for these instruments.

OTHER RISKS

Environmental risks

In its operating activities, the Group is subject to certain *environmental protection laws*. If the requirements are made more stringent, this may entail additional investment expenses, particularly in production. The company considers the overall risks to be low.

cf. Section Environmental report and quality management page 33

Legal and tax risks

Amendments to legislation could damage the international competitiveness of the Group and its subsidiaries. The company considers any problems arising from this to be moderate. There are also general tax and legal risks from possible audits by the tax authorities for periods since 2000, which could impact upon the net asset, financial or earnings position.

The company is involved in four legal disputes in which action was taken against it. Two of these legal disputes relate to claims that either do not involve cash or only do so indirectly, while the other two actions relate to claims for payment by the plaintiffs, in which the company has asserted counterclaims, however. Three of the *proceedings* relate to the separation from the company of the previous chairman of the Management Board, Dr. Sluma, and the fourth case is being conducted with a consultancy and software company.

cf. http://www.francotyp.com/de/unternehmen/management.html - Information by Management Board and Supervisory Board

Proceedings with Dr. Sluma

The appointment of Dr. Sluma as CEO of the company was countermanded by the Supervisory Board for good reason on 13 February 2009 and his contract of employment as a member of the Management Board was terminated extraordinarily for good reason. The Annual General Meeting of the company resolved to strip Dr. Sluma of his powers on 23 June 2009.

In response Dr. Sluma has sued, firstly, for wrongful dismissal (Neuruppin Regional Court, 6 O 26/09) and for compensation (Neuruppin Regional Court, 6 O 27/09) and secondly for rescission (Neuruppin Regional Court, 6 O 73/09). With regard to the action for rescission, the company assumes that it will be able to defend itself successfully. The company also considers that there is only a small risk of its being unable to avert the pending action for compensation. By contrast, there is a greater risk of being unable to defend itself successfully in the case of the action for rescission.

Proceedings with mSE GmbH Management Solutions, Lübeck, and PointOut GmbH, (Munich Regional Court I, 23 O 6830/09).
In an action filed in April 2009 and extended on several occasions, mSE-GmbH Management Solutions Lübeck ("mSE Lübeck") claimed for outstanding fees of ca. EUR 805,000, and PointOut GmbH claimed for outstanding fees of approximately EUR 459,000 up to and including December 2009. The latter also seeks to determine that the company is obliged to pay a further EUR 105,000 for the period from January 2010 up to and including March 2010. The proceedings are pending at the Munich Regional Court I under file reference 23 O 6830/09. Dr. Sluma has been notified of the proceedings. To date, Dr. Sluma has not joined the proceedings.

Various writs have already been exchanged in these proceedings and a date for the hearing has been set. Accordingly, the company assumes that it will be able to defend itself successfully against the action in part.

Organisational risks
The company sees no risks arising from its management and control systems, or organisational and management risks.

Compliance risks
Compliance risks are risks that arise from possible disregard of internal guidelines or the breach of laws and regulations by the company's management or employees. Purchasing and sales are particularly critical areas. Employees who are deployed in areas where protection of secret documents and information plays a key role are also affected. Employees who are entrusted with confidential or insider information agree to comply with the relevant regulations, such as the German Law to Improve Investor Protection, and to deal with the information responsibly. To minimise risk and to secure compliance, the company will adopt a code of conduct, which is applicable across the Group, and offer appropriate training sessions for all segments and employees. In principle, the occurrence of a compliance-relevant issue cannot be ruled out. The company considers the risks to be controllable.

Overall statement on the risk situation of the Group

Taking the extent of possible losses and the probability of their occurrence into account, no risks can currently be identified which could lead to a lasting, significant impairment of the net asset, financial or earnings position of the FP Group. Overall, the risks are controllable; from today's viewpoint the Group's continued existence is not in jeopardy. The FP Group currently expects no fundamental changes to the risk situation. In organisational terms the company has met the necessary conditions to be informed in advance of potential risk situations.

Internal control and risk management system with regard to the accounting process

The FP Group's Management Board and Supervisory Board attach the greatest importance to safeguarding the compliance, accuracy and reliability of financial reporting to recipients of the company's financial statements. Against this background, the accounting-related internal control and risk management system (ICS) is an integral component of a comprehensive company-wide risk management system.

The aim of the ICS for the accounting process is to implement controls that provide reasonable assurance that the financial statements are prepared in compliance with the various regulations. The FP Group's ICS relies overwhelmingly on an efficient internal management system based on efficient processes and on organisational safeguards integrated within processes, such as restricting IT access or payment guidelines. Process-integrated controls reduce the probability of errors occurring and provide help in identifying errors that have occurred.

The *Supervisory Board* advises on risk management and monitors the effectiveness of the risk management system, the internal control system, the accounting process as well as the audit and its independence.

cf. Report of the Supervisory Board page 17

The key features of the internal control system and the risk management system with regard to the accounting process can be described as follows:

As the parent company, FP Holding AG prepares the consolidated financial statements of the FP Group. The financial reporting of the Group companies included in the consolidated financial statements precedes this process. Both processes are monitored by a rigorous, internal control system, which ensures that the accounting is both correct and complies with the legal regulations. *Cross-divisional* key functions are managed centrally although the individual subsidiaries are granted a certain amount of independence in preparing their financial statements.

cf. Overview of subsidiaries page 32

Key rules and tools used in preparing the consolidated financial statements include

- accounting guidelines at Group level
- a clearly defined division of responsibilities and allocation of responsibilities between the areas involved in the accounting process
- the involvement of external experts—if necessary, to measure pension commitments, for example
- the use of suitable IT financial systems and application of detailed authorisation schemes to ensure powers are appropriate to employees' responsibilities and in compliance with the principles of the separation of functions.

- IT-based controls and additional process controls for accounting by subsidiaries, consolidation as part of the consolidated financial statements, and other relevant processes at Group and subsidiary level.
- Consideration of the risks recorded and assessed in the risk management system in the annual financial statements in as much as this is required under existing accounting rules.

The respective Finance management is responsible for implementing these rules and making use of these tools in the various Group companies in different countries. The member of Management Board of Francotyp-Postalia Holding AG with responsibility for Finance is responsible for the consolidated financial statements. He is supported in this role by the Head of Finance, Controlling and Accounts as well as the manager of the Finance and Accounts department. By employing highly qualified specialist staff, providing specific, regular training and complying strictly to the dual control principle, the FP Group ensures that it complies strictly with local and international accounting regulations in the annual and consolidated financial statements. The departments and divisions involved in the accounting process are adequately staffed in terms of quantity, quality and training. Incoming or transmitted accounting data are regularly checked for completeness and accuracy. Suitable controls, such as the dual control principle and analytical checks, are installed for all accounting relevant processes.

All annual financial statements relating to companies, which are included in the Group consolidation, are checked by an auditor at least once a year.

Target / actual deviations are recognised promptly under the obligation incumbent on all subsidiaries to report their figures in a standardised reporting format to Francotyp-Postalia Holding AG, which allows the company to react equally rapidly.

cf. Risk report page 56

With its universal *risk management system*, the FP Group has created the requisite transparency to deal responsibly with all risks, including those relating to financial reporting. The risk management process is integrated within and synchronised with existing management systems.

FORECAST

Focus of the Group in the next two financial years

PLANNED CHANGES IN OPERATING POLICY

Against the background of the changes in markets, the FP Group's new strategic focus as a provider of solutions for mail management acquires particular significance. The company increasingly dovetails its Franking and Inserting segments with its Software Solutions and Services segments.

For 2010, the FP Group is not planning any changes to the financing structure. Nevertheless, it intends to start discussions about follow-up financing this year. Significant changes to the legal structure are also not planned.

FUTURE SALES MARKETS

To exploit additional growth potential, the FP Group has expanded its *Asian business* with the aim of participating in anticipated growth over the next few years and consequently pressing ahead with the global expansion in the company and its technology. Certification of ultimail for the Indian market is an important step in the planned expansion.

cf. Press release of 27 Janary 2010

The internationalisation of the company's software business is also opening up new sales markets. The hybrid mail product FP webpost will be launched on the market in Great Britain in April 2010. This will be rapidly followed by US, Canadian, Belgian, Italian and Dutch markets.

FUTURE PRODUCTS AND SERVICES

The company will develop its franking machine strategy accordingly and launch new *software products* , such as applications for the iPhone or even web portals, on the market. Statutory requirements such as DE-Mail provide additional incentives to extend existing product ranges and services.

cf. Information on software solutions page 6

Future development of the segments

DOMESTIC SALES

In Germany, the company is already the market leader in franking and inserting machine solutions. Here, the target is to maintain market share at around 44% and expand it as much as possible.

The company sees good opportunities to acquire additional market share in the area of software solutions and services. In the area of software solutions, in particular, the company assumes that the *changes in legislation described* and the new legislative initiatives will provide good opportunities for growth. It is difficult to forecast the speed at which the rules set by the Federal Government will actually be implemented.

German Federal Ministry of the Interior – E-Government 2.0

INTERNATIONAL SALES

Apart from Great Britain, the USA is one of the major growth markets for the FP Group in franking and inserting machines. The company is planning to acquire additional market share here. While franking machines are already certified by postal companies in traditional, western markets, franking machines have just been certified for the first time in India. The company will work with an Indian-based dealer and assumes that it will achieve substantial market share. The company is planning to acquire additional market share here with the internationalisation of the software solution.

PRODUCTION

Production's development is materially dependent on the above-mentioned segments' development. The company also records its Asian business in this segment. The decision on the future production site for the new generation of machines is another key parameter for the segment's development. At the start of the new financial year, the company began to review the key factors for a competitive production site. The review is still ongoing but will be completed during the first half of 2010 and will be used as a basis for further discussion until the end of the financial year.

Economic conditions and Group development in the next two financial years

FUTURE MACROECONOMIC SITUATION

cf. www.imf.org/external/pubs/ft/weo/2010/update/01/index.htm

The economy in industrialised countries, in particular, is recovering only slowly from the consequences of the global economic and financial crisis. According to the economic outlook published by the *International Monetary Fund* in January 2010, government aid is still needed to overcome the worst recession since the global economic crisis of the 1930s.

Allowing for massive government aid, the IMF expects growth of 2.7% in the USA in 2010. For Germany, the International Monetary Fund is expecting growth of 1.5% in the current financial year and growth of 1.9% in 2011. According to the IMF, the euro zone economy should grow 1.0% in the current year. Growth should come to 1.6% in 2011.

This means that while all of the FP Group's key markets are experiencing a slight recovery at the beginning of the year, companies' willingness to invest remains limited in view of a shortage of credit, unutilised capacity and substantial unemployment.

The emerging economies are likely to grow far faster, even in 2010. Their growth is estimated at 6%. Economic experts expect an increase in gross domestic product of 7.7% for India. As a result, the economic significance of emerging countries, particularly in Asia, will continue to grow. With its early entry on the Asian market, the FP Group has created the preconditions to participate in this growth in the medium term.

FUTURE SECTORAL SITUATION

The future development of the sector is determined by the economic environment and regulation. The reorganisation of state monopolies and increasing liberalisation of postal markets will continue worldwide in 2010. In the EU the liberalisation process is due to be completed by 2011. The German market has been liberalised since the beginning of 2008 but here, too, there are still obstacles to be overcome. In the current year, the abolition of the VAT exemption on Deutsche Post's services and a revision of the postal minimum wage could improve conditions for alternative providers. Economic development influences the market in two respects. An improvement in the economic situation boosts companies' willingness to invest, which could also have a positive impact on franking and inserting machine business in the medium term. At the same time, price pressure in companies has increased further because of the economic crisis. This means that businesses should also be more willing to migrate mail processing to cost-saving outsourcing solutions and to collaborate with professional service providers in this field.

Overall statement on future business development

In a difficult market environment, the company will focus on high-margin products and services with the aim of being able to further improve earnings power in the medium and long term.

The company assumes that the Franking and Inserting segment will be able to grow organically. Depending on the economic and legal conditions described above, the company assumes that there are good opportunities for growth in the Software and Services segments. Overall, it is assuming a positive trend in the Group's total revenue and earnings before interest, taxes, depreciation and amortisation for the next two financial years.

OTHER DISCLOSURES

Explanatory report by the Management Board in accordance with Section 315 paragraph 4 of the German Commercial Code (HGB)

The FP Group makes the following mandatory disclosures in accordance with Section 315 paragraph 4 HGB in conjunction with Section 120 paragraph 3 sentence 2 of the Stock Corporation Act (AktG). These are all terms in common use at publicly listed companies and are not intended to hinder an attempted takeover.

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

On 31 December 2009, the share capital of Francotyp-Postalia Holding AG came to EUR 14,700,000. It is divided into 14,700,000 shares.

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

Each share entitles the holder to cast one vote at the Annual General Meeting. There are no restrictions relating to voting rights or their transfer. On 31 December 2009, holdings of treasury shares stood at 370,444. That corresponds to 2.5% share of capital stock. No voting rights are exercised in the case of treasury shares. The Management Board of Francotyp-Postalia Holding AG is not aware of any restrictions which may result from agreements between shareholders.

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

cf. Shareholder structure page 27

cf. www.francotyp.com - Shareholder structure

As of 31 December 2009, Quadriga Capital Private Equity Fund II L.P., which had invested before the public flotation, held 22.4% and Quadriga Capital Limited, which had also invested prior to the flotation, held 3.9%, so that together the two companies held 26.3% of the share capital of Francotyp-Postalia Holding AG. This holding equates to 3,292,333 shares for Quadriga Capital Private Equity Fund II L.P. and 573,253 for Quadriga Capital Limited (total 3,865,586). Amiral Gestion, which is based in Paris, France, held 11.30% as of 31 December 2009. This equates to 1,660,679 shares in Francotyp-Postalia Holding AG.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 PARAGRAPH 4 NO. 4 HGB (SHARES WITH SPECIAL RIGHTS)

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

DISCLOSURES IN ACCORDANCE WITH SECTION 315 PARAGRAPH 4 NO. 5 HGB (CONTROL OF VOTING RIGHTS OF EMPLOYEE SHAREHOLDERS)

There are no controls of voting rights.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 PARAGRAPH 4 NO. 6 HGB (STATUTORY REGULATION IN THE ARTICLES OF ASSOCIATION ON APPOINTING AND DISMISSING MANAGEMENT BOARD MEMBERS AND AMENDING THE ARTICLES OF ASSOCIATION)

cf. www.francotyp.com - Investors – Corporate Governance – Articles of Association

In accordance with Section 6 paragraph 2 of the Articles of Association of Francotyp-Postalia Hold ing AG, the Supervisory Board is responsible for determining the number of Management Board members, appointing them and revoking their appointment. In accordance with Section 6 paragraph 3 of the Articles of Association, the Supervisory Board can appoint a Supervisory Board committee to sign, amend and terminate employment contracts with Management Board members.

Article 23, paragraph 1 of the Articles of Association stipulates that, unless statutes or the Articles of Association require a larger majority, the Annual General Meeting passes resolutions by a simple majority of votes cast, and where statutes require a majority of capital in addition to a majority of votes, by simple majority of capital represented when voting takes place. Abstentions count as votes not cast.

Furthermore, in accordance with Article 15 paragraph 2 of the Articles of Association the Supervisory Board can make amendments to the Articles which only relate to wording.

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

Authorised capital

By resolution dated 16 October 2006, the Annual General Meeting authorised the Management Board, subject to the approval of the Supervisory Board, to increase the share capital of the company on one or more occasions until 15 October 2011 by issuing up to 6,000,000 new bearer shares for subscription in cash or in kind by up to a total of EUR 6,000,000 (authorised capital). The new shares are generally to be offered for subscription to shareholders. The Management Board has nevertheless been authorised to exempt fractional amounts from the shareholders’ subscription rights and also to rule out shareholders’ subscription rights subject to the approval of the Supervisory Board,

- provided that new shares are issued for subscription in kind in order to acquire companies, or equity interests in companies, and the acquisition or the equity interest are in the best interests of the company;
- for a share of authorised capital of up to a total of EUR 1,200,000 to the extent that (i) the new shares are issued for subscription in cash at an issue price not significantly less than the stock market price and (ii) the cumulative pro rata percentage of share capital attributable to the number of shares issued from authorised capital together with other shares issued or sold in accordance with Section 186 paragraph 3 sentence 4 AktG does not exceed a total of 10% of the company's share capital at the time the Annual General Meeting adopts a resolution on this authorisation or at the time this authorisation is exercised—whichever is the lower;
- for a share of authorised capital up to a total of EUR 1,200,000 in order to issue the new shares to employees of the company or employees of a directly or indirectly consolidated company within the meaning of Section 18 AktG, whereby employee shares may be issued at a preferential price.

Contingent capital
On 16 October 2006, the Annual General Meeting passed a resolution to increase the company's share capital contingently by an amount of up to EUR 6,000,000 by issuing new bearer shares each representing EUR 1.00 of share capital (contingent capital). The contingent capital serves to grant rights to holders of option or conversion rights and / or to those obliged to exchange or convert rights under option and convertible bonds issued or guaranteed until 15 October 2011 (inclusive) by Francotyp-Postalia Holding AG or a direct or indirect consolidated company of Francotyp-Postalia Holding AG within the meaning of Section 18 AktG in accordance with the aforementioned authorisation of the Management Board by the Annual General Meeting, to the extent that other means of settling the obligation are not employed. Shares are issued at the option or conversion price to be stipulated by resolution each time. The contingent capital increase is only implemented in the event that option and / or convertible bonds are issued and only to the extent that the ensuing option or conversion rights are exercised or the exchange or conversion obligations are met.

Conversion and option rights
The Management Board was authorised by resolution of the Annual General Meeting on 16 October 2006, subject to approval by the Supervisory Board, up to 15 October 2011 inclusive to issue option and / or convertible bonds (hereinafter also known collectively as bonds), on one or more occasions, in total or for separate amounts, up to a nominal total of EUR 200,000,000 with a maturity of up to thirty years, and to grant option rights to the holders of option bonds and conversion rights to the holders of convertible bonds for bearer shares in the company representing a proportion of share capital of up to a total of EUR 6,000,000 subject to the detailed terms of the bonds. Hitherto no shares have been issued making use of authorised or contingent capital.

Authorisation to buy and sell treasury shares
Under the new authorisation the purchase of treasury shares can either take place via the stock exchange or by means of a public purchase offer.

To the extent that the number of shares tendered in response to a public purchase offer exceeds the number intended for purchase, shares can be purchased in proportion to the number of shares tendered and excluding shareholders' right to tender their shares, in order to simplify the process. This simplification also serves to give preference to smaller amounts of shares of up to 100 shares tendered per shareholder.

The authorisation stipulates that the treasury shares purchased can be sold again via the stock exchange or by means of an offer to all shareholders. In addition, the Management Board is also to be authorised, subject to the approval of the Supervisory Board,

- to withdraw shares without further resolution by the Annual General Meeting.
- to offer and to transfer shares as consideration in the course of company mergers or as consideration for the acquisition of companies or equity interests in them. The proposed authorisation is intended to strengthen the company in competing for interesting acquisition targets and allow it to respond rapidly, flexibly and in a cash-conserving manner to opportunities to acquire companies or equity interests in them. The proposed exclusion of shareholders' subscription rights serves this purpose. The decision in any given case whether to use treasury shares or shares from authorised capital is made by the Management Board in the sole interests of the shareholders and the company. In determining the relative valuations, the Management Board will ensure that the interests of shareholders are reasonably safeguarded. To do so, the Management Board will take the quoted share price into account; however, a systematic link to the quoted price is not planned, particularly so that the results of negotiations are not called into question by fluctuations in the listed share price. There are no concrete plans to make use of this authorisation.
- to issue treasury shares subject to the approval of the Supervisory Board in order to float company shares on a foreign stock exchange on which they were not previously listed. This is intended to give the company the flexibility of a secondary listing on foreign exchanges if this is deemed necessary to secure better long-term equity funding.
- to sell treasury shares to third parties for cash excluding subscription rights, e.g. to institutional investors or to access new investor groups. The condition for such a sale is that the price obtained (without ancillary purchase costs) is not significantly below the price for a share on the trading date, as determined by the opening auction in Xetra trading (or a comparable successor system) at Deutsche Börse AG. Orienting the sales price, to the quoted price offers some protection against dilution and provides reasonable protection of shareholders' pecuniary and voting interests. When setting the final sales price, management will endeavour to keep any discount from the quoted price to a minimum—with no spaces on either side. Taking current market circumstances into account. Shareholders have the option of maintaining the level of their stake by purchasing shares via the stock exchange, and it is in the interests of shareholders that the company benefits from additional room for manoeuvre to exploit favourable stock exchange conditions at short notice. There are no concrete plans to make use of this authorisation.
- to offer for purchase and to grant treasury shares to persons in the company's employment or that of subsidiary-affiliated companies (employee shares). The financial success of the company and its consolidated companies depends to a large extent on its staff. Issuing employee shares on preferential terms strengthens staff loyalty towards the company and its consolidated companies and therefore also promotes the company's success over the long term. Using existing treasury shares instead of a capital increase or a cash payment can make economic sense, and the authorisation is intended to increase flexibility in this regard.

The authorisation to use the treasury shares already acquired given by the Annual General Meeting on 16 October 2006 was replaced by an authorisation given by the Annual General Meeting on 18 June 2008 and expired on 17 December 2009. The proposed resolution to the Annual General Meeting to extend the existing authorisation to acquire and to sell treasury shares was not accepted.

DISCLOSURES IN ACCORDANCE WITH SECTION 315 PARAGRAPH 4 NO. 8 HGB (SIGNIFICANT AGREEMENTS OF THE PARENT COMPANY SUBJECT TO A CHANGE OF CONTROL FOLLOWING A TAKEOVER OFFER)

On 7 August 2009, the FP Group announced the conclusion of a site continuation agreement with its employee representatives and IG Metall on a far-reaching package of measures. According to current estimates, this extensive programme will allow the FP Group to generate savings of up to EUR 9 million in the next two years, in return for which it will guarantee employees' jobs for a period of 24 months.

Among other conditions, the site continuation agreement includes the following regulations:

- the conclusion of a works agreement on the introduction of reduced working hours for a maximum period of two years, starting from 1 August 2009
- a salary waiver of around 10% by wage-scale employees by way of collective agreements to safeguard the companies Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb und Service GmbH and FP Direkt Vertriebs GmbH
- a salary waiver of 15% by non-scale office employees
- a 20% reduction in Management Board remuneration
- no compulsory redundancies within the next 24 months
- in the event of insolvency, the provisions of this programme will cease to apply with immediate effect
- in the event of the disposal of one of the companies or parts of companies participating in this agreement, all special collective agreement regulations and salary waiver regulations for the Management Board, non-scale employees and executives will no longer apply with future effect.

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

No such agreements were in place as of 31 December 2009.

REMUNERATION REPORT

The overall remuneration package for Management Board members comprises the monetary remuneration portion, pension commitments and other commitments, in particular for the event of the termination of employment, as well as ancillary payments of any kind and payments from third parties which have been granted during the financial year or pledged for Management Board activities. In compliance with the recommendations of the Corporate Governance Code the monetary remuneration portion is composed of both fixed and variable elements.

To date the company has not put in place any variable remuneration components designed to act as long-term incentives and entailing an element of risk, such as share options or comparable arrangements. However, the Management Board and Supervisory Board are in ongoing discussions over the possibility of introducing share options or comparable arrangements. The principle talking points in this respect are the design and definition of performance targets and comparative parameters as well as the capping of benefits in the event of unforeseen circumstances.

By resolution of the Annual General Meeting, the remuneration of Supervisory Board members is laid down in the Articles of Association. Supervisory Board remuneration takes into account the responsibilities and duties of Supervisory Board members, as well as the chairmanship and deputy chairmanship thereof and also membership of any Supervisory Board committees. There are no provisions for performance-related remuneration.

Management Board remuneration is set at a reasonable level by the Supervisory Board on the basis of performance assessments of the persons concerned, while also taking into account any payments by Group companies. Criteria for determining the suitability of the remuneration include the duties of the Management Board member in question, his personal performance, the performance of the Management Board as a whole, as well as the macroeconomic situation and the company's performance and future prospects, giving due consideration to the company's peer group. The employment contracts concluded with Board members stipulate a fixed annual salary plus a performance-related bonus. No bonuses were paid to Board members for the 2009 financial year. The direct remuneration paid to Management Board members totalled EUR 685,000, of which EUR 486,000 comprised the fixed annual salaries and EUR 47,000 represented payment in kind. The bonuses cited are provisions for the financial year 2009. The payments in kind chiefly consist of the value of company car use as determined in compliance with the provisions of tax law, as well as rent allowances and individual insurance contributions.

The remuneration paid to the Management Board during the 2009 financial year was as follows:

EUR thousand	Fixed	Provision for bonuses	Payment in kind	Total
Hans Szymanski (Management Board member since 1 December 2008)	260	76	26	362
Andreas Drechsler (Management Board member since 23 February 2009)	179	76	15	270
Dr. Heinz-Dieter Sluma (Management Board member until 16 February 2009)	47	0	6	53
	486	**152**	**47**	**685**

In accordance with the site continuation agreement, which was concluded with the employee representatives and IG Metall in August 2009, the Management Board members sacrificed 20% of their income.

EUR 1.3 million (previous year: EUR 1.1 million) was provided for pension commitments to former Management Board members. None of the Management Board members' immediate relatives has any business relationship with Francotyp-Postalia.

Since financial year 2009, each Supervisory Board member has received, as well as cash expenses plus VAT for his / her Supervisory Board duties, a lump sum remuneration of EUR 30,000, payable in the final month of the financial year. For the chairman, the lump sum remuneration amounts to 150%, and for his deputy, it amounts to 125% of the remuneration of a normal Supervisory Board member from financial year 2009.

The deputy chairman of the Supervisory Board, Mr Christoph Weise, has waived the remuneration to which he is entitled for 2008 and 2009. The total remuneration of the Supervisory Board therefore amounted to EUR 68,000 in the reporting year.

EUR	Total
Prof. Dr. Michael Hoffmann (Chairman)	45,000.00
Christoph Weise (Deputy Chairman)	0.00
George Marton	9,853.79
Dr. Claus Gerckens	11,612.90
Total	**66,466.69**

Individual shareholdings and directors' dealings

Pursuant to Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz—WpHG), the Supervisory Board, Management Board and senior executives of Francotyp-Postalia Holding AG are obliged to report their dealings in company shares or related financial instruments once the total value of such transactions exceeds EUR 5,000 in any one calendar year. This duty of disclosure also extends to natural and juristic persons who have a close relationship with the above-mentioned persons. All reported transactions will be published via EquityStory as well as on our website.

Either directly or indirectly, Supervisory Board and Management Board members hold the company shares set out in the table below:

Shareholder	Number of shares	%
FRW Coln GBR[1]	51,506	0.35
Christoph Weise	105,000	0.71
Hans Szymanski	110,000	0.75
Andreas Drechsler	10,000	0.1
Dr. Heinz-Dieter Sluma[2]	8,000	0.1

[1] Supervisory Board member Christoph Weise is a partner in the shareholder FRW Coln GbR and the economic owner of 17,907.51 shares held by FRW Coln GbR. All details are based on disclosures by the shareholders concerned which have not been verified by the company.

[2] The appointment of Dr Heinz-Dieter Sluma as a Management Board member was countermanded with immediate effect on 16 February 2009. Accordingly, Dr Sluma is no longer a member of the Management Board.

EVENTS AFTER THE BALANCE SHEET DATE

There are no additional events to be reported for the period after 31 December 2009.

MANAGEMENT BOARD'S RESPONSIBILITY STATEMENT IN ACCORDANCE WITH SECTION 37Y NO. 1 WPHG IN CONJUNCTION WITH SECTION 297 PARAGRAPH 2 SENTENCE 4 AND 315 PARAGRAPH 1 SENTENCE 6 HGB

We hereby affirm, to the best of our knowledge and in accordance with the applicable reporting principles, that the consolidated financial statements convey a true and fair view of the company's net assets, financial position and results of operations, and that the consolidated annual report sets out the company's business progress, performance and current position in a way which accurately reflects its true circumstances, and describes the principal opportunities and risks associated with FP Holding's prospective future developments.

Birkenwerder, 17 March 2010

Management Board of Francotyp-Postalia Holding AG

Hans Szymanski

Andreas Drechsler

Consolidated Financial Statements for the 2009 Financial Year

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2009

EUR thousands	Notes	1 Jan.–31 Dec. 2009	1 Jan.–31 Dec. 2008*
Revenues	1	129,024	142,444
Reduction/increase in work in progress and finished goods		-3,034	562
		125,990	**143,006**
Other capitalised own work	2	5,415	8,182
Other income	3	2,044	2,583
Cost of materials	4		
a) Cost of raw materials, consumables and supplies		23,202	33,165
b) Cost of services purchased		9,282	10,115
		32,484	**43,280**
Staff expenses	5		
a) Wages and salaries		40,572	46,717
b) Social security contributions		6,828	7,342
c) Pensions and other benefits		999	711
		48,399	**54,770**
Depreciation, amortisation and impairment losses	9	36,243	29,140
Other expenses	6	32,010	37,546
Net interest income/expense	7		
a) Interest and similar income		1,573	2,497
b) Interest and similar expenses		5,025	5,598
		-3,452	**-3,101**
Other financial results	7		
a) Other financial income		1,449	1,426
b) Other financial expenses		1,414	1,823
		35	**-397**
Net taxes	8		
a) Tax income		5,576	8,563
b) Tax expenses		3,065	8,569
		2,511	**-6**
Consolidated net income		**-16,593**	**-14,469**
Other comprehensive income			
Translation of financial statements of foreign entities	8	621	-992
Cash flow hedges	8	232	-587
Change in the fair value of financial assets available for sale	8	0	-733
Other comprehensive income after taxes	8	**853**	**-2,312**
Comprehensive income for the financial year		**-15,740**	**-16,781**
Consolidated net income, of which:		-16,593	-14,469
- consolidated net income attributable to the shareholders of FP Holding		-16,024	-13,783
- consolidated net income attributable to minority interests		-569	-686
Comprehensive income, of which:		-15,740	-16,781
- comprehensive income attributable to the shareholders of FP Holding		-15,171	-16,095
- comprehensive income attributable to minority interests		-569	-686
Earnings per share (m EUR; basic and diluted):	24	**-1.12**	**-0.96**

* adjusted

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2009

ASSETS

EUR thousands	Notes	31 Dec. 2009	31 Dec. 2008*
Non-current assets			
Intangible assets	9		
Intangible assets including customer lists		19,104	34,208
Goodwill		8,494	20,994
Development projects in progress		5,069	3,514
		32,667	**58,716**
Property, plant and equipment	9		
Land, land rights and buildings		34	33
Technical equipment and machinery		1,473	1,650
Other equipment, operating and office equipment		3,485	4,149
Leased products		10,316	11,445
Assets under construction		0	24
Assets under finance leases		4,406	4,827
		19,714	**22,128**
Other assets			
Equity investments	23	318	318
Finance lease receivables	10	3,748	4,048
Other non-current assets		295	255
		4,361	**4,621**
Deferred tax assets		**12,815**	**9,733**
		69,557	**95,198**
Current assets			
Inventories	11		
Raw materials, consumables and supplies		4,733	5,475
Work/services in progress		1,392	2,059
Finished products and merchandise		4,907	8,599
		11,032	**16,133**
Trade receivables	12, 23	**13,883**	**18,656**
Securities	13, 23	**670**	**666**
Cash and cash equivalents	15, 23	**29,587**	**21,946**
Other assets			
Finance lease receivables	10	2,085	2,078
Income tax assets	14	617	485
Derivative financial instruments	23	9	17
Other current assets	14	6,874	6,910
		9,585	**9,490**
		64,757	**66,891**
Total		**134,314**	**162,089**

* adjusted

EQUITY AND LIABILITIES

EUR thousands	Note	31 Dec. 2009	31 Dec. 2008*
Equity			
Equity attributable to shareholders of the parent company			
Subscribed capital	16	14,700	14,700
Capital reserves	16	45,708	45,708
Treasury shares	16, 23	-1,829	-1,829
Loss carried forward		-27,176	-13,393
Consolidated net income after minority interests		-16,024	-13,783
Other comprehensive income		-2,174	-3,027
		13,205	**28,376**
Minority interests	16	**2,081**	**2,650**
		15,286	**31,026**
Non-current liabilities			
Provisions for pensions and similar obligations	17	12,265	12,228
Other provisions	19	1,152	1,514
Financial liabilities	20, 23	51,256	56,030
Other liabilities	20, 23	41	42
Deferred tax liabilities	18	1,165	3,600
		65,879	**73,414**
Current liabilities			
Tax liabilities	18	881	1,389
Provisions	19	8,479	10,297
Financial liabilities	20	3,935	4,172
Trade payables	20	4,829	7,471
Other liabilities	20	35,025	34,320
		53,149	**57,649**
		134,314	**162,089**

* adjusted

CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2009

EUR thousand	Notes	1 Jan. – 31 Dec. 2009	1 Jan. – 31 Dec. 2008*
Cash flow from operating activities			
Consolidated net income		-16,593	-14,469
Income tax income recognised in income (previous year: expense)	8	-2,511	6
Net interest income recognised in income	7	3,452	3,101
Depreciation and amortisation of non-current assets	9	36,243	29,140
Decrease (-)/increase (+) in provisions	17, 18, 19	-3,248	1,410
Losses on the disposal of non-current assets		515	717
Decrease (+) in inventories, trade receivables and other assets not attributable to investment or financing activities	11, 12, 14	9,679	283
Increase (+)/decrease (–) in trade payables and other liabilities* not attributable to investment or financing activities	20	-3,804	4,458
Other non-cash expenses and income		-712	1,480
Interest received	7	1,573	2,496
Interest paid	7	-4,091	-5,500
Income tax paid	8	-2,984	-3,827
Cash flow from operating activities		***17,519***	***19,295***
Cash flow from investing activities			
Cash paid for internally generated intangible assets	2	-2,820	-3,667
Proceeds from the disposal of non-current assets	9	78	225
Cash paid for investments in intangible assets	9	-600	-3,758
Cash paid for investments in property, plant and equipment	9	-4,001	-8,559
Cash paid for financial investments		0	0
Cash paid for company acquisitions		-400	0
Cash flow from investing activities		***-7,743***	***-15,759***
Cash flow from financing activities			
Cash paid to shareholders to buy back treasury shares in the company	16, 23	0	-1,277
Dividend payments to shareholders	16	0	-2,150
Cash paid to repay bank loans	20	-3,570	-3,595
Cash paid to repay finance leases	20	-837	-560
Proceeds of bank loans	20	0	4,000
Cash flow from financing activities		***-4,407***	***-3,582***
Cash and cash equivalents**			
Change in cash and cash equivalents	25	5,369	-46
Change in cash and cash equivalents due to currency translation		10	-240
Cash and cash equivalents at beginning of period	25	6,998	7,284
Cash and cash equivalents at end of period	25	**12,377**	**6,998**

* adjusted

** The postage credit balances managed by the FP Group (EUR 17,880 thousand; previous year: EUR 15,614 thousand) have been deducted from cash and cash equivalents and other liabilities. Cash and cash equivalents include current securities in the amount of EUR 670 thousand (previous year: EUR 666 thousand).

Notes to the consolidated cash flow statement can be found under note (25) in the notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2009

EUR thousand	Subscribed capital	Capital reserves	Treasury shares	Net income/loss	Other comprehensive income	Equity attributable to FP Holding	Minority interests	Total
Balance on 1 January 2008 before retrospective adjustment	**14,700**	**45,708**	**-552**	**-10,892**	**-712**	**48,252**	**7,148**	**55,400**
Retrospective adjustment	0	0	0	0	0	0	-3,765	-3,765
Balance on 1 January 2008 after retrospective adjustment	14,700	45,708	-552	-10,892	-712	48,252	3,383	51,635
Consolidated net income 1 January to 31 December 2008	**0**	**0**	**0**	**-13,783**	**0**	**-13,783**	**-686**	**-14,469**
Translation of financial statements of foreign entities	0	0	0	0	-995	-995	3	-992
Cash flow hedges	0	0	0	0	-587	-587	0	-587
Change in the fair value of financial assets available for sale	0	0	0	0	-733	-733	0	-733
Other comprehensive income	**0**	**0**	**0**	**0**	**-2,315**	**-2,315**	**3**	**-2,312**
Comprehensive income	**0**	**0**	**0**	**-13,783**	**-2,315**	**-16,098**	**-683**	**-16,781**
Share buy-backs	0	0	-1,277	0	0	-1,277	0	-1,277
Dividends	0	0	0	-2,150	0	-2,150	0	-2,150
Other changes	0	0	0	-351	0	-351	-50	-401
Balance on 31 December 2008 before retrospective adjustment	**14,700**	**45,708**	**-1,829**	**-27,176**	**-3,027**	**28,376**	**5,190**	**34,791**
Retrospective adjustment	0	0	0	0	0	0	-2,540	-2,540
Balance on 31 December 2008 after retrospective adjustment	**14,700**	**45,708**	**-1,829**	**-27,176**	**-3,027**	**28,376**	**2,650**	**31,026**
Balance on 1 January 2009	**14,700**	**45,708**	**-1,829**	**-27,176**	**-3,027**	**28,376**	**2,650**	**31,026**
Consolidated net income 1 January to 31 December 2009	**0**	**0**	**0**	**-16,024**	**0**	**-16,024**	**-569**	**-16,593**
Translation of financial statements of foreign entities	0	0	0	0	621	621	0	621
Cash flow hedges	0	0	0	0	232	232	0	232
Other comprehensive income	**0**	**0**	**0**	**0**	**853**	**853**	**0**	**853**
Comprehensive income	**0**	**0**	**0**	**-16,024**	**853**	**-15,171**	**-569**	**-15,740**
Balance on 31 December 2009 (note 16)	**14,700**	**45,708**	**-1,829**	**-43,200**	**-2,174**	**13,205**	**2,081**	**15,286**

STATEMENT OF CONSOLIDATED NON-CURRENT ASSETS AS OF 31 DECEMBER 2009

EUR thousands	Costs of purchase or production					
	Carryforward 1 Jan. 2009	**Currency differences**	**Additions**	**Disposals**	**Reclassification**	**Balance at 31 Dec. 2009**
Intangible assets						
Internally generated intangible assets	15,198	0	282	0	983	16,463
Other intangible assets including customer lists	95,533	-78	600	55	22	96,022
Intangible assets including customer lists	110,731	-78	882	55	1,005	112,485
Goodwill	23,794	0	0	0	0	23,794
Development projects in progress	5,935	0	2,538	0	-983	7,490
Total	**140,460**	**-78**	**3,420**	**55**	**22**	**143,769**
Property, plant and equipment						
Land, land rights and buildings	137	5	5	0	0	147
Technical equipment and machinery	5,281	1	124	36	3	5,373
Other equipment, operating and office equipment	33,819	416	1,190	1,953	-1	33,471
Leased products	57,724	-90	2,682	575	0	59,741
Assets under construction	24	0	0	0	-24	0
Assets under finance leases		0	0	1,318	0	5,520
Total	**103,823**	**332**	**4,001**	**3,882**	**-22**	**104,252**
Non-current assets						
Total	**244,283**	**254**	**7,421**	**3,937**	**0**	**248,021**

Depreciation and amortisation						Carrying amounts	
Carryforward 1 Jan. 2009	**Currency differences**	**Additions**	**Disposals**	**Transfers**	**Balance at 31 Dec. 2009**	**31 Dec. 2009**	**1 Jan. 2009**
6,092	0	3,031	0	0	9,123	7,340	9,106
70,431	-50	13,930	53	0	84,258	11,764	25,102
76,523	-50	16,961	53	0	93,381	19,104	34,208
2,800	0	12,500	0	0	15,300	8,494	20,994
2,421	0	0	0	0	2,421	5,069	3,514
81,744	**-50**	**29,461**	**53**	**0**	**111,102**	**32,667**	**58,716**
104	3	6	0	0	113	34	33
3,631	1	280	13	1	3,900	1,473	1,650
29,670	191	1,895	1,769	-1	29,986	3,485	4,149
46,279	-843	4,198	209	0	49,425	10,316	11,445
0	0	0	0	0	0	0	24
2,011	0	403	1,300	0	1,114	4,406	4,827
81,695	**-648**	**6,782**	**3,291**	**0**	**84,538**	**19,714**	**22,128**
163,439	**-698**	**36,243**	**3,344**	**0**	**195,640**	**52,381**	**80,844**

Notes

I. BASIC INFORMATION

GENERAL INFORMATION

Francotyp-Postalia Holding AG, Birkenwerder (also referred to hereafter as FP Holding), is a German stock corporation (Aktiengesellschaft) registered under HRB 7649 of the Commercial Register at Neuruppin District Court. The company's registered office is at Triftweg 21–26, 16547 Birkenwerder, Germany. The consolidated financial statements for FP Holding for the financial year ending on 31 December 2009 include FP Holding and its subsidiaries (also referred to hereafter as the FP Group).

Francotyp-Postalia is an international company in the outbound mail processing sector, with a heritage going back over 80 years. The focus of its activities is the traditional product business, which consists of developing, manufacturing and selling franking machines, in particular, but also inserting machines and conducting after-sales business. Francotyp-Postalia Group also offers its customers in Germany sorting and consolidation services and hybrid mail products via its subsidiary freesort and its majority shareholding in iab.

The Management Board of Francotyp-Postalia AG approved the consolidated financial statements for forwarding to the Supervisory Board on 17 March 2010. The responsibility of the Supervisory Board is to examine the consolidated financial statements and declare whether it adopts them.

DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The consolidated financial statements for FP Holding as of 31 December 2009 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable and binding in the EU on the reporting date, and with the interpretations issued on them by the International Financial Reporting Interpretations Committee (IFRIC) and the additional requirements of the German Commercial Code (HGB) in accordance with Section 315a (1) HGB. All binding statements by the International Accounting Standards Board (IASB) have been taken into account.

ACCOUNTING PRINCIPLES

Francotyp-Postalia Holding AG acts as parent company for the Group, under which Francotyp-Postalia Group companies are consolidated. For all Group companies, the financial year is the calendar year.

In accordance with Section 315a (1), the consolidated financial statements and the Group management report of FP Holding as of 31 December 2009 were prepared in accordance with the International Financial Reporting Standards (IFRS) applicable and binding in the EU on the reporting date, and with the interpretations issued on them by the International Financial Reporting Interpretations Committee (IFRIC) and will be filed with the electronic Federal Gazette and published.

The consolidated financial statements have been drawn up in euro. For greater clarity and to facilitate comparison, all amounts are presented in thousands of euro (EUR thousands) unless otherwise stated. Rounding of individual items and percentages may result in minor arithmetic differences.

In accordance with IAS 1, the consolidated balance sheet follows the principle of current/non-current presentation. The balance sheet therefore presents non-current and current assets and liabilities separately. Assets and liabilities are classified as current if their remaining term to maturity or useful life is less than one year, or they are turned over in less than one year in the course of normal operations. Assets and liabilities are classified as non-current if they remain in the company for more than one year.

Consolidated statement of recognised income and expense has been prepared in line with the nature of expense method.

CHANGES IN ACCOUNTING METHODS AND IN DISCLOSURES MADE IN THE NOTES

The accounting methods applied and the rules on disclosure in the notes are the same as in the previous year, with the exception of the new and amended standards listed below.

The following adjustments were made as against the previous year as part of the process of harmonisation and adjustment in line with the current IFRS structural provisions: Since this reporting year, income from the reversal of provisions (previous year: EUR 557 thousand) has been offset against the corresponding expense items (previous year: staff costs of EUR 510 thousand and other expenses of EUR 47 thousand). Income tax assets (EUR 617 thousand; previous year: EUR 485 thousand) are now being shown separately for the first time under other assets. Immaterial items in the consolidated balance sheet such as receivables from related parties (previous year: EUR 14 thousand) or advance payments on orders (previous year: EUR 93 thousand) were combined with other items. The figures for the previous year were adjusted accordingly, as was the restated balance sheet as of 1 January 2008. The names of line items were also adjusted in line with the official EU translation.

RESTATEMENT OF AMOUNTS IN PRIOR PERIODS

On 8 November 2006, FP Holding acquired 51.01% of shares in iab – internet access GmbH (iab) and around 36.99% of shares in iab-Verwaltungs- und Vertriebs GmbH (iabV), both of which are based in Berlin. As part of its first-time inclusion in consolidation, the FP Group capitalised the full goodwill of iab in the amount of EUR 7,683 thousand and reported the minority interests of EUR 3,765 in consolidated equity. Then, in the previous year, the impairment loss on iab's goodwill of EUR 2,500 thousand was deducted from iab's full goodwill and the minority interests were reduced by EUR 1,225 thousand. As of 31 December 2008, the goodwill and minority interests were therefore reported EUR 2,540 thousand too high.

While this is permitted under the current version of IFRS, it was not permitted under IFRS 3 at the time of first-time consolidation. Accordingly, the balance sheets as of 1 January 2008 and in earlier periods up to and including 31 December 2006 must be restated for the minority interests of EUR 3,765 thousand on both the assets side and the equity and liabilities side. As of 31 December 2008, the write-down on goodwill attributable to minority interests of EUR 1,225 thousand must be restated and this amount added to goodwill and minority interests in equity. The retrospective adjustments have been taken into account in the comparative balance sheet for 2008. Apart from a shift between write-downs on minority interests of EUR 1,225 thousand, the income situation was not affected by these adjustments in the relevant periods. The retrospective adjustment in the form of a balance sheet as of 1 January 2008 is attached as *annex 3* to the notes.

cf. Consolidated Balance Sheet as of 31 December 2008 page 136

The 2008 statement of recognised income and expense was adjusted. Write-downs were restated from EUR 30,365 thousand to EUR 29,140 thousand. A corresponding adjustment was also made to minority interests, which changed from EUR -1,911 thousand to EUR -686 thousand.

ADOPTION OF NEW AND REVISED STANDARDS

The Group adopts new standards and interpretations for the first time when they become mandatory for the preparation of financial statements. FP Holding adopted the following new and revised IFRS standards and interpretations in the financial year. With the exception of the amendments to IAS 23, the adoption of these revised standards did not have any effect on the Group's net assets, financial position or earnings. However, they have resulted in additional disclosures.

IFRS 7 *“FINANCIAL INSTRUMENTS: DISCLOSURES”*

The amendments to IFRS 7 relate to disclosures on the calculation of fair values and the liquidity risk. The disclosures on the calculation of fair value have been specified such that tables have been introduced showing each class of financial instrument using the three-level hierarchy familiar from US GAAP standard SFAS 157. The scope of disclosure requirements has also been extended.

IFRS 8 *“OPERATING SEGMENTS”*

IFRS 8 is a standard that resulted in a reclassification of the Group’s reporting segments in segment reporting and influenced segment earnings but has no effect on reported earnings for the Group or its net assets and financial position. In particular, the standard provides for the application of the management approach to reporting on the business development of segments. The intention of this is that segment information is determined in line with internal reporting to the main decision-makers.

AMENDMENT TO IAS 1 *“PRESENTATION OF FINANCIAL STATEMENTS”*

The revision of IAS 1 was aimed at improving the possibilities of analysing and comparing financial statements for their users. In addition to changes in terminology for the components of financial statements, the amendments mainly relate to the presentation of the statement of comprehensive income (formerly profit and loss statement) and extended disclosures in the event of certain amendments and restatements effecting prior periods. The statement of changes in equity was extended in particular.

AMENDMENT TO IAS 23 *“BORROWING COSTS”*

The main change in IAS 23 is the deletion of the option to immediately recognise borrowing costs that can be assigned directly to the acquisition, construction or production of a qualifying asset as an expense. The effects of this in the reporting year amounted to EUR 22 thousand.

The following other standards and interpretations are effective for the first time as of 31 December 2009, but had no direct effects on the net assets, financial position or results of operations of the Group.

AMENDMENTS TO IAS 27 *“CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS”* AND *IFRS 3 “BUSINESS COMBINATIONS”*

In particular, the amendments relate to the full goodwill approach and regulations in connection with successive share purchases.

These amendments were not adopted early.

AMENDMENTS TO IFRS 2 *“SHARE-BASED REMUNERATION”*

The IASB published amendments to IFRS 2 “Share-based Remuneration” that clarify accounting for share-based remuneration with cash settlement within the Group.

The amendments to IFRS 2 mainly relate to the definition of vesting conditions and the regulations on the cancellation of a plan by a party other than the company. It clarifies that vesting conditions are only performance conditions.

The amendments are effective for the first time for annual periods beginning on or after 1 January 2010. The amendments to IFRS 2 are not expected to have any effect on the future consolidated financial statements of FP Holding.

AMENDMENTS TO IAS 39 AND IFRIC 9 *“EMBEDDED DERIVATIVES”*

The amendments to IFRIC 9 and IAS 39 clarify how embedded derivatives are treated when a hybrid contract is reclassified out of the “at fair value through profit and loss” category.

AMENDMENTS TO IAS 32 AND IAS 1 *“PUTTABLE INSTRUMENTS”*

The amendments to IAS 32 and IAS 1 essentially relate to matters regarding the distinction between equity and financial liabilities. In particular, the new version allows for the classification of puttable instruments at equity under certain conditions. From a German perspective, the changes are mainly relevant to enterprises organised as partnerships, which previously reported company law capital as liabilities on account of the cancellation rights of the partners.

IFRIC 13 *“CUSTOMER LOYALTY PROGRAMMES”*

IFRIC 13 concerns accounting for customer loyalty programmes. It states that bonuses granted under a customer loyalty programme must be accounted for as a future sales transaction separately from the current sales transaction. Overall, such transactions are multi-component agreements under IAS 18.13.

IFRIC 14 *“VOLUNTARY PREPAID CONTRIBUTIONS UNDER MINIMUM FINANCE REQUIREMENTS”*

IFRIC 14 provides information on how the limit on defined benefit assets under IAS 19 is determined and the effects of a legal obligation to pay a minimum contribution affects the measurement of defined benefit assets and obligations.

PROJECTS TO IMPROVE IFRS 2008 AND IFRS 2009

As part of the first 2008 IFRS improvement project, adjustments to the wording of individual IFRSs were made along with other amendments to clarify existing regulations. These changes had no significant effect on the net assets, financial position and results of operations of FP Holding. The 2009 IFRS improvement project also had no such effect.

The following new standards and interpretations are not yet effective for annual periods beginning on or after 1 January 2009. The information below relates to standards and interpretation that have been endorsed by the EU and those that have not yet been endorsed by the EU. The Group did not exercise the option to adopt the new standards in advance.

AMENDMENT TO IAS 24 *“RELATED PARTY DISCLOSURES“*

Companies controlled by or under the significant influence of governments were previously required to disclose information on all transactions with enterprises controlled by or under the significant influence of the same government. As a result of the amendment to IAS 24, detailed disclosures are now only required for individual significant transactions. Furthermore, quantitative or qualitative indications are required for the effects of transactions that are significant collectively but not individually. The amendment to IAS 24 also clarified the definition of a related party.

The amendments are effective for the first time for annual periods beginning on or after 1 January 2011. The amendments to IAS 24 are not expected to have any effect on the future consolidated financial statements of FP Holding.

AMENDMENT TO IAS 32 *“FINANCIAL INSTRUMENTS: PRESENTATION”*

The amendments regulate accounting for issuers of pre-emption rights, options and warrants to purchase a fixed number of equity instruments denominated in a currency other than the functional currency of the issuer. Such cases were previously accounted for as derivative liabilities. In future, preemption rights issued at a set currency amount pro rata to existing shareholders of a company will be classified as equity. The currency of the exercise price is irrelevant.

The amendment is effective for the first time for annual periods beginning on or after 1 February 2010. The amendments to IAS 32 are not expected to have any effect on the future consolidated financial statements of FP Holding.

IAS 39 *"ELIGIBLE HEDGED ITEMS"*

In its additional information in Eligible Hedged Items, the IASB has described how the hedge accounting principles of IAS 39 "Financial Instruments: Recognition and Measurement" apply to two specific situations: unilateral risks in a hedged item and inflation in a financial hedged item.

The amendment is effective for the first time for annual periods beginning on or after 1 July 2009. The amendments to IAS 39 are not expected to have any effect on the future consolidated financial statements of FP Holding.

IFRS 9 *"FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT"*

The standard IFRS 9 "Financial Instruments: Classification and Measurement" is part of the project for a standard to replace IAS 39 that is expected to be completed in 2010. The standard concerns the classification and measurement of financial assets. The amendments are effective for the first time for annual periods beginning on or after 1 January 2013. The consequences of the changes in classification in line with the changes of IFRS 9 are currently still being analysed and their effects on the net assets, financial position and results of operations of FP Holding cannot be assessed at this time.

IFRIC 12 *"SERVICE CONCESSION ARRANGEMENTS"*

IFRIC 12 concerns the issue of how companies that provide public services, such as the construction of roads, airports, prisons or energy distribution, for governments or other bodies account for the rights and obligations arising from contractual arrangements. IFRIC 12 is effective for the first time for annual periods beginning on or after 29 March 2009.

IFRIC 12 is not expected to have any effect on the future consolidated financial statements of FP Holding.

IFRIC 15 *"ARRANGEMENTS FOR THE CONSTRUCTION OF REAL ESTATE"*

IFRIC 15 covers accounting at companies that develop properties and in this capacity sell units, such as apartments or houses, before they are complete. IFRIC 15 defines criteria according to which the company recognises either construction contracts under IAS 11 or revenue under IAS 18.

IFRIC 15 is effective for the first time for annual periods beginning on or after 1 January 2010. Earlier adoption is recommended. IFRIC 15 is not expected to have any effect on the future consolidated financial statements of FP Holding.

IFRIC 16 *"HEDGES OF A NET INVESTMENT IN A FOREIGN OPERATION"*

IFRIC 16 concerns hedge accounting for net investments in foreign operations.

The interpretation clarifies that hedges can only be recognised between the functional currency of the foreign operation and the functional currency of the parent company. The amount of the net assets of the foreign operation recognised in the consolidated financial statements can be hedged. The hedge can be held by any Group company (with the exception of the company whose risks are being hedged). When the foreign operation leaves the group of consolidated companies, the changes in the value of the hedging instrument taken directly to equity and the exchange rate gains or losses of the foreign operation recognised in the currency reserve are reclassified to current earnings. The amount of the cumulative exchange rate gains or losses attributable to the foreign operation leaving the group of consolidated companies can be calculated using the step consolidation method or the direct consolidation method.

IFRIC 16 is effective for the first time for annual periods beginning on or after 30 June 2009. Earlier adoption is recommended. IFRIC 16 is not expected to have any effect on the future consolidated financial statements of FP Holding.

IFRIC 17 *"DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS"*

IFRIC 17 regulates how a company measures assets other than cash and cash equivalents that its transfers to owners as a profit distribution. A dividend obligation is recognised when the dividend is approved by the responsible bodies and is no longer at the discretion of the company. The dividend obligation is carried at the fair value of the net assets being transferred. The difference between the dividend obligation and the carrying amount of the asset being transferred is taken to profit or loss.

IFRIC 17 is effective for the first time for annual periods beginning on or after 1 July 2009. IFRIC 17 is not expected to have any effect on the future consolidated financial statements of FP Holding.

IFRIC 18 *"TRANSFER OF ASSETS FROM CUSTOMERS"*

In the opinion of the IASB, IFRIC 18 is especially relevant to the energy sector but not limited to it. It clarifies the IFRS requirements of agreements in which an entity receives from a customer an item of property, an asset or funds that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. It also covers cases in which an entity receives cash from a customer that must be used only to acquire or construct the aforementioned assets.

The interpretation explains:

- the circumstances under which an asset exists;
- the recognition and first-time measurement of the asset;
- the identification of individually determinable services in exchange for the transferred asset;
- revenue recognition;
- the recognition of the transfer of cash by the customer.

IFRIC 18 is effective for the first time for annual periods beginning on or after 1 November 2009. IFRIC 18 is not expected to have any effect on the future consolidated financial statements of FP Holding.

IFRIC 19 *"EXTINGUISHING FINANCIAL LIABILITIES WITH EQUITY INSTRUMENTS"*

IFRIC 19 explains the IFRS requirements when an enterprise issues shares or other equity instruments in order to settle, in full or in part, a financial liability.

The amendment is effective for the first time for annual periods beginning on or after 1 July 2010. IFRIC 19 is not expected to have any effect on the future consolidated financial statements of FP Holding.

In January 2008, the IASB published the revised standards IFRS 3, "Business Combinations" (IFRS 3 (2008)), and IAS 27, "Consolidated and Separate Financial Statements" (IAS 27 (2008), which were endorsed by the EU in the 2009 financial year. The revised standards are effective for annual periods beginning on or after 1 July 2009. The revised standards are not expected to have any effect on the future consolidated financial statements of FP Holding.

GROUP OF CONSOLIDATED COMPANIES

The consolidated financial statements for FP Holding include all companies where the opportunity exists to govern the financial and operating policies in such a way that companies in the FP Group derive benefits from the activities of these companies (subsidiaries).

Subsidiaries are consolidated from the time FP Holding gains the power of control. The companies are deconsolidated if this power no longer exists.

FP Holding formed FP InovoLabs GmbH, Birkenwerder, in December 2009. The object of the company is the provision of development, consulting and online services, the handling and management of development projects, the sale of innovation products and employee assignment. The share capital of the company amounts to EUR 25 thousand. The company had no employees of its own as of the end of the year.

There were no further changes in the group of consolidated companies or business combinations in the 2009 financial year.

The consolidated financial statements for 2009 include nine domestic and nine foreign subsidiaries in addition to FP Holding (see list below). An equity stake of 49% is also held in FP Data Center Inc., Japan. In the consolidated financial statements this is shown at acquisition cost. The company is a teleporto data centre without its own staff. It was not accounted for under the equity method due to its minor significance.

31 December 2009 No.	Company name and registered offices	Equity interest in %
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	FP InovoLabs GmbH, Birkenwerder, Germany	100.00
11	Francotyp-Postalia N. V., Zaventem, Belgium	99.97
12	Francotyp-Postalia (Österreich) GmbH, Vienna, Austria	100.00
13	Ruys Handelsverenigung B. V., Den Haag, the Netherlands	100.00
14	Italiana Audion s. r. l., Milan, Italy	100.00
15	Francotyp-Postalia Ltd., Dartford, Great Britain	100.00
16	Francotyp-Postalia Inc., Lisle, Illinois, USA	100.00
17	Francotyp-Postalia Canada Inc., Markham, Canada	100.00
18	Francotyp-Postalia Asia Pte Ltd., Singapore	100.00
19	FP Data Center Inc., Osaka, Japan	49.00

PRINCIPLES OF CONSOLIDATION

Equity is uniformly consolidated under the purchase method. Under this method all unrealised gains and losses of the company acquired are realised on initial consolidation when fair value is measured and all identifiable intangible assets are recognised separately. The acquisition cost of the equity investments is then set off against equity as restated. Amounts in excess of this are capitalised as goodwill.

Receivables and liabilities between and provisions relating to consolidated companies are eliminated. Intra-group revenue and other intra-group income and expenses are eliminated. Interim profits from intra-group supplies and services are adjusted against income. Deferred taxes are recognised on temporary differences from consolidation with effect on profit and loss in the amount of the average income tax rate for the beneficiary Group company.

For further information please refer to the section “Accounting principles”.

CURRENCY TRANSLATION

The functional currency of FP Holding is euro (EUR or €).

Foreign currency transactions in the separate financial statements of FP Holding and domestic subsidiaries are translated at the exchange rate on the transaction date. Monetary items in foreign currencies are translated using the exchange rate on the reporting date. Translation differences are recognised in the consolidated statement of recognised income and expense of the company concerned and reported under net financial income.

The foreign companies in the FP Group are independent sub-entities and prepare their financial statements in local currency. The financial statements are translated in accordance with IAS 21.

In the consolidated financial statements the assets and liabilities, with the exception of equity, are translated into euro at the rate on the reporting date. The equity of subsidiaries which do not prepare their financial statements in euro is translated at the historic rate. Effects of currency translation on equity are recognised in the foreign currency translation reserves. The items in the consolidated statement of recognised income and expense are translated at weighted average rates for the year. Translation differences resulting from different translation rates for the balance sheet and the consolidated statement of recognised income and expense are also recognised in the foreign currency translation reserves, which are part of other comprehensive income.

Translation differences from monetary items forming part of a net investment in foreign operations are initially recognised as a separate component of equity in accordance with IAS 21.15 in conjunction with IAS 21.32 and are recognised in income on disposal of the net investment.

Currencies have been translated at the following rates:

EUR 1 =	Spot rate		Average rate	
	31 Dec. 2009	31 Dec. 2008	2009	2008
US dollar (USD)	1.4333	1.3977	1.3946	1.4709
Pound sterling (GBP)	0.9000	0.9600	0.8917	0.7967
Canadian dollar (CAD)	1.5041	1.7160	1.5871	1.5591
Singapore dollar (SGD)	2.0144	2.0176	2.0252	2.0764

ACCOUNTING PRINCIPLES

In preparing the financial statements, the Management Board adopted the going concern assumption for all companies included in the consolidated financial statements. The financial statements were therefore drawn up on a going concern basis.

Revenue and **other operating income** are recognised when a service has been performed and the goods or product delivered and the balance of risks has been transferred to the client. Other conditions are the probability that the economic benefit will accrue to the Group and that the amount of income can be reliably determined. Revenue is shown less any discounts, deductions, customer bonuses and rebates. Revenue from services is recognised over the period in which the service was performed.

Interest is recognised as income or expense when it arises.

Goodwill represents the excess cost of a company acquisition over the fair value of the Group's interest in the net assets of the company acquired at the acquisition date. Individual amounts of goodwill are subject to impairment testing, in which the capitalised value is measured separately. The impairment tests are carried out on the basis of money-generating units. The higher of the value in use or fair value less costs to sell is used to determine the recoverable amount. Impairment losses recognised on goodwill cannot be reversed in subsequent reporting periods.

Intangible assets acquired are recognised at cost including ancillary costs and reductions and amortised on a straight-line basis over their useful life of five to six years. Client lists, capitalised development costs and the SAP system capitalised in 2005 are also amortised over five to six years.

The cost of **intangible assets acquired in the course of a business combination** corresponds to their fair value on the acquisition date. Intangible assets are recognised in subsequent periods with their acquisition and production costs less any accumulated amortisation and impairment charges. Costs for internally generated intangible assets, with the exception of capitalisable development costs, are recognised in profit and loss in the period in which they arise.

The valuation of client lists capitalised as part of the allocation of purchase prices is carried out using an income-oriented approach, in which the value of the client lists is shown by discounting the resulting cash flows. The costs associated with generating revenue are subtracted from the additional revenue the client lists are expected to bring.

Development costs for internally generated intangible assets are capitalised at cost, as long as producing these products is likely to bring FP an economic benefit, their production is technically feasible, the costs can be reliably determined, the type of benefit can be proven, the technical, financial and other resources required to complete the asset are available and it is intended to do so. Development costs include all costs directly attributable to the development process. Subsidies for development costs are offset against the assets side. If the conditions for capitalising the costs are not met, they are recognised in profit and loss in the year they arise. Borrowing costs that can be allocated directly to a development project are capitalised for development projects initiated since the start of the financial year for the period of production as part of the costs. The amount of borrowing costs that can be capitalised was determined by applying a financing cost rate to development costs. The financing cost rate is the weighted average of borrowing costs for loans granted by lenders.

In the consolidated statement of recognised income and expense, development costs are recognised as capitalised development costs (gross amount) at the same time as they are recognised as own work capitalised in non-current assets. Capitalised development costs are amortised on a straight-line basis over their useful life, up to a maximum of six years, from the time commercial production of the corresponding products begins. During the development phase an annual impairment test is carried out and impairment losses are recognised as necessary. The impairment test conducted at the level of the Production cash-generating unit in the financial year did not identify any impairment requirements. Research costs are recognised as current expenses in accordance with IAS 38.

Property, plant and equipment is valued at acquisition or production costs, less scheduled depreciation. Historic costs include the cost of acquisition, ancillary costs and subsequent acquisition costs. Reductions in acquisition costs are deducted. The costs of internally produced property, plant and equipment (rented/leased franking machines and accessories) include all the direct costs plus all overheads attributable to the production process. Financing costs for the period of production are included in principle, even though there were no such capitalised items in the reporting year. Costs for the maintenance and repair of items of property, plant and equipment are recognised as expenses. Costs of overhauling items of property, plant and equipment are recognised as subsequent acquisition costs in accordance with IAS 16.12 et seq., if these costs increase the future benefits of the item (IAS 16.10). Items of property, plant and equipment with a limited useful life are depreciated on a straight-line basis. Demonstration machines are reported under property, plant and equipment.

Scheduled depreciation is generally based on the following useful lives:

Property, plant and equipment	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 finance leases	15 years

Impairment on intangible assets and on property, plant and equipment is recognised in line with IAS 36 when the recoverable amount, i.e. the higher of the value in use of the asset and the fair value less costs to sell, falls below the carrying amount. If the recoverable amount for an individual asset cannot be estimated, the estimate is made for the recoverable amount of the cash-generating unit to which the asset belongs. The comparison between recoverable amount and carrying amount is then also made at the level of the cash-generating unit. If the reasons for recognising an impairment loss from the previous year cease to apply, the loss is reversed.

Equity investments are carried at amortised cost. Non-interest-bearing or low-interest loans are recognised at present value, and other loans at their nominal amount.

Inventories are valued at the lower of cost and net realisable value on the balance sheet date. The cost of raw materials, consumables, supplies and merchandise includes the cost of acquisition and ancillary costs less any reductions. Production costs of finished products and work in progress include the direct costs and overheads attributable to the production process, including appropriate depreciation of the production equipment assuming normal capacity utilisation. Financing costs for the duration of production are not included. Net realisable value is the estimated selling price in the ordinary course of business, less the necessary completion costs and sale costs.

Write-downs of inventories are disclosed under the cost of materials and services for the financial year.

Financial assets are divided into the following categories:

- financial assets at fair value through profit and loss,
- loans and receivables, and
- financial assets available for sale.

The classification depends on the purpose for which the financial assets were acquired. Management classifies the financial assets on initial recognition and reviews the classification on each reporting date.

- The group of **financial assets held at fair value through profit and loss** includes financial assets held for trading and financial assets classified as at fair value on initial recognition. Financial assets are classified as held for trading if they were acquired for the purpose of selling them in the near future. Derivatives are also classified as held for trading, with the exception of derivatives which constitute a financial guarantee and those designated as effective hedging instruments. Gains or losses from financial assets held for trading are recognised in profit and loss.

- **Loans and receivables** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After first-time recognition, loans and receivables are measured at amortised cost using the effective interest method less any impairment. All identifiable risks are taken into account by appropriate allowances in the measurement of receivables. Individual write-downs are recognised on trade receivables if there is an objective indication that the amount of the receivable due is not fully recoverable. An allowance account is used for these allowances. The amount of the write-down is the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from the receivable. Gains and losses are recognised in profit or loss when loans and receivables are derecognised or impaired, and through the amortisation process.

- **Financial assets available for sale** are non-derivative financial assets which are classified as available for sale and are not in one of the two categories mentioned above. Following the initial valuation, financial assets available for sale are carried at fair value. Unrealised gains and losses are recognised directly in equity. If a financial asset is written off or impaired, the cumulative gain or loss previously recognised directly in equity is taken to profit or loss. If the fair value of an equity instrument cannot be reliably measured, it is measured at cost.

Regular way purchases and sales of financial assets are accounted for at settlement date, derivatives at trade date.

Financial liabilities are divided into the following categories:

- interest-bearing loans and
- financial liabilities at fair value through profit and loss.

Interest-bearing loans are measured at fair value with the transactions costs relating directly to borrowing on first-time recognition. They are not designated as at fair value through profit or loss. After first-time recognition, interest-bearing loans are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised and through the amortisation process.

Financial liabilities at fair value through profit and loss include financial liabilities held for trading and other financial liabilities classified as at fair value through profit and loss on first-time recognition. Financial liabilities are classified as held for trading if they were acquired for the purpose of selling them in the near future. Gains or losses from financial liabilities held for trading are recognised in profit and loss. At present there are no financial liabilities held for trading.

The derivative financial instruments used to hedge interest risks are designated as effective hedging instruments in cash flow hedge accounting.

Cash and cash equivalents include all liquid funds, i.e. cash in hand, cheques, and bank balances.

The **capital reserves** are made up of premiums paid into equity by shareholders. Expenses incurred directly by issuing new shares in the course of the IPO of FP Holding AG have been accounted for in accordance with IAS 32.35 as deduction from capital reserves.

If the Group acquires **treasury shares**, these are deducted from shareholders' equity. The purchase, sale, issue and cancellation of treasury shares are not recognised in income.

Provisions for pensions are made using the projected unit credit method based on actuarial tables in line with IAS 19. This procedure not only takes account of the pensions and vested entitlements existing on the reporting date, but also of future increases in pensions and salaries by making prudent estimates of the relevant influencing factors. The corridor method of accounting for actuarial gains and losses means that these are only recognised in income when they lie outside a range of 10% of total commitments. In this case they are spread over the future average remaining service period of the workforce. Expenses from calculating interest on pension obligations are recognised under interest expenses. Up to the end of the financial year 2009 an interest rate of 5.37% was used for the calculations (previous year: 6.25%). The retirement age stipulated by the German act to alter the retirement age was used in calculations.

Other provisions are made for uncertain obligations to third parties, whose occurrence would probably lead to an outflow of resources, if the amount of the necessary provision can be reliably estimated. They are recognised at the amount expected to be required to settle the obligation, taking all ensuing risks into account. Non-current provisions are recognised at their present value.

If a number of similar obligations exists, the probability of an outflow of resources is calculated for this group of obligations.

Payments due to termination of employment are made if an employee is made redundant before normal pensionable age or if an employee voluntarily leaves the contract of employment in exchange for a severance payment. The Group recognises severance payments when it is demonstrably obliged to terminate the employment of current employees in accordance with an irrevocable detailed formal plan, or when it is demonstrably obliged to make severance payments to employees who voluntarily terminate their employment. At Italiana Audion provisions are made for severance payments due when staff leave the company, in line with the legal situation in Italy.

A provision is recognised for restructuring expenses when the Group has prepared a detailed formal restructuring plan which creates the justified expectation on the part of those affected that the restructuring measures will be carried out by beginning to implement the plan or by announcing its salient features to those affected. Only direct restructuring expenses are taken into account in determining the amount of the provision for restructuring. These therefore represent amounts caused solely by the restructuring and not in connection with the company's ongoing business activities.

Provisions for phased early retirement are recognised at the present value of outstanding obligations and supplementary amounts. The provision was netted off against the corresponding plan assets measured at fair value in the form of an insurance policy covering commitments under phased early retirement agreements in accordance with IAS 19.102 et seq.

The Group recognises a provision for profit-sharing payments and bonuses as a liability in cases where a contractual obligation or a constructive obligation based on past practice exists.

Provisions are made for anniversary gratifications in accordance with the projected unit credit method provided for in IAS 19.

Provisions for warranty expenses are recognised at the time the product concerned is sold for the amount of management's best estimate of the expenses necessary to settle the obligation.

Liabilities are measured at amortised cost. Liabilities under finance leases are recognised at the present value of the leasing instalments. **Derivatives** that are liabilities are recognised at fair value through profit and loss unless designated as hedging instruments in hedge accounting. All derivatives that are liabilities are used in hedge accounting.

Current tax assets and liabilities for current and prior periods are calculated at the amount expected for a reimbursement from the tax authorities or a payment to the tax authorities. These are based on the tax rates and tax legislation in effect on the reporting date.

Deferred taxes are recognised and measured in line with IAS 12 using the balance sheet-oriented liabilities method based on the probable tax rate in effect when they are recovered or settled. This requires deferred taxes to be recognised for all temporary differences between the tax base of an asset and its carrying amount in the consolidated financial statements.

Deferred tax receivables are recognised to the extent that it is probable that there will be a taxable profit against which the temporary difference can be used. Deferred tax assets are recognised on usable carryforwards of unused tax losses if it is probable that they will be able to be recovered in the future. Deferred tax assets are offset against deferred tax liabilities if they relate to the same tax authority and the same period.

Deferred tax assets and liabilities are measured using the tax rates expected to be in force in the period in which the assets are recovered or the liabilities settled. These are based on the tax rates and tax legislation in effect on the reporting date. Future changes in tax rates should be taken into account on the reporting date, to the extent that material conditions for them to take effect have been met in the course of the legislative process.

Deferred tax relating to items recognised directly in equity are not recognised in the consolidated statement of recognised income and expenses, but also directly in equity.

ACCOUNTING FOR LEASES IN WHICH FRANCOTYP-POSTALIA IS THE LESSOR

IAS 17 defines a lease as an agreement whereby the lessor confers to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments.

The rental agreements for franking machines where German FP companies are lessors qualify as **finance leases**. Under IAS 17, items of property, plant and equipment which are leased are not capitalised if the conditions for finance leases are met. They are reported under finance lease receivables. The conditions are met when all the intrinsic risks and rewards resulting from the use of an asset are transferred to the lessee. In the case of finance leases a receivable is capitalised at the present value of the minimum lease payments at the inception of the lease. The lease instalments received are divided into a repayment of principal and an interest payment. The repayment of the principal reduces the amount of the receivable without affecting profit or loss. The interest payment, however, is recognised in profit and loss.

Finance leases for German FP companies relate to franking and inserting machines leased to clients. These are standardised agreements based solely on full amortisation. Both new and used machines are leased in finance leases.

By contrast, rental agreements for franking and inserting machines by other FP companies have been classified as **operating leases**, as they retain economic ownership of the assets. The leased assets are therefore capitalised as non-current assets under property, plant and equipment.

ACCOUNTING FOR LEASES IN WHICH FRANCOTYP-POSTALIA IS THE LESSEE

At FP GmbH, Vienna, Austria, the sale and leaseback contracts for franking and inserting machines also meet the conditions for qualification as **finance leases** where the company is lessee. As FP GmbH, Vienna, Austria, is considered to be the economic owner of the leased asset in these cases; the leased assets are recognised under non-current assets as assets in finance leases. At the same time an equivalent non-current liability is recognised. At iab and freesort the conditions of finance leases also continue to be met for the machines used by these companies as lessees.

Operating leases are in place for property, vehicles and office equipment. The lease terms generally do not match the economic useful life, and some of the leases include prolongation options and price adjustment clauses. These leases are treated as normal rental contracts and the leasing instalments are recognised as expenses.

HEDGING POLICY AND RISK MANAGEMENT

In its operations, FP Group is exposed to certain financial risks, including in particular those of currency fluctuations, interest rate changes and defaulting debtors. The Group's primary risk management system addresses the unpredictability of the financial markets and is designed to minimise negative consequences for the Group's operational results. To achieve this goal the Group makes use of certain financial instruments. These are generally used to hedge existing or planned underlying transactions.

For further information on the qualitative disclosures on risk management and financial risks, please refer to the risk report in the Group management report. No risk clusters were identified.

The framework, responsibilities, financial reporting and control mechanisms for financial instruments are stipulated in internal Group regulations. These include a separation of responsibility between recording and controlling financial instruments. Currency, interest rate and liquidity risks for the FP Group are managed centrally.

1. CURRENCY RISK

The FP Group is exposed to foreign currency risks in its ordinary operations on account of its international orientation. Foreign currency risks result from balance sheet items and foreign currency contracts in progress and all cash inflows and outflows in foreign currency. The use of derivative financial instruments is provided for to limit these risks.

Exchange rate fluctuations can lead to undesirable and unforeseen volatilities in earnings and cash flows. Each FP company is exposed to risks in connection with exchange rate changes if it concludes transactions with international partners and these result in future cash flows that are not in the functional currency of the respective FP company. The company reduces this risk by mainly invoicing its transactions (sales and purchases of products and services, as well as investment and financing activities) in the respective functional currency. Furthermore, it partially offsets the foreign currency risk by procuring goods, raw materials and services in the corresponding foreign currency, and by producing in Singapore in addition to Germany.

The operating units are prohibited from borrowing or investing funds in foreign currencies for speculative reasons. The respective functional currency is preferred for internal financing or investments. Corporate financing is organised and carried out from the Group's headquarters.

Currency risks from anticipated future cash inflows in US dollars are hedged by using them to repay a loan borrowed on 20 April 2005, which is also denominated in US dollars. No currency options were concluded in the reporting year.

The FP companies in the UK, Singapore, Canada and the US are outside the Eurozone. As the reporting currency of the FP Group is the euro, the company translates the financial statements of these companies into euro in its consolidated financial statements. The effects of translation, which arise when the value of net asset positions translated into euro changes on account of exchange rate fluctuations, are taken to equity in the consolidated financial statements.

The following table shows the sensitivity of consolidated net profit before taxes (due to the change in the fair value of monetary assets and liabilities) and Group equity (due to changes in the fair value of currency futures and hedges of net investments) in respect of potential changes in the exchange rate considered to be generally reasonable, in percentage points of the US dollar. The effects of changes in the US dollar exchange rate also include the effects of the cash flow hedge (2009: effect on profit and loss EUR 122 thousand and EUR -135 thousand, and effect on equity EUR 375 thousand and EUR -339 thousand; 2008: effect on profit and loss EUR 117 thousand and EUR -129 thousand, and effect on equity EUR 519 thousand and EUR -470 thousand). The table also shows the sensitivity to changes in pound sterling, Canadian dollars and Singapore dollars against the euro. All other variables remain constant in each case.

EUR thousands	Change in exchange rate for foreign currency in percentage points	Effect on earnings before taxes	Effect on equity
2009			
US dollar (USD)	+5%	-181	-1,385
	-5%	+200	+1,531
Pound sterling (GBP)	+5%	-296	-486
	-5%	+327	+538
Canadian dollar (CAD)	+5%	+17	+114
	-5%	-19	-126
Singapore dollar (SGD)	+5%	+2	-1
	-5%	-2	+1
2008			
US dollar (USD)	+5%	-408	-1,580
	-5%	+451	+1,746
Pound sterling (GBP)	+5%	-434	-535
	-5%	+480	+591
Canadian dollar (CAD)	+5%	+15	+30
	-5%	-17	-33
Singapore dollar (SGD)	+5%	+3	-5
	-5%	-4	+6

In the reporting year, income from translation differences of EUR 1,442 thousand (previous year: EUR 1,426 thousand) and expenses of EUR 1,412 thousand (previous year: EUR 1,768 thousand) were recognised in net financial income.

The net amount of translation differences recognised in other comprehensive income developed as follows:

EUR thousands	2009	2008
Net amount at start of the reporting period	-2,837	-1,842
Exchange rate differences in the reporting period	621	-995
Net amount at 31 December	**-2,216**	**-2,837**

2. INTEREST RATE RISK

The risk of fluctuations in market interest rates to which the Group is exposed results primarily from non-current liabilities with a floating rate of interest. The Group's treasury department manages the Group's risk with the aim of optimising interest income and minimising interest expenses and the overall interest rate risk. The Group's treasury department provides affiliated companies with the financing they require in the form of loans or by way of internal clearing accounts. However, there is no central cash pool for the FP Group.

Under the terms of the main lending agreement with the financing banks, the Group had hedged around 54% (previous year: 50%) of the outstanding loan amount under this agreement against interest rate risks as of the reporting date.

On 18 June 2007, an interest rate swap was negotiated in US dollars for a nominal amount of USD 18,146 million, maturing on 30 November 2011. The reference amount decreases over the duration in line with the scheduled repayment of the loan under the lending agreement. Under this interest rate swap the Group swaps floating 6-month LIBOR interest against a fixed rate of 4.29% p.a. The market value of this instrument is measured on the balance sheet date using the quoted price from the counterparty and is EUR 407 thousand (previous year: EUR 516 thousand). The interest rate swapped is settled semi-annually.

As of 30 June 2006, euro amounts were also hedged using two interest rate caps. As of 31 December 2009, the reference amounts are EUR 3,545 thousand and EUR 12,000 thousand, each with caps of 3.50% p.a. and basic interest rates equal to six-month EURIBOR. There is no direct interest rate risk for the duration of the hedging transactions (four and five years respectively).

A further interest cap was concluded as of 30 December 2009 in the form of a maximum rate agreement expiring on 30 November 2011. The reference amount is EUR 5,000 thousand with a cap rate of 3.5% p.a. and a basic interest rate equal to three-month EURIBOR.

The market value of the caps as of the balance sheet date is EUR 9 thousand (previous year: EUR 17 thousand).

The following table shows the sensitivity of consolidated net profit before taxes in respect of a potential change in interest rates considered generally reasonable (due to the effects of unhedged floating rate loans). All other variables remain constant in each case. There are no effects on Group equity.

	Increase/decrease in percentage points	Effect on earnings before taxes (EUR thousands)
2009	**+1**	**-262**
	-1	+262
2008	**+1**	**-262**
	-1	+262

3. DEFAULT RISK

The carrying amount of financial assets represents the maximum default risk in the event that counterparties cannot fulfil their contractual payment obligations. Depending on the type and amount of the transaction, collateral is required and credit scores/references are obtained for all the contractual relationships on which original financial instruments are based, and historic data from the prior business relationship, especially payment history, are used to avoid defaults. Credit insurance is used for trade receivables, and in addition the discernible default risks of individual receivables and the Group's general credit risk are covered by appropriate specific and general write-downs.

For other financial assets, such as cash and cash equivalents, available-for-sale financial instruments and certain derivative financial instruments, the maximum credit risk on default is equivalent to the carrying amount for these instruments.

4. LIQUIDITY RISK

The company's liquidity risk is the risk that it may not be able to satisfy its financial obligations, such as repaying financial liabilities, paying suppliers, and finance lease obligations. The FP Group limits this risk through an effective working capital and cash management. Francotyp-Postalia still handles its liquidity risk by means of a liquidity forecast with a fixed planning horizon for the whole Group and available, unused credit lines.

In addition to the above instruments for safeguarding liquidity, the company tracks financing opportunities as they arise on the markets at all times. Also, Francotyp-Postalia observes developments affecting availability and costs. A key goal is to ensure the Group's financial flexibility and to limit inappropriate refinancing risks.

Please see the table in note 20 for the maturity structure of financial liabilities.

Financial liabilities mainly relate to loans to finance the purchase price of the FP Group. Since the company's successful IPO, the acquisition loans and credit lines for acquisition and capex have been combined into one facility. There is also a long-term line of credit in the amount of EUR 2,500 thousand that had not been utilised by the reporting date. The liquidity forecast does not assume that this line of credit for working capital will be used in the future, either.

The finance lease liabilities, trade payables and other liabilities mainly relate to the financing of assets used in continued operations, such as property, plant and equipment, and to investments within working capital (such as inventories and trade receivables). The Group takes these assets into account in the effective management of its total liquidity risk. To monitor the available financial assets and liabilities and to manage future risks effectively, the Management Board established a comprehensive risk reporting system that comprises its global business units.

5. MEASUREMENT OF DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments used in the Group are designated as hedging instruments in cash flow hedge accounting. They are measured at fair value. The effective portion of changes in the fair value of these derivatives is taken to equity. The ineffective portion of the fair value change is taken to profit and loss. Derivatives are also used to hedge the interest rate risk. These are also cash flow hedges. They are measured in line with the procedure described above.

CAPITAL MANAGEMENT

The Group manages its capital with the aim of maximising the return to its owners by optimising the relationship of equity to debt. This ensures a good credit rating and that all Group companies can operate under going-concern assumptions.

The Group manages its capital structure and makes adjustments to it in response to changes in economic conditions. The Group can alter dividend payments to shareholders in order to maintain or adjust the capital structure. As of 31 December 2009, no changes to goals, guidelines or procedures had been made. Capital is monitored by a permanent analysis of the net assets, financial position and earnings.

The indicator of the Group's capital structure is net debt. This is derived from the relationship between net liabilities and shareholders' equity. In particular, the selected liabilities include loan liabilities (EUR 51,767 thousand; previous year: EUR 55,938 thousand), liabilities from company acquisitions (EUR 0; previous year: EUR 400 thousand) and finance lease liabilities (EUR 3,424 thousand; previous year: EUR 4,264 thousand). Cash and cash equivalents include treasury shares (EUR 1,829 thousand; previous year: EUR 1,829 thousand) and securities (EUR 670 thousand; previous year: EUR 666 thousand) and excludes postage credit balances managed by the FP Group (EUR 17,880 thousand; previous year: EUR 15,614 thousand). The resulting net debt is monitored on an ongoing basis. As of year-end, the figure was as follows compared to the previous year:

EUR thousands	31 Dec. 2009	31 Dec. 2008
Liabilities	55,191	60,602
Cash and cash equivalents	-14,206	-8,827
Net liabilities	**40,985**	**51,775**
Shareholders' equity	15,286	31,026
Net debt	268%	167%

In accordance with the loan agreement concluded with banks, the Group must maintain a certain financial ratio (covenant) calculated as net debt to EBITDA. As per the definitions of the loan agreement, these two values can be slightly adjusted in relation to certain items. At the end of 2008, this financial ratio was adjusted to the current circumstances of FP Group after negotiations with the banks involved. A further reduction of the financial ratio as against 31 December 2009 was agreed. The agreed ratio was complied with as of 31 December 2009. According to current information, it is assumed that the Group will continue to comply with this ratio. However, if further business performance were worse than is currently anticipated, a violation of this ratio could not be ruled out. As a consequence of non-compliance with the financial ratio, the bank syndicate would have the contractual right to call in the loan. However, it is assumed that if this ratio could not be complied with in the future it will be possible to renegotiate a continuation of the loan with the banks involved, though this could lead to higher financing expenses. Overall, the FP Group considers its liquidity risk to be manageable.

FINANCIAL MANAGEMENT INDICATORS

The Group manages its finances by way of its ratios, revenues, EBITDA, net working capital, free cash flow, net profit and loss, and the number of franking machines placed on the market weighted by product type. This enables the FP Group to ensure that decisions always take sufficient account of the relationship between growth, profitability and liquidity.

Revenue serves to measure success in the marketplace. With earnings before interest, tax, depreciation and amortisation (EBITDA), the Group measures operating performance and the success of individual business units. In addition, the Group uses the EBITDA margin as an indicator which expresses EBITDA as a percentage of revenue.

Net working capital is calculated as inventories plus trade receivables less trade payables. Reporting on free cash flow ensures that the Group's financial substance is preserved. Free cash flow is calculated as the sum of cash flow from current operations less cash flow from investing activities.

Information on the development of revenues and EBITDA can be found in the segment reporting in section II.

For operational Group management, an adjusted EBITDA before restructuring costs is normally used. Restructuring expenses of EUR 1.4 million (previous year: EUR 4.0 million) resulted in an adjusted EBITDA of EUR 22.0 million (previous year: EUR 22.2 million).

Net working capital for the FP Group declined as of 31 December 2009 by 26.5% year-on-year from EUR 27,318 thousand to EUR 20,086 thousand, due mainly to the sharp decline in inventories and trade receivables.

MANAGEMENT ESTIMATES AND DISCRETION

Preparing the consolidated financial statements requires a certain number of assumptions and estimates to be made, which affect the amount and the recognition of assets and liabilities in the balance sheet as well as income and expenses for the reporting period. The assumptions and estimates are based on premises which rely on current knowledge. The expected future business performance, in particular, is based on the conditions present at the time the consolidated financial statements were prepared and the future development of the global and sectoral environment considered to be realistic. The actual amounts may vary from the estimates originally expected as a result of changes in these underlying conditions which diverge from the assumptions and are beyond the control of management. If actual performance varies from the expected performance, the premises and, if necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

The main forward-looking assumptions and other significant sources of estimate uncertainty on the balance sheet date are described below:

Development costs

Development costs are capitalised in line with the accounting policies described above. First-time capitalisation of costs is based on the management assumption that technical feasibility and commercial viability are demonstrable; this is usually the case when a development project has met a defined milestone in a current project. For the purpose of assessing impairment on the amounts capitalised, management makes assumptions as to the amounts of cash flows expected from the assets, the applicable discounting rates and the period over which the future cash flows expected to be generated by the assets will be received. The capitalised development costs for internally generated intangible assets are included in the consolidated balance sheet as of 31 December 2009 in the amount of EUR 7,340 thousand (previous year: EUR 9,106 thousand) and EUR 5,069 thousand (previous year: EUR 3,514 thousand) for development projects in progress.

Goodwill

To determine if goodwill has become impaired, the higher of the fair value less costs to sell and the value in use of the cash-generating unit to which the goodwill is assigned must be calculated. The calculation of the value in use and, if necessary, that of the fair value less costs to sell requires an estimate of future cash flows from the cash-generating unit and a suitable discount rate for the calculation of present value.

The carrying amount of goodwill as of the balance sheet date is EUR 8,494 thousand (previous year: EUR 20,994 thousand) following the recognition of an impairment loss of EUR 12,500 thousand in 2009. Please also note the retrospective adjustment of prior-year figures described at the start of this section.

Deferred tax assets

Deferred tax assets are recognised for all unutilised tax loss carryforwards to the extent it is likely that it will be possible to use these loss carryforwards against future taxable income. The calculation of the amount of deferred tax assets requires the use of significant discretion by the management regarding the expected timing and amount of future taxable income and future tax planning strategies. As of 31 December 2009, the carrying amount of the deferred tax assets on utilised tax loss carryforwards amounted to EUR 10,056 thousand (previous year: EUR 7,971 thousand).

In the reporting year, Francotyp-Postalia commissioned a study that has not yet been finalised on international transfer pricing within the Group. As an initial result of the study, Francotyp-Postalia has already amended its transfer pricing for 2009. However, under tax regulations, the change in transfer prices also gives rise to the obligation for the FP Group to take these price changes into consideration for assessments of previous years not yet effective. This adjustment has not yet been made. The adjustments outside Germany would be made subsequently.

The main effect of the changes in transfer prices is that profits from outside Germany would be shifted to Germany. Existing tax loss carryforwards can be used for a significant portion of profits taxable in Germany. According to initial estimates, in addition to the offsetting of loss carryforwards with tax payments, minimum taxation in Germany is expected to amount to around EUR 250 thousand. Correspondingly, reimbursement of taxes is expected from abroad.

In line with the double taxation agreements between Germany and the foreign states concerned, there is the option for a handshake procedure in the event that the changes in transfer pricing are not accepted by the other financial authorities concerned. In such handshake procedures, the tax authorities must reach an agreement on transfer prices to ensure that double taxation does not occur.

Whether or not this leads to a change in the tax treatment of prior periods will depend crucially on the opinion of the foreign tax authorities. Since a reliable estimate of the future outcome of the handshake procedure was not possible as of the time of the consolidated financial statements being prepared, the resulting tax effects have not yet been recognised in accounting. However, the anticipated effects of a change in transfer pricing on future taxable profits were included in the assessment of the usability of tax loss carryforwards.

If transfer pricing is adjusted retrospectively in the future, this would affect the capitalised loss carryforwards as these would be partially utilised by the taxable profits generated in Germany. Also, tax reimbursement claims would be expected abroad on account of the lower taxable income. This could lead to tax effects on earnings on account of the different tax rates.

Trade receivables and other receivables
To a considerable degree, doubtful debt allowances require estimates and assessments of individual receivables based on the creditworthiness of the respective customers, current economic developments and the analysis of historic defaults. It may be necessary for the amount of an allowance for an existing receivable to be adjusted in the future on account of new developments.

Leases
There is a difference between finance leases and operating leases depending on who holds economic ownership of the leased asset. In individual cases it may be difficult to determine who the economic owner is. A crucial factor in determining this is assessing the extent to which the risks and rewards entailed with ownership of the leased asset lie with the lessor or the lessee.

Leases are therefore classified using certain criteria that normally – individually or in combination – indicate a finance lease. However, these criteria are not conclusive and are more of a guideline. Consequently, there is room for considerable discretion in the assessment. As of 31 December 2009, assets in finance leases with carrying amounts of EUR 4,406 thousand (previous year: EUR 4,827 thousand), finance leases receivables of EUR 5,833 thousand (previous year: EUR 6,126 thousand), and finance leases liabilities of EUR 3,424 thousand (previous year: EUR 4,264 thousand) were reported. As of the balance sheet date, there are still operating lease liabilities of EUR 13,978 thousand (previous year: EUR 15,097 thousand).

Pensions and post-employment benefits
Obligations for pensions and other post-employment benefits and the associated expenses are calculated in accordance with actuarial assessments. The actuarial assessments are performed on the basis of assumptions on discount rates, future wage and salary increases, mortality and future pension increases. The discount factors used are determined based on the yields generated by first-class, fixed-interest industrial bonds with matching terms and currencies on the balance sheet date. In line with the long-term orientation of plans, estimates are subject to considerable uncertainty. The provision for pensions and similar obligations amounted to EUR 12,265 thousand as of 31 December 2009 (previous year: EUR 12,228 thousand).

Provisions
The determination of provisions for onerous contracts and provisions for legal disputes is largely dependent on management assessments. FP Holding recognises a provision for onerous contracts when the currently estimated total costs exceed the revenue expected from the contract. These estimates may change as a result of new information.

FP Holding is facing legal disputes in various jurisdictions. FP Holding recognises a provision for legal disputes when it is likely that these proceedings will lead to an obligation that will probably entail future cash outflows the amount of which can be reliably determined. Legal disputes are often based on complex legal issues, which is why they entail considerable uncertainty. Accordingly, the assessment of whether there is a current obligation as of the reporting date arising from a past event, whether a future outflow is likely and whether the obligation can be reliably estimated is based on substantial management discretion. FP Holding regularly reviews the current status of proceedings and employs the services of external lawyers. An assessment may change on the basis of new information. It may be necessary for the amount of a provision for ongoing proceedings to be adjusted in the future on account of new developments. Changes to estimates and premises over time may have a significant effect on the future earnings situation. FP Holding could incur expenses at the end of proceedings that exceed the recognised provision.

At the time the consolidated financial statements were prepared the other assumptions and estimates on which they are based were not subject to significant risks, so that from a current perspective there is no reason to assume that the carrying amounts of assets and liabilities shown in the consolidated balance sheet will be significantly adjusted in the following financial year.

II. SEGMENT REPORTING

The Group adopted IFRS 8 *Operating Segments* for the first time as of the reporting date of the financial statements. In line with IFRS 8, operating segments are defined on the basis of the internal management of group divisions, whose operating results are regularly reviewed by the main decision-makers at a company with regard to decisions on the allocation of resources to this segment and the measurement of its earnings power. By contrast, the previous standard IAS 14 *Segment Reporting* required companies to identify two segment levels using the risks and rewards approach, whereby the management information system for people in key positions in the company served as the starting point for identifying these segment levels. Thus, the identification of the Group's reportable segments changed as a result of the adoption of IFRS 8.

Francotyp-Postalia is divided into the four segments *Production, Sales Germany, Sales International, and Central Functions*. As the segments report in line with local accounting provisions, the reconciliation to the consolidated financial statements includes both IFRS adjusting entries and consolidation entries. The consolidation entries comprise the consolidation of business relations between the segments. Intra-group transactions are at market prices. As the figures in the separate financial statements are added up to form total segment results, total segment amounts also include inter-segment figures and intragroup profits. Intragroup balances are eliminated in the reconciliation column.

The *Production* segment essentially includes traditional product business, which consists of developing, manufacturing and selling franking machines, in particular, but also of inserting machines and conducting after-sales business. This segment also includes central departments such as accounting, purchasing, Group controlling and controlling of the international dealer network. There are production facilities at the Group's headquarters in Birkenwerder and in Singapore.

German sales staff are bundled and deployed in a targeted manner in the *Sales Germany* segment under the name "FP Your Mail Management Company". A subproject was carried out last year in collaboration with the new customer care centre in Birkenwerder. In 2009, there was a further project to create an organisation with the aim of promoting the close cooperation of the three German FP subsidiaries iab GmbH, freesort GmbH, and Francotyp-Postalia Vertrieb und Service GmbH. The intention is to leverage synergies in this segment and to access and utilise the customer potential of the individual companies to the best possible effect.

The *Sales International* segment manages global sales of franking and inserting machines through its seven subsidiaries in the key markets. The subsidiary in Singapore was allocated to the Production segment on account of the production facilities located there.

Central Functions accounts for the operational Francotyp-Postalia Holding AG (separate financial statements) and the non-operational interim holding Francotyp-Postalia International AG, which holds the investments in the UK, Dutch and Italian subsidiary. Its revenues are generated from services for subsidiaries. EBITDA stands for earnings before interest, taxes, depreciation and amortisation. The net profit or loss is based on earnings before profit transfer or loss absorption. Segment assets primarily consist of the total assets from the separate financial statements. However, segment liabilities include only total liabilities and not equity. Investments include additions to non-current assets less financial instruments, deferred taxes and insurance claims, and investments in property, plant and equipment and intangible assets.

The information on products and services and on the geographical regions can be found in the notes on revenues in section III (1). Francotyp-Postalia is not dependent on key customers as defined by IFRS 8.34.

SEGMENT INFORMATION

2009	A	B	C	D		
EUR thousands	Production	Sales Germany	Sales Interna-tional	Central Functions	Reconcil-iation to Group	Total
Revenues	43,521	63,688	63,375	851	-42,411	129,024
– with external third parties	6,185	60,452	63,147	0	-760	129,024
– Intersegment revenues	37,336	3,236	228	851	-41,651	0
EBITDA	**-1,262**	**9,728**	**13,556**	**-2,178**	**713**	**20,557**
Depreciation and amortisation	3,099	3,745	7,256	17,857	4,286	36,243
Net interest income/ expense	-4,589	40	153	547	397	-3,452
– of which interest expense	6,049	1,319	744	779	-3,866	5,025
– of which interest income	1,460	1,359	897	1,326	-3,469	1,573
Net taxes	55	-148	-2,355	-226	5,185	2,511
Net financial income/ expense	16,838	-64	16	11,404	-28,160	34
Net income/loss	-32	-1,417	4,113	-11,200	-8,057	-16,593
Segment assets	110,952	52,166	71,520	62,489	-162,813	134,314
Capital expenditure	783	1,471	4,658	69	440	7,421
Segment liabilities	109,878	45,492	51,545	14,669	-102,556	119,028

2008	A	B	C	D		
EUR thousands	Production	Sales Germany	Sales Interna-tional	Central Functions	Reconcil-iation to Group	Total
Revenues	51,678	66,437	72,326	649	-48,646	142,444
– with external third parties	7,881	61,878	72,218	0	467	142,444
– Intersegment revenues	43,797	4,559	108	649	-49,113	0
EBITDA	**-5,343**	**7,903**	**18,048**	**-6,618**	**4,186**	**18,176**
Depreciation and amortisation	4,863	4,096	6,774	291	13,116	29,140
Net interest income/ expense	-6,563	-527	388	2,303	1,298	-3,101
– of which interest expense	7,656	1,195	725	7	-3,985	5,598
– of which interest income	1,093	668	1,113	2,310	-2,687	2,497
Net taxes	75	86	5,071	0	-5,226	6
Net financial income/ expense	4,622	-316	-109	-12,021	7,427	-397
Net income/loss	-73	-609	6,482	-17,593	-2,676	-14,469
Segment assets	106,023	47,740	78,370	69,334	-139,377	162,090
Capital expenditure	840	5,486	7,508	1,421	729	15,984
Segment liabilities	104,917	39,650	53,987	12,853	-80,344	131,063

Depreciation and amortisation includes impairment losses of EUR 12,500 thousand in the reconciliation column (previous year: EUR 1,275 thousand). The impairment losses relate to goodwill impairment in the Sales Germany segment. The goodwill of EUR 8,494 thousand (previous year: EUR 20,994 thousand) is assigned solely to the Sales Germany segment.

RECONCILIATION

EUR thousands	2009	2008
Revenues		
Revenues of segments A – C	170,584	190,441
Central Functions segment	851	649
Effects of finance lease adjustment	-1,162	177
Effects in cash flow hedge due to loan repayment	302	290
Other adjustments to IFRSs	100	0
	170,675	**191,557**
Less intersegment revenue	41,651	49,113
Revenues according to financial statements	**129,024**	**142,444**
EBITDA		
EBITDA of segments A – C	22,022	20,608
Central Functions segment	-2,178	-6,618
	19,844	**13,990**
Effects at consolidation level	-379	114
Measurement effects of reconciliation to IFRSs	1,092	4,072
Consolidated EBITDA	**20,557**	**18,176**
Depreciation, amortisation and impairment losses	-36,243	-29,140
Net interest income/expense	-3,452	-3,101
Other financial results	34	-397
Consolidated net profit before taxes	**-19,104**	**-14,463**
Net taxes	2,511	-6
Consolidated net loss for the period	**-16,593**	**-14,469**
Assets		
Assets of segments A – C	234,638	232,133
Central Functions segment	62,489	69,334
Capitalisation of development costs under IFRSs	12,406	12,616
Effects of goodwill remeasurement	3,578	2,743
Effects of customer list amortisation	-8,559	-8,559
Effects of amortisation of internally generated software	-1,968	-1,968
Other reconciliations to IFRSs	6,330	6,550
	308,914	**312,849**
Effects at consolidation level (including elimination of intragroup balances)	-174,600	-150,760
Assets according to financial statements	**134,314**	**162,089**

Liabilities		
Liabilities of segments A – C	206,915	198,554
Central Functions segment	14,669	12,853
Effects of adjustment in pension provisions	3,116	3,293
Effects of adjustment in other provisions	-1,406	-1,538
Other reconciliations to IFRSs	916	1,192
	224,210	**214,354**
Effects at consolidation level (including elimination of intragroup balances)	-105,182	-83,291
Liabilities according to financial statements	**119,028**	**131,063**
Capital expenditure		
Capital expenditure in segments A – C	6,912	13,834
Central Functions segment	69	1,421
Effects of IFRS remeasurement	1,733	1,752
	8,714	**17,007**
Effects at consolidation level	- 1,293	-1,023
Capital expenditure according to financial statements	**7,421**	**15,984**
Depreciation and amortisation		
Depreciation and amortisation in segments A – C	14,100	15,733
Central Functions segment	17,857	291
Write-downs on development costs	3,031	2,816
Effects of finance lease adjustment	-1,438	-1,395
Customer list amortisation	8,559	8,559
Amortisation of internally generated software	1,968	1,968
Effects of adjustment of other intangible assets	-443	1,796
Other effects of IFRS remeasurement	-84	-249
	43,550	**29,519**
Effects at consolidation level	-7,307	-379
Depreciation and amortisation according to financial statements	**36,243**	**29,140**

Assets by geographical region break down into the following countries or regions:

EUR thousands	**31 Dec. 2009**	**31 Dec. 2008**
Germany	221,182	220,838
USA and Canada	33,178	38,275
Europe (except Germany)	38,342	40,096
Other regions	4,424	2,259
	297,126	**301,468**
Effects of IFRS remeasurement	22,314	21,909
Effects at consolidation level	-185,126	-161,288
Total	**134,314**	**162,089**

These data are based on figures from the local separate financial statements as the IFRS figures are not available and would have had to be reconciled accordingly. Reconciliation was waived as it would have entailed an inappropriate time outlay.

For information on products and services, please see the presentation below under the notes to the consolidated statement of comprehensive income.

III. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(1) REVENUES

Information on revenues by product and services can be found in the table below:

EUR thousands	2009	2008
Franking	23,985	31,483
Inserting	7,981	12,567
Other	1,246	1,541
Income from product sales	**33,212**	**45,591**
Rental	19,914	19,573
Teleporto	11,882	11,943
Services/customer service	26,319	26,034
Consumables	21,189	23,609
Mail services	11,823	11,200
Software	4,383	4,204
Recurring revenue	**95,510**	**96,563**
Exchange rate effect of USD loan	302	290
Revenues	**129,024**	**142,444**

Revenues from product sales mainly relate to traditional sales of franking and inserting machines. Adding the sale of consumables to these revenues, the FP Group generated revenues from the sale of goods in the amount of EUR 54,401 thousand (previous year: EUR 69,200 thousand). Meanwhile, revenues of EUR 58,115 thousand were generated from the sale of services (previous year: EUR 57,550 thousand).

The following table shows the breakdown of the Group's revenues by region. Revenues are assigned to regions on the basis of the customer's location:

EUR thousands	2009	2008
Germany	59,390	62,055
USA and Canada	33,565	36,243
Europe (except Germany)	35,102	43,210
Miscellaneous	967	936
Total	**129,024**	**142,444**

(2) OWN WORK CAPITALISED

EUR thousands	2009	2008
Capitalised development costs	2,820	3,667
Rental machines	2,559	4,060
Demonstration models	0	442
Other	36	13
Total	**5,415**	**8,182**

(3) OTHER INCOME

EUR thousands	2009	2008
Subsidies	815	575
Changes in write-downs of receivables/payment received on receivables previously written off	263	203
Royalties	264	253
Postage discounts	257	223
Commission income	147	107
Accounting profits on disposal of non-current assets	78	134
Income due to termination of contract with sales agent in the Netherlands	0	463
Miscellaneous income	220	625
Total	**2,044**	**2,583**

Non-refundable grants provided by the Federal Ministry of Economics and Technology and Investitionsbank des Landes Brandenburg to promote research and development projects in the amount of EUR 224 thousand (previous year: EUR 235 thousand) were deducted from development costs.

The grants were provided to promote two development projects to cover the eligible costs as equity financing. The grants are subject to several conditions that, according to current information, can be met.

The grants line item also includes grants for the employment of severely disabled people in the amount of EUR 538 thousand (previous year: EUR 340 thousand).

Income from the reversal of provisions of EUR 649 thousand (previous year: EUR 557 thousand) has been deducted from the respective expense items as of this year. The figures for the previous year have been adjusted accordingly.

(4) COST OF MATERIALS

EUR thousands	2009	2008
Cost of raw materials, consumables and supplies	23,202	33,165
Cost of services purchased	9,282	10,115
Total	**32,484**	**43,280**

(5) STAFF EXPENSES

EUR thousands	2009	2008
Wages and salaries	40,572	46,717
Social security contributions	6,828	7,342
Pensions and other benefits	999	711
Total	**48,399**	**54,770**

Pensions and other benefits include expenses of EUR 62 thousand (previous year: EUR 204 thousand) from additions to pension provisions. Total pension expenses for defined benefit pension commitments are as follows:

EUR thousands	2009	2008
Ongoing benefit expenses for staff services in the reporting period	62	204
Interest expense (net financial income)	619	593
Total	**681**	**797**

(6) OTHER EXPENSES

EUR thousands	2009	2008
Rent/lease payments	6,225	6,577
Commission	4,443	5,927
Charges, fees, consultancy	2,786	3,955
Repairs and maintenance	2,642	2,841
Marketing	2,171	2,204
Packaging and freight	1,896	2,363
Receivables measurement	1,824	1,609
Travel	1,698	2,248
Communications and postage	1,588	1,696
Trademarks and licences	761	766
External IT services	609	1,354
Staff-related costs	591	1,389
Office material	540	566
Miscellaneous	4,236	3,951
Total	**32,010**	**37,546**

The largest items among other expenses in the reporting year were transaction costs at EUR 421 thousand (previous year: EUR 365 thousand), insurance expenses at EUR 379 thousand (previous year: EUR 378 thousand), hospitality costs at EUR 351 thousand (previous year: EUR 299 thousand), external security and cleaning costs of EUR 350 thousand (previous year: EUR 324 thousand) and expenses on the disposal of non-current assets at EUR 349 thousand (previous year: EUR 312 thousand).

(7) NET FINANCIAL INCOME/EXPENSE

EUR thousands	2009	2008
Income from other securities, other interest and similar income	1,573	2,497
of which from finance leases	1,223	1,210
of which from bank balances	319	1,166
of which from third parties	31	121
Interest and similar expenses	5,025	5,598
of which from bank borrowing	3,608	4,439
of which interest from addition to pension provisions	619	593
of which from finance leases	437	441
Miscellaneous	**361**	**125**
Net interest income/expense	**-3,452**	**-3,101**
Other financial income	**1,449**	**1,426**
Other financial expenses	**1,414**	**1,823**
Total	**-3,417**	**-3,498**

Other financial income and expenses essentially include net gains and losses on foreign currency translation.

Interest expenses include payments from derivatives of EUR 203 thousand (previous year: EUR 153 thousand).

(8) TAXES

Tax expenses are as follows:

EUR thousands	2009	2008
Current tax expenses	2,477	4,227
Current tax income	-4,988	-4,221
Income taxes	**-2,511**	**6**

Current tax expenses include prior-period tax expenses of EUR 193 thousand.

Deferred taxes were measured using the tax rates and regulations effective or announced on the reporting date. Compound income tax rates consisting of corporation tax, the solidarity surcharge, and trade tax were applied to German corporations. The German tax rates were between 28.05% and 30.18%. Country-specific tax rates of between 18.00% and 38.14% were calculated for the foreign companies.

EUR 2,903 thousand of deferred tax income relates to the formation or reversal of temporary differences (previous year: EUR 830 thousand) and EUR 2,085 thousand (previous year: EUR 3,391 thousand) to the capitalisation of deferred taxes for loss carryforwards. The total increase in deferred tax assets and decrease in deferred tax liabilities taken to equity amounted to EUR 529 thousand in 2009.

Deferred tax assets for loss carryforwards are only capitalised if there are sufficient taxable differences and, on the basis of the management forecast, it will be possible to use them on the basis of future taxable profits promptly and before they expire. A period of five years was used as the planning horizon in order to avoid forecast uncertainty. Deferred tax assets of EUR 10,790 thousand were recognised by companies that incurred losses in the current period or prior periods. As of the balance sheet date 31 December 2009, it was felt that the tax loss carryforwards of Francotyp-Postalia Holding AG had retained their full value on the basis of the updated tax forecast, which includes an adjustment in international transfer pricing. In the previous year, however, deferred taxes resulting from the tax loss carryforwards of Francotyp-Postalia Holding AG in the amount of EUR 1,293 thousand were not capitalised. In total, deferred tax assets for loss carryforwards of EUR 1,285 thousand (previous year: EUR 2,427 thousand) were not recognised in the Group.

Current income from income taxes of EUR 2,511 thousand (previous year: expenses of EUR 6 thousand) was offset by forecast income of EUR 5,375 thousand (previous year: EUR 4,110 thousand), which would arise from the application of the Group's income tax rate to the consolidated net income before income taxes. The Group income tax rate is derived from the individual income tax rates of the FP companies weighted by their share of consolidated net income. The absolute amount of taxes was used in the case of losses.

EUR thousands	2009	2008
Consolidated net income before income taxes	**-18,535**	-13,777
Expected tax expense (29.0%; previous year: 29.8%)	-5,375	-4,110
Change in domestic tax rates	0	113
Difference to foreign tax rates	0	913
Tax effect of non tax-deductible expenses and tax-free income	553	163
Impairment loss on goodwill	3,510	702
Change in non-recognition of deferred tax assets	-1,142	2,427
Other differences	-57	-202
Current tax expense	**-2,511**	**6**
Tax ratio in %	**13.5**	**0.0**

IV. NOTES TO THE CONSOLIDATED BALANCE SHEET

(9) NON-CURRENT ASSETS

Changes in individual items of non-current assets in the reporting period are shown in the table of non-current assets in the annex to the notes. Acquired intangible assets are reported in the balance sheet together with internally generated intangible assets, which relate solely to capitalised development costs. They are shown separately in the table of non-current assets.

In particular, intangible assets with carrying amounts of EUR 19,104 thousand (previous year: EUR 34,208 thousand) include client lists purchased in company acquisitions at EUR 3,862 thousand (previous year: EUR 12,420 thousand), development costs for internally generated intangible assets of EUR 7,340 thousand (previous year: EUR 9,106 thousand) and internally generated software purchased in company acquisitions at EUR 3,645 thousand (previous year: EUR 5,612 thousand). This item also includes other acquired intangible assets with carrying amounts of EUR 4,257 thousand (previous year: EUR 7,070 thousand). Development projects in progress with carrying amounts of EUR 5,069 thousand (previous year: EUR 3,514 thousand) are shown separately in the balance sheet.

Purchase prices were allocated at the level of the separate and consolidated financial statements as part of the remeasurement when the Group was formed on 20 April 2005, whereby customer lists at Group level were measured at EUR 38,703 thousand. Values of EUR 2,670 thousand and EUR 1,421 thousand respectively were determined for the customer lists when allocating the purchase price for freesort and iab (acquired in November 2006). The respective customer relationships were developed from contractual arrangements and were not recognised immediately before the merger. As of 31 December 2009, the customer lists still had a total carrying amount of EUR 3,862 thousand (previous year: EUR 12,420 thousand). Amortisation of customer lists amounted to EUR 8,559 thousand in the financial year (previous year: EUR 8,559 thousand).

Software purchased together with freesort and iab was recognised at fair values of EUR 600 thousand and EUR 9,238 thousand respectively when these companies were consolidated for the first time. They were measured using the discounted cash flow method. As of the reporting date 31 December 2009, this software was still carried at EUR 223 thousand (previous year: EUR 343 thousand) and EUR 3,422 thousand (previous year: EUR 5,269 thousand) respectively. The software was written down by EUR 1,968 thousand in 2009 (previous year: EUR 1,968 thousand).

Research and development costs of EUR 8,897 thousand were incurred in 2009 (previous year: EUR 10,684 thousand), of which EUR 2,820 thousand (previous year: EUR 3,667 thousand) was capitalised and EUR 6,077 thousand (previous year: EUR 7,017 thousand) was recognised as an expense. In the reporting period, borrowing costs were capitalised for the first time in the amount of EUR 22 thousand. The average financing cost rate was 4.84%.

Goodwill amounting to EUR 8,494 thousand (previous year: EUR 20,994 thousand) is divided between the cash-generating unit freesort (EUR 5,851 thousand; previous year: EUR 18,351 thousand) and the cash-generating unit iab (EUR 2,643 thousand; previous year: EUR 2,643 thousand).

As of the balance sheet date, the Group carried out impairment tests in accordance with IAS 36 to determine the recoverable amount of the cash-generating units to which goodwill was assigned. The recoverable amount is the higher of fair value less cost to sell and the value in use.

The fair value less cost to sell was taken as the recoverable amount of the freesort and iab cash-generating units as the management feels that this is greater than the value in use in each case.

As it was not possible to derive the fair value less costs to sell on the basis of information from active markets owing to a lack of past transactions, the calculation used discounted cash flow forecasts. The calculation uses cash flow forecasts based on financial planning by the management for the next five financial years. The values used for these assumptions are based on external analyses of the postal market and management experience. Financial planning consists of the consolidated statement of comprehensive income, balance sheet, and cash flow statement, and is derived in detail for the first three years on the basis of sales planning and extrapolated for the two subsequent planning years using general assumptions. Perpetual yields are assumed at freesort and iab from the fifth planning year onwards.

The discounting rates were derived in accordance with the specifications of IAS 36 using a growth rate for cash flows after the end of the five-year planning period. The discounting rates are based on the Weighted Average Cost of Capital (WACC).

The calculation of the recoverable amount is initially based on cash flows discounted with capital costs after taxes. There then followed an iterative calculation of the cost of capital before taxes.

Costs to sell are included in the calculation of fair value at a general rate.

The calculation of the goodwill allocated to **freesort** found that it had become impaired by EUR 12,500 thousand in 2009. Business developments in 2009 led to a revision of the planning figures for subsequent years. Corresponding expenses were included under depreciation, amortisation and impairment in the consolidated statement of recognised income and expense in the 2009 financial year.

A WACC after taxes of 15.9% p.a. was used to determine the fair value less costs to sell of freesort. The corresponding rate before taxes was 20.1%. The cash flows to be generated at freesort after the analysis period of five years were extrapolated on the basis of the fifth planning year using a growth rate of 2.0% p.a.

The following basic assumptions used to calculate the fair value less costs to sell of freesort are subject to estimate uncertainty affecting EBIT and thereby the discounted cash flows and the discount rate:

- Mail volume: the future development of cash flow depends on customer numbers and the volume of mail processed. The values used are based on an evaluation of market potential and current customer contacts. The assumptions are based on external studies of the postal market.
- Gross profit margin: the gross profit margin applied is based on current realisable values and management experience.
- Discount rate: assumptions as to the individual components of WACC and the long-term growth rate.

Sensitivity testing of the main calculation parameters provides the following information:

Discount rate in %	14.9	15.9	16.9
Impairment EUR million	**11.5**	**12.5**	**13.4**
Fluctuation in planned EBIT in %	105	100	95
Impairment EUR million	**12.0**	**12.5**	**13.0**
Growth rate in %	2.5	2.0	1.5
Impairment EUR million	**12.3**	**12.5**	**12.7**

Given the general economic situation and the company's development, it is now expected that freesort's business volumes will expand more slowly than previously assumed.

Impairment testing of the goodwill related to **iab** transactions found no impairment as the fair value less costs to sell exceeded the carrying amount of the assets. The recoverable amount based on total enterprise value (including minority interests of 49%) was EUR 1,310 thousand higher than the carrying amount. If only 88.6% of planned EBIT were generated, the recoverable amount would be equal to the carrying amount of the assets.

A WACC after taxes of 13.3% p.a. was used to determine the fair value less costs to sell. The corresponding rate before taxes was 17.5%. The cash flows to be generated at iab after the analysis period of five years were extrapolated on the basis of the fifth planning year with a growth rate of 1.5% p.a.

The following basic assumptions used to calculate the fair value less costs to sell are subject to estimate uncertainty affecting EBIT and thereby the discounted cash flows and the discount rate:

- Mail volume: the future development of cash flow depends on customer numbers and the volume of mail processed. The values used are based on an evaluation of market potential and current customer contacts.
- Gross profit margin: the gross profit margin applied is based on current realisable values and management experience.
- Discount rate: assumptions as to the individual components of WACC and the long-term growth rate.

Sensitivity testing of the main calculation parameters based on the goodwill reported in the consolidated financial statements provides the following information:

Discount rate in %	11.3	13.3	15.3
Impairment EUR million	**–**	**–**	**0.3**
Fluctuation in planned EBIT in %	115	100	85
Impairment EUR million	**–**	**–**	**0.4**
Growth rate in %	3.0	1.5	0.0
Impairment EUR million	**–**	**–**	**–**

In light of iab's positive performance of recent years and the financing options provided by operating cash flow in particular, risk at iab is lower, leading to a lower overall discount rate than at freesort.

Property, plant and equipment includes leased products with carrying amounts of EUR 10,316 thousand (previous year: EUR 11,445 thousand) and finance lease assets for which the FP Group is the lessee with carrying amounts of EUR 4,406 thousand (previous year: EUR 4,827 thousand). freesort in particular finances its equipment, especially sorting machines, by way of finance leases.

The cost of property, plant and equipment in the reporting period included own work capitalised of EUR 2,595 thousand (previous year: EUR 4,515 thousand). There was no compensation from third parties for items of property, plant and equipment that were impaired, lost or given up in the reporting year (previous year: EUR 29 thousand).

The impairment losses of EUR 12,500 thousand (previous year: EUR 1,275 thousand) recognised in the net profit for the period were reported under depreciation, amortisation and impairment losses in the statement of recognised income and expense (EUR 36,243 thousand in total; previous year: EUR 29,140 thousand) and relate solely to impairment on goodwill at freesort. There were no reversals of impairment losses on intangible assets or property, plant and equipment.

(10) FINANCE LEASE RECEIVABLES

The reconciliation from future lease payments to finance lease receivables is as follows:

31 Dec. 2009 EUR thousands	Total	Remaining terms		
		up to 1 year	1–5 years	more than 5 years
Future leasing payments	7,102	2,922	4,180	0
Interest portion	1,269	837	432	0
Finance lease receivables	**5,833**	**2,085**	**3,748**	**0**

The value of the original gross investments is EUR 10,571 thousand. A negative statement can be made regarding the following disclosures on finance leases in accordance with IAS 17.47:

- unearned finance income
- unguaranteed residual values accruing to the benefit of the lessor
- allowance for uncollectible minimum lease payments receivable
- contingent rents recognised as income in the period.

31 Dec. 2008 EUR thousands	Total	Remaining terms		
		up to 1 year	1–5 years	more than 5 years
Future leasing payments	7,673	3,014	4,659	0
Interest portion	1,547	936	611	0
Finance lease receivables	**6,126**	**2,078**	**4,048**	**0**

Total future minimum lease payments under non-cancellable operating leases to be received by FP as the lessor of franking and inserting machines amount to:

31 Dec. 2009 EUR thousands	Total	Remaining terms		
		up to 1 year	1–5 years	more than 5 years
Future minimum lease payments under non-cancellable operating leases	34,312	17,658	16,654	0

(11) INVENTORIES

EUR thousands	31 Dec. 2009	31 Dec. 2008
Raw materials, consumables and supplies	4,733	5,475
Work in progress	1,392	2,059
Finished products and goods	4,907	8,599
Total	**11,032**	**16,133**

The discount on inventories declined by EUR 71 thousand to EUR 4,785 thousand in the financial year and was recognised as a reduction in the cost of materials in the statement of recognised income and expense.

(12) TRADE RECEIVABLES

Trade receivables break down as follows:

EUR thousands	31 Dec. 2009	31 Dec. 2008
Trade receivables – domestic	4,692	6,170
Trade receivables – foreign	9,191	12,468
Total trade receivables	**13,883**	**18,656**

Appropriate write-downs were made for all identifiable risks. Write-downs amounted to EUR 516 thousand in the reporting year (previous year: EUR 333 thousand).

As of 31 December 2009, trade receivables were reported at a nominal value of EUR 17,700 thousand (2008: EUR 20,380 thousand). The allowance account developed as follows:

EUR thousands	Individual write-downs	Portfolio write-downs	Total
Balance at 1 January 2008	287	1,435	1,722
Additions through profit and loss	333	838	1,171
Utilisation	61	1,089	1,150
Reversals	11	8	19
Balance at 31 December 2008	**548**	**1,176**	**1,724**
Additions through profit and loss	516	2,872	3,388
Utilisation	106	999	1,105
Reversals	181	9	190
Balance at December 2009	**777**	**3,040**	**3,817**

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

EUR thousands			Trade receivables past due before impairment				
	Total nominal amount	Neither past due nor impaired	< 30 days	30–60 days	60–90 days	90–120 days	>120 days
2009	17,700	8,142	4,575	987	409	707	2,880
2008	20,380	9,731	5,237	1,506	904	1,440	1,562

The financial assets neither past due nor impaired are not believed to have lost any value.

Receivables are written down on the basis of their maturity structure using a general procedure. The receivables—less sales tax—more than 180 days past due were written down by 50%, those more than 270 days past due by 75%, and those more than 360 days past due by 100%. Furthermore, general write-downs were recognised for foreign receivables on the basis of stipulated country-specific write-down rates. A general write-down of 1.0% was recognised for the remaining receivables less sales tax.

(13) SECURITIES

Securities reported at a fair value of EUR 670 thousand (previous year: EUR 666 thousand) consist of a fund held for trading which reinvests income and invests principally in fixed-income securities, money market instruments, and demand deposits. The financial investment has no fixed maturity and no fixed interest rate.

(14) OTHER CURRENT ASSETS

EUR thousands	31 Dec. 2009	31 Dec. 2008
Deferred payments	2,822	3,975
Receivables from related parties	132	14
Reimbursement rights for other taxes	95	217
Miscellaneous assets	3,825	2,704
Total	**6,874**	**6,910**

The reimbursement rights for income taxes of EUR 617 thousand (previous year: EUR 485 thousand) are reported separately in the balance sheet. Other current assets include financial assets of EUR 2,843 thousand (previous year: EUR 1,947 thousand).

(15) CASH AND CASH EQUIVALENTS

EUR thousands	31 Dec. 2009	31 Dec. 2008
Bank balances	29,387	21,524
Cheques and cash in hand	200	422
Total	**29,587**	**21,946**

There are restrictions on disposal on EUR 17,880 thousand of total bank balances (previous year: EUR 15,614 thousand). These are teleporto funds received from customers and which customers can draw down at any time. The corresponding offsetting item is included in other liabilities.

Changes in cash and cash equivalents are shown in the cash flow statement and in the section “Notes to the cash flow statement”.

(16) SHAREHOLDERS’ EQUITY

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

The capital of FP Holding consists of share capital of EUR 14,700 thousand and capital reserves provided by shareholders of EUR 45,708 thousand. Differences from the translation of financial statements for foreign subsidiaries without effect on profit and loss, differences between monthly average exchange rates in the statement of recognised income and expense and exchange rates on the reporting date and from the fair value change in interest rate hedges and cash flow hedges are recognised in equity under other comprehensive income.

Share capital is divided into 14,700 thousand no-par value bearer shares with a pro rata entitlement to participate in the company’s profits. Each share also confers one vote at the Annual General Meeting. The share capital is fully paid up.

On 30 November 2006, all the shares in FP Holding AG were admitted to the Official Market and to the subsection of the Official Market with additional obligations resulting from admission (Prime Standard) at the Frankfurt Stock Exchange. In the course of its IPO, FP Holding received gross proceeds of EUR 51,300 thousand from the sale of 2,700,000 shares. The premiums of EUR 48,600 thousand paid by the new shareholders were included in the capital reserves. The costs of the IPO amounted to EUR 4,603 thousand in total. In the consolidated financial statements, expenses of EUR 2,892 thousand were offset against capital reserves in equity after recognising the tax effect of EUR 1,711 thousand.

The following table shows that there were no changes in authorised and contingent capital in the reporting year:

In thousands	Share capital (authorised and issued)		Authorised capital (not issued)		Contingent capital (not issued)	
	EUR	Shares	EUR	Shares	EUR	Shares
Balance at 1 Jan. 2008	14,700	14,700	6,000	6,000	6,000	6,000
Expired capital	–	–	–	–	–	–
New authorised capital	–	–	–	–	–	–
Balance at 31 Dec. 2008	14,700	14,700	6,000	6,000	6,000	6,000
Expired capital	–	–	–	–	–	–
New authorised capital	–	–	–	–	–	–
Balance at 31 Dec. 2009	**14,700**	**14,700**	**6,000**	**6,000**	**6,000**	**6,000**

On 16 October 2006, the FP Holding Annual General Meeting passed resolutions approving both the creation of EUR 6.0 million in authorised capital, with a corresponding change in the Articles of Association, and a contingent increase in FP's share capital by up to EUR 6.0 million through the issue of new no-par value bearer shares each representing EUR 1.00 of the equity capital. The Management Board was also authorised to issue option bonds and convertible bonds with the option of disapplying pre-emption rights pursuant to Section 186 paragraph 3 sentence 4 AktG, as well as contingent capital, and to make a corresponding change to the Articles of Association. The company has been authorised in accordance with Section 71, paragraph 1 No. 8 AktG to purchase and sell treasury shares amounting to up to 10% of the company's share capital.

On 20 November 2007, the Management Board of Francotyp-Postalia Holding AG decided to implement a share buy-back programme on the basis of the authorisation granted at the company's Annual General Meeting on 16 October 2006, in order to be able to acquire companies or stakes in companies using treasury shares as acquisition currency.

In the period from November 2007 to April 2008, a total of 370,444 shares had been purchased, which were deducted from shareholders' equity on the face of the balance sheet at their cost of EUR 1,829 thousand in accordance with IAS 32.33. No further shares were acquired in the reporting year. As of 31 December 2009, the treasury shares represented 2.52% of the share capital and had a market value of EUR 600 thousand (previous year: EUR 315 thousand). The following statement of reconciliation shows the development in the number of shares outstanding. The number of shares remains unchanged compared to the previous year:

	Number of shares outstanding
Number of shares	14,700,000
Buy-back of treasury shares	-370,444
Balance at 31 December 2009	**14,329,556**

On 18 June 2008, the Annual General Meeting passed a further resolution authorising the purchase of treasury shares. Under this resolution, FP was authorised to acquire treasury shares totalling up to 10% of the share capital in existence at the time the resolution was passed by 17 December 2009. The company did not utilise this authorisation. The Annual General Meeting of 23 June 2009 did not issue a new authorisation.

No dividend was distributed in the reporting year.

Minority interests consist of adjustment items for the shares in consolidated capital held by other shareholders and the profits and losses attributable to them. Minority interests of EUR 2,081 thousand (previous year: EUR 2,650 thousand) are reported within consolidated equity separately from the parent shareholders' equity in accordance with IAS 27.33 and relate solely to the other shareholders of iab. Please see section I "Basic information – Restatement of amounts in prior periods" for information on the restatement of the prior-year figures for minority interests.

FP GmbH made significant funds available to its Canadian subsidiary in order to acquire new machines and make these available to clients following decertification. This represents a net investment in a Canadian business operation whose liquidation is neither planned nor likely within a foreseeable time frame. The net exchange rate difference after deferred taxes of EUR 96 thousand (previous year: EUR 1,055 thousand) resulting from the translation was recognised in other comprehensive income in line with IAS 21.32.

(17) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Defined benefit plans are in place to provide retirement benefits for employees. The pension commitments depend on the legal, tax and economic circumstances of each country and are generally based on employees' length of service and salary. The commitments are funded by making provisions. As in previous years, there are no net plan assets for these company pension plans and therefore no reportable deficit.

In accordance with a works agreement reached with companies in Germany on 9 July 1996, all employees whose employment began before 1 January 1995 are covered by the pension plan. Retirement benefits are only granted when employees have completed ten eligible years of service. Employees whose salaries are above the general pay scale remain entitled to a retirement pension under the terms of the "Guidelines for the payment of a retirement pension to employees whose salaries are above the general pay scale", dating from January 1986. Obligations for funeral allowances towards surviving dependents of employees exist on the basis of the collective bargaining framework for salaried and other employees and the works agreement dating from 30 December 1975.

Provisions for pension obligations are made on the basis of benefit obligations made for retirement, incapacity and surviving dependent benefits. Provisions are only made for defined benefit obligations where the company guarantees employees a certain level of benefits.

Significant actuarial parameters applied:

p.a.	31 Dec. 2009	31 Dec. 2008
Interest rate	5.37%	6.25%
Salary trend	3.00%	3.00%
Pension trend	2.00%	2.00%

These assumptions relate to employees based in Germany, who account for the majority of pension obligations.

Reconciliation of defined benefit obligations to recognised pension provision commitments:

EUR thousands	31 Dec. 2009	31 Dec. 2008
Present value of defined benefit obligations	11,034	10,226
Adjustment for unrealised actuarial gains and losses	1,231	2,002
Pension provisions	**12,265**	**12,228**

The present value of the defined benefit obligations relates solely to vested entitlements.

The present value of defined benefit obligations developed as follows as against prior reporting periods:

EUR thousands	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007	31 Dec. 2006	31 Dec. 2005
Present value of defined benefit obligations	11,034	10,226	11,007	12,591	12,265

The following table shows changes in pension provisions:

EUR thousands	2009	2008
Balance at beginning of period	12,228	12,070
Current pension cost for benefits provided to employees in the reporting period	+61	+204
Interest expense	+618	+593
Pension payments	-642	-639
Pension provisions	**12,265**	**12,228**

An expense of EUR 2,259 thousand was recognised for a defined contribution plan in the reporting period (previous year: EUR 2,447 thousand).

(18) TAX LIABILITIES AND DEFERRED TAX LIABILITIES

EUR thousands	31 Dec. 2009	31 Dec. 2008
Deferred income taxes	1,165	3,600
Current income taxes	727	1,164
Other taxes	154	225
Tax provisions	**2,046**	**4,989**

Without offsetting, deferred tax assets and liabilities break down as follows:

EUR thousands	Deferred tax assets	Deferred tax liabilities 31 Dec. 2009	Deferred tax assets	Deferred tax liabilities 31 Dec. 2008	Change taken to profit and loss 2009
Non-current assets	363	2,931	1,328	6,724	2,828
Miscellaneous assets	3,413	1,474	1,236	27	120
Provisions	3,154	1,137	3,253	1,069	-75
Liabilities	1,402	1,196	1,346	1,181	30
Tax losses carried forward	10,056	0	7,971	0	2,085
Total	**18,388**	**6,738**	**15,134**	**9,001**	**4,988**
Offsetting	-5,573	-5,573	-5,401	-5,401	
Carrying amount	**12,815**	**1,165**	**9,733**	**3,600**	

(19) PROVISIONS

EUR thousands	Opening balance 1 Jan. 2009	Currency difference	Utilisation	Reversals	Additions	Closing balance 31 Dec. 2009
Staff-related provisions	4,588	5	2,350	309	2,144	4,078
Losses on orders	546	0	546	0	541	541
Restructuring	777	0	774	0	483	486
Guarantees	719	-4	555	160	468	468
Outstanding invoices	1,237	0	1,203	34	465	465
Compensation payments to sales representatives	412	-6	391	0	430	445
Year-end closing costs	308	-1	274	7	266	292
Litigation costs	50	0	50	0	151	151
Inventors' royalties	177	0	109	68	95	95
Miscellaneous provisions	2,997	170	1,457	71	971	2,610
Provisions	**11,811**	**164**	**7,709**	**649**	**6,014**	**9,631**

EUR 1,152 thousand (previous year: EUR 1,514 thousand) of other provisions have a remaining term of more than one year and are due within the next six years.

Provisions for staff costs mainly consist of provisions for anniversary gratifications, obligations under phased early retirement agreements, holidays, bonuses and severance payments to staff.

Provisions for restructuring relate to planned restructuring activities and essentially include termination payments and legal disputes.

Guarantees essentially relate to products sold.

Miscellaneous provisions include provisions for Supervisory Board remuneration.

(20) LIABILITIES

EUR thousands	31 Dec. 2009			31 Dec. 2008		
	Total	Remaining term < 1 year	Remaining term > 1 year	Total	Remaining term < 1 year	Remaining term > 1 year
Liabilities to banks	51,767	3,044	48,723	55,938	3,335	52,603
Finance lease liabilities	3,424	891	2,533	4,264	837	3,427
Financial liabilities	**55,191**	**3,935**	**51,256**	**60,202**	**4,172**	**56,030**
Trade payables						
to third parties	4,827	4,827	0	7,471	7,471	0
from advance payments received on orders	2	2	0	0	0	0
Trade payables	**4,829**	**4,829**	**0**	**7,471**	**7,471**	**0**
Other liabilities						
from taxes	1,421	1,421	0	2,506	2,506	0
(of which from income taxes)	(24)	(24)	(0)	(507)	(507)	(0)
of which social security	9	9	0	186	186	0
from teleporto	17,880	17,880	0	15,614	15,614	0
to employees	100	100	0	188	188	0
from derivatives	407	407	0	516	516	0
from company purchases	0	0	0	400	400	0
from deferred income	11,197	11,156	41	10,989	10,947	42
miscellaneous liabilities	4,052	4,052	0	3,963	3,963	0
Other liabilities	**35,066**	**35,025**	**41**	**34,362**	**34,320**	**42**
Total	**95,086**	**43,789**	**51,297**	**102,035**	**45,963**	**56,072**

There were no longer any liabilities with a remaining term of more than five years as of the balance sheet date (previous year: EUR 133 thousand).

Liabilities to banks include liabilities to BNP Paribas S.A., Frankfurt am Main branch, and mainly consist of loans to finance the purchase price of the FP Group in 2005. As of 31 December 2009, the two tranches of the main loans agreement amounted to EUR 44,013 thousand and USD 10,646 thousand respectively. The loan is repayable in instalments of EUR 1,000 thousand and USD 3,750 thousand on 30 September of a given year and must be repaid in full on November 2011. Based on information on future interest development available as of the balance sheet date, contractual interest payments amount to EUR 2,016 thousand for 2010 and EUR 1,797 thousand for 2011.

In addition to the existing loan, there is a long-term line of credit in the amount of EUR 2,500 thousand that had not been utilised on the balance sheet date. Depending on the tranches, a EURIBOR- or LIBOR-based interest rate was fixed and has been hedged by way of swaps and caps (see section on "Hedging policy and risk management"). The discount applied to the liabilities to banks is recognised in profit and loss over the term of the loans.

The liabilities from company acquisitions reported in the previous year in the amount of EUR 400 thousand related to the purchase of the remaining shares in FP Asia Pte. Ltd., Singapore.

Reconciliation from future lease payments to finance lease liabilities:

EUR thousands	Total	Remaining terms		
		up to 1 year	1–5 years	more than 5 years
Future lease payments	3,886	1,213	2,673	0
Interest portion	462	322	140	0
Finance lease liabilities	**3,424**	**891**	**2,533**	**0**

The terms of leases are up to 75% of the ordinary useful life. After the basic term of the lease, there is usually the option to prolong the agreements or to acquire the assets at a predetermined price. There are no subleases for leased assets. The carrying amount of leased assets amounted to EUR 4,406 thousand as of 31 December 2009 (previous year: EUR 4,827 thousand). Deposits of a total amount of EUR 109 thousand were paid in connection with leases.

Other current and non-current liabilities include financial liabilities of EUR 4,314 thousand (previous year: EUR 5,345 thousand).

(21) COLLATERAL PROVIDED

EUR thousands	31 Dec. 2009	31 Dec. 2008
Guarantee obligations	537	587
Total	**537**	**587**

The guarantee obligations mainly consist of rental guarantees for office space at sales branches, guarantees for subsidies for letter sorting machines, and a guarantee for postage.

For postage from DPAG, collateral of EUR 590 thousand has been provided by means of a guarantee from Commerzbank. A securities portfolio has been pledged for the same amount. FP Holding furnished BNP Paribas S.A. with the following loan collateral:

- Pledge of all shares in FP GmbH, FP International GmbH, FP Vertrieb und Service GmbH, FP Inc., USA, Ruys B.V., the Netherlands, FP Ltd, Great Britain, FP Inc., Canada, by the respective parent company
- Assignment of all receivables in respect of third parties of FP Holding AG, FP GmbH, FP International GmbH, FP Vertrieb und Service GmbH and FP Inc., USA
- Pledge of all bank balances of FP Holding AG, FP GmbH, FP International GmbH, FP Vertrieb und Service GmbH and FP Inc., USA
- Assignment of the brands of FP GmbH and FP Inc., USA
- Assignment of the fixed and current assets of FP GmbH and FP Inc., USA. The carrying amount the current and non-current assets assigned for security was EUR 141.0 million as of the balance sheet date (previous year: EUR 130.7 million). The carrying amounts break down as follows:

EUR thousands	2009	2008
FP GmbH		
Intangible assets	14,119	16,472
Property, plant and equipment	2,280	2,280
Inventories	5,157	5,595
FP Inc.		
Intangible assets	956	1,269
Property, plant and equipment	6,519	7,445
Inventories	2,101	5,188

(22) OTHER INFORMATION ON OPERATING LEASES

The nominal amounts of other financial obligations was EUR 13,978 thousand as of 31 December 2009 (previous year: EUR 15,097 thousand) and have the following maturity structure:

EUR thousands	31 Dec. 2009			
	Total	up to 1 year	1–5 years	more than 5 years
Obligations under rental and lease agreements	13,978	4,100	9,878	**0**

EUR thousands	31 Dec. 2008			
	Total	up to 1 year	1–5 years	more than 5 years
Obligations under rental and lease agreements	15,097	4,006	9,491	**1,600**

Obligations under rental and lease agreements relate solely to agreements where companies in the FP Group do not have economic ownership of the leased assets in accordance with IASB guidelines. The obligations disclosed under this item are based on operating leases.

The majority of other financial obligations stems from a lease for land and buildings for FP GmbH in Birkenwerder. The contract was signed as of 1 January 2005 and runs for ten years. Annual rent is EUR 1,600 thousand (total up to and including 2014: EUR 8,000 thousand). No prolongation or purchase options or price adjustment clauses were concluded.

Vehicles and office equipment account for the majority of miscellaneous other financial obligations under rental and lease agreements.

(23) FINANCIAL INSTRUMENTS

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

EUR thousands	31 Dec. 2009	31 Dec. 2008
Financial assets available for sale		
Equity investments	318	318
Financial assets held for trading		
Securities	670	666
Derivative instruments designated in hedge accounting		
Derivative financial instruments that are assets	9	17
Derivative financial instruments that are liabilities	-407	-516
Loans and receivables		
Trade receivables	13,883	18,656
Other financial assets	2,876	1,978
Finance lease receivables	**5,833**	**6,126**
Cash and cash equivalents	**29,587**	**21,946**
Financial liabilities measured at amortised cost		
Liabilities to banks	51,767	55,938
Other financial liabilities	2,757	2,537
Obligations under finance leases	**3,424**	**4,263**

Assets in the “financial assets available for sale” category are carried at cost as their market value cannot be reliably determined.

The respective market price was used to determine the fair value of financial assets held for trading. The fair value of the derivative financial instruments was determined by discounting the expected future cash flows using prevailing market interest rates and are equal to the carrying amount shown in the table. This measurement reflects the value of the financial instrument in question under prevailing market conditions and is derived either from the mid-market price or, if expressed as a bid-ask rate, from the indicative price at which a bank would have terminated and concluded or bought back and sold the financial instrument, and at the close of business or another agreed time at the relevant location on the measurement date.

The carrying amounts of assets and liabilities held at amortised cost generally match their fair value. The carrying amounts of finance leases are essentially their market values.

The financial assets and liabilities carried at fair value on the face of the balance sheet are assigned to a three-stage fair value hierarchy. The hierarchy reflects the significance of the input data used in the measurement and breaks down as follows:

Level 1 – (unadjusted) prices quoted on active markets for identical assets or liabilities

Level 2 – input data observed either directly (as prices) or indirectly (derived from prices) for the asset or liability that are not quoted prices as defined in stage 1

Level 3 – input data for the asset or liability not based on observable market data (unobservable input data)

EUR thousands	Level 1	Level 2	Level 3
Securities	670	–	–
Hedging derivatives that are assets	–	9	–
Hedging derivatives that are liabilities	–	-407	–

There are no net gains or losses in the "financial assets available for sale" category (previous year: EUR 19 thousand).

The net gains and losses in the "financial instruments held for trading" category consist of the fair value changes and interest payments. Thus, the net gain/loss for 2009 amounted to EUR 4 thousand (previous year: EUR 66 thousand).

The net gains and losses in the "loans and receivables" category consist of impairment losses and reversals of impairment losses taken to profit and loss, foreign currency effects and any gains on derecognition. The net loss for 2009 amounted to EUR 939 thousand.

The net gains and losses for the category of financial liabilities measured at amortised cost consist of foreign currency effects and any gains on disposal. The net gain for 2009 amounted to EUR 866 thousand.

In accordance with the terms and conditions of Francotyp-Postalia, title to assets sold is retained until all payments have been received. If a customer who is leasing machinery is in arrears in payments or if a lease party refuses to satisfy a contract in spite of deadlines being set, the customer shall be required to return the leased asset to Francotyp-Postalia and to pay compensation.

HEDGES

As of 31 December 2009, in the context of a cash flow hedge there is a loan liability in USD which is classified as a hedge and serves to hedge expected future cash flows from sales in USD. The difference resulting from the change in the price of the dollar after deferred taxes of EUR 0 thousand (previous year: EUR -587 thousand) has been taken to other comprehensive income in equity as part of hedge accounting. Exchange rate differences from the repayment of the loan of EUR 302 thousand were reported in revenues.

Hedge accounting hedges the exchange rate effects relating to US dollar income for the amount of the agreed repayment schedule over the term of the loan until 30 November 2011. The company must repay EUR 1,000 thousand and USD 3,750 thousand as of 30 September of each year.

Interest rate hedges were taken out (swaps and caps) to limit the interest rate risk on floating rate loan liabilities. The caps were capitalised at their fair value of EUR 9 thousand (previous year: EUR 17 thousand) as of the balance sheet date and the swap was expensed in the amount of its negative fair value of EUR 407 thousand (previous year: EUR 516 thousand).

EUR thousands	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps				
Fair value	0	407	0	516
Interest rate caps				
Fair value	9	0	17	0

The change in the market values of the swaps and caps was taken to other comprehensive income in equity as a cash flow hedge.

As of 31 December 2009, there were no ineffective portions in these hedges.

(24) CONTINGENT LIABILITIES AND RECEIVABLES

By way of resolution of the Supervisory Board on 13 February 2009, the appointment of Dr. Sluma to the Management Board of Francotyp-Postalia Holding AG was revoked for good cause and his Management Board service agreement was terminated for good cause. Furthermore, the Annual General Meeting of the company on 23 June 2009 resolved to withdraw confidence from Dr. Sluma.

In March 2009, Dr. Sluma filed suit to have the revocation of his appointment to the Management Board declared void and to repeal the termination of his service agreement. The plaintiff stated the amount in dispute for these proceedings at around EUR 893 thousand.

Also in March 2009, Dr. Sluma sued for payment of remuneration in arrears since the extraordinary termination of his service agreement. To date, Dr. Sluma has sued for remuneration allegedly in arrears for the months February 2009 to October 2009 inclusively with a combined amount of EUR 292 thousand. A provision was recognised for the bonus for 2008 that is still disputed.

The company has offset a claim for payment of EUR 50 thousand for a non-performance-based guaranteed bonus against claims for damages in the amount of at least EUR 34 thousand in connection with the agreements concluded by Dr. Sluma without the approval of the Supervisory Board and other claims for damages that cannot be quantified at this time.

On the basis of legal advice, the Management Board is assuming that the proceedings will be ruled in favour of the respondent and therefore no losses (including costs) will be incurred.

First instance rulings are expected in the course of the 2010 financial year.

(25) NOTES TO THE CASH FLOW STATEMENT

The cash flow statement for the FP Group shows positive and negative changes in cash flows from operating, investing and financing activities.

Postage credit balances managed by the FP Group (restricted cash) are subtracted from cash and cash equivalents. The corresponding offsetting item is included in other liabilities. Cash and cash equivalents and other liabilities are therefore reported net in the cash flow statement. This means that cash and cash equivalents are calculated as follows:

EUR thousands	31 Dec. 2009	31 Dec. 2008
Cash and cash equivalents	29,587	21,946
Plus securities	670	666
Less postage credit balances managed	-17,880	-15,614
Total	**12,377**	**6,998**

Payments for finance lease liabilities are reported separately under cash flow from financing activities as of this reporting year (EUR 837 thousand; previous year: EUR 560 thousand). These payments were reported under cash flow from operating activities in the previous year. The figures for the previous year have been adjusted accordingly.

(26) EARNINGS PER SHARE

On the basis of the authorisation granted by the Annual General Meeting of the company on 16 October 2006, the Management Board of Francotyp-Postalia Holding AG resolved on 20 November 2007 to implement a programme to buy back shares in the company. A total of 370,444 treasury shares were acquired.

Earnings per share are calculated using the weighted average number of shares outstanding in the reporting period and the consolidated net profit after minorities and after taxes. The number of shares was therefore adjusted for the treasury shares acquired in line with IAS 33.20. The weighted average number of shares for the 2009 financial year was therefore 14,329,556 (previous year: 14,362,497) (basic and diluted). With a consolidated net loss for the year of EUR 16,024 thousand (previous year: EUR 13,783 thousand), earnings per share therefore amounted to EUR -1.12 (previous year: EUR -0.96) (basic and diluted). The retrospective correction of errors had no effect on earnings per share in the previous year.

V. OTHER DISCLOSURES

AVERAGE NUMBER OF EMPLOYEES IN THE YEAR

	2009	2008
of which in		
Germany	697	704
The Netherlands	66	101
USA	107	118
United Kingdom	80	85
Austria	19	21
Canada	34	33
Belgium	18	17
Italy	14	15
Singapore	19	15
Total	**1,054**	**1,109**

The average number of employees is distributed among the segments as follows:

EUR thousands	2009	2008
Production	269	273
Sales Germany	440	439
Sales International	338	390
Central Functions	7	7
Total	**1,054**	**1,109**

On 7 August 2009, the FP Group announced the conclusion of a site continuation agreement with its employee representatives and IG Metall, which contains a far-reaching package of measures. According to current estimates, this extensive programme will allow the FP Group to generate savings of up to EUR 9 million in the next two years, in return for which it will guarantee employees' jobs for a period of 24 months.

Among other conditions, the package includes the following regulations:

- the conclusion of a works agreement on the introduction of reduced working hours for a maximum period of two years, starting from 1 August 2009
- salary sacrifice of around 10% by wage-scale employees by way of collective agreements to safeguard the companies Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb und Service GmbH, and FP Direkt Vertriebs GmbH
- salary sacrifice of 15% for non-scale employees
- 20% reduction of Management Board remuneration
- no compulsory redundancies within the next 24 months
- in the event of insolvency, the provisions of this programme will cease to apply with immediate effect

- in the event of the disposal of one of the companies or parts of companies participating in this agreement, all special collective agreement regulations and salary sacrifice regulations for the Management Board, non-scale employees and executives will no longer apply with future effect.

MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board of the company currently consists of two persons.

The Supervisory Board of Francotyp-Postalia Holding AG relieved Dr. Heinz-Dieter Sluma as the Chairman and a member of the Management Board effective immediately from 13 February 2009.

On 23 February 2009, Andreas Drechsler was appointed to the Management Board for a period of one year. Mr. Drechsler was previously responsible for foreign sales and investor relations in the company. He took on Management Board responsibility for Sales, Marketing, Investor Relations, Quality Management, and Internal Auditing. At the same time, the CFO in office since December 2008, Mr. Hans Szymanski, also took on Business Development, Research and Development, Human Resources Legal, and Accounting.

The table below lists the Management Board members active in the 2009 financial year and their individual responsibilities:

Name	Date of initial appointment	Currently appointed until	Responsibilities
Hans Szymanski, Graduate economist	December 2008	December 2011	• Finance, Controlling, and Accounting • IT • Supply Chain • Human Resources and Legal • Business Development • Research and Development
Andreas Drechsler, Business graduate	February 2009	February 2012	• Sales • Marketing • Investor Relations • Quality Management • Internal Auditing
Left in the reporting year:			
Dr. Heinz-Dieter Sluma, Dr. rer. nat. (Chairman)	January 2008	Appointment terminated in February 2009	• Sales • Marketing • Human Resources and Legal • Business Development • Research and Development • Quality Management

The Management Board members are not members of any supervisory boards or other boards as defined by Section 125 paragraph 1 sentence 3 AktG.

Mr. George Marton, one of the three members of the Supervisory Board of Francotyp-Postalia Holding AG since 11 August 2006, resigned his position as of the end of the last Annual General Meeting.

On 12 August 2009, Dr. Claus Gerckens was court appointed as his successor; this appointment is limited until the next Annual General Meeting, which is scheduled to be held in July 2010.

The following table lists the members of FP's Supervisory Board and gives details of their occupations outside FP and other management board or supervisory board mandates with comparable German or foreign controlling bodies:

Name/Occupation	Other administrative or supervisory board mandates in similar German and foreign executive bodies
Prof. Dr. Michael J.A. Hoffmann (Chairman) Managing partner of TMM Technology Marketing Management GmbH, Dortmund ("TMM") and managing director at other companies in which TMM has a majority holding	Chairman of the supervisory board of • Curtis 1000 Europe AG, Neuwied am Rhein • inframation AG, Dortmund Deputy chairman of the advisory board of • KST-Motorenversuch GmbH & Co. KG, Bad Dürkheim
Christoph Weise, (Deputy Chairman) Commercial employee of Quadriga Administration Ltd.	Managing director of • QCR 1 GmbH
Dr. Claus Gerckens • Chairman of the Management Board of BÖWE SYSTEC AG, Augsburg (until 31 January 2009) • Managing Director of GVG Industrieverwaltungs GmbH, Augsburg	Supervisory board of • EUROKAI KGaA, Hamburg Chairman of the administrative board of • Lasermax Roll Systems AB, Ljungby, Sweden (until 16 April 2009) Deputy chairman of the administrative board of • Waltershof-Peute Hafen Betriebs G.m.b.H., Hamburg
Left in the reporting year:	
George Marton • President and CEO of Global Video, LLC, Chicago, USA (until February 2009) • CEO of BÖWE BELL & HOWELL, Inc., Durham, USA (since February 2009)	Glencoe Capital's Business and Media Services Group, Chicago, USA

SHAREHOLDER STRUCTURE

In the financial year 2009, Francotyp-Postalia Holding AG received the following notifications from shareholders in accordance with Section 21 paragraph 1 Securities Trading Act (WpHG) and published the information in accordance with Section 26 paragraph 1 WpHG.

NOTIFICATION OF 13 JANUARY 2009
CORRECTION OF NOTIFICATION OF 1 DECEMBER 2008

On 28 November 2008, Invesco UK Limited, London, United Kingdom, notified us pursuant to Section 21 paragraph 1 WpHG that its share of voting rights in Francotyp-Postalia Holding AG, Birkenwerder, Germany, had fallen below the threshold of 5% on 11 November 2008 and amounted to 4.9949% (734,250 voting rights) of the voting rights on that date. 4.9949% (734,250 voting rights) of the voting rights are allocated to the company pursuant to Section 22 paragraph 1 sentence 1 No. 6 WpHG in conjunction with sentence 2 WpHG.

NOTIFICATION OF 15 JANUARY 2009
CORRECTION OF NOTIFICATION OF 12 SEPTEMBER 2007

On 23 July 2007, Invesco Fund Managers Limited, London, United Kingdom, notified us pursuant to Section 21 paragraph 1 WpHG that its share of voting rights in Francotyp-Postalia Holding AG, Birkenwerder, Germany, had exceeded the threshold of 3% on 17 July 2007 and amounted to 3.9366% (578,687 voting rights) of the voting rights on that date. 3.9366% (578,687) of the voting rights are allocated to the company.

NOTIFICATION OF 2 FEBRUARY 2009

On 30 January 2009, Invesco Fund Managers Limited, London, United Kingdom, notified us pursuant to Section 21 paragraph 1 WpHG that its share of voting rights in Francotyp-Postalia Holding AG, Birkenwerder, Germany, had fallen below the threshold of 3% on 21 January 2009 and amounted to 2.944% (432,861 voting rights) of the voting rights on that date. 2.944% (432,861) of the voting rights are allocated to the company.

NOTIFICATION OF 12 FEBRUARY 2009

On 10 February 2009, Invesco Limited, London, United Kingdom, notified us pursuant to Section 21 paragraph 1 WpHG that its share of voting rights in Francotyp-Postalia Holding AG, Birkenwerder, Germany had fallen below the threshold of 3% on 20 January 2009 and amounted to 1.036% (152,505 voting rights) of the voting rights on that date. All of the voting rights (152,505) are allocated to the company.

NOTIFICATION OF 7 MAY 2009

Mr. Hartmut Neumann, Germany, notified us on 7 May 2009 that his share of voting rights in Francotyp-Postalia Holding AG, Birkenwerder, Germany, had exceeded the threshold of 3% on 27 April 2009 and amounted to 3.13% (460,260) of the voting rights on that date.

NOTIFICATION OF 25 JUNE 2009

Mr. Hartmut Neumann, Germany, notified us on 25 June 2009 that his share of voting rights in Francotyp-Postalia Holding AG, Birkenwerder, Germany, had fallen below the threshold of 3% on 25 June 2009 and amounted to 2.97% (436,053) of the voting rights on that date.

RELATED PARTY DISCLOSURES

In addition to controlling entities, the disclosure requirement of IAS 24 also extends to transactions with associated companies and transactions with persons with the ability to exercise significant influence on the financial and operating policy of the FP Group, that have joint control over the entity or that are key management personnel of the reporting company, including close relatives of these persons or intermediate companies. A significant influence on the financial and operating policies of FP Group can be based on a shareholding of 20% or more in FP Holding, a seat on the Management Board of FP Holding or other key management position in the FP Group or contractual agreements or arrangements under the Articles of Association.

Accordingly, in the reporting year related parties of the FP Group included the shareholders Quadriga Capital Private Equity Fund II L.P., Quadriga Capital Limited, Stockwell Fund L.P., and the members of the Management and Supervisory Boards of FP Holding.

Related party transactions only took place to a very limited extent. The transactions took place on arm's length terms.
For information on the total remuneration of the Management Board and the Supervisory Board, please see the section below.

In addition to the subsidiaries included in the consolidated financial statement, FP Holding has direct or indirect business relations in the course of its normal operations with the associated, non-consolidated company FP Data Center Inc., Japan. All transactions with this company took place on arm's length terms.

TOTAL REMUNERATION OF MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS

Management Board remuneration is set at a reasonable level by the Supervisory Board on the basis of performance assessments of the persons concerned, while also taking into account any payments by Group companies. Criteria for determining the suitability of the remuneration include the duties of the Management Board member in question, his personal performance, the performance of the Management Board as a whole, as well as the macroeconomic situation and the company's performance and future prospects, giving due consideration to the company's peer group. The employment contracts concluded with Board members stipulate a fixed annual salary plus a performance-related bonus based on cash flow and EBITA. While no bonuses were paid to the Management Board in the 2009 financial year, a provision was recognised for the past financial year in the amount of EUR 152 thousand. The direct remuneration paid to Management Board members totalled EUR 533 thousand (previous year: EUR 651 thousand), of which EUR 486 thousand (previous year: EUR 586 thousand) related to the fixed annual salary and EUR 47 thousand (previous year: EUR 65 thousand) to payment in kind. The payments in kind chiefly consist of the value of company car use as determined in compliance with the provisions of tax law, as well as rent allowances and individual insurance contributions.

Please see the Group management report for the remuneration report in accordance with Section 315 paragraph 2 No. 4 sentence 1 HGB. The remuneration report covers all the principles applied in determining the remuneration of the Management Board of FP Holding and explains the amount and structure of Management Board income. It also describes the principles and amount of the remuneration of the Supervisory Board and provides information on the shareholdings of the Management Board and the Supervisory Board.

There were no share-based remuneration arrangements. There are also no share option programmes for the 2010 financial year. The remuneration for the 2009 financial year was as follows:

EUR thousands	Fixed salary	Payment in kind and allowances	Bonuses (provision)	Total remuneration
Hans Szymanski	260	26	76	362
Andreas Drechsler (since February 2009)	179	15	76	270
Dr. Heinz-Dieter Sluma (until February 2009)	47	6	0	53
Total	**486**	**47**	**152**	**685**

Provisions of EUR 1,279 thousand (previous year: EUR 1,078 thousand) were recognised for pension obligations to former members of the Management Board and their surviving dependants. None of the Management Board members' immediate relatives has any business relationship with Francotyp-Postalia.

Since the 2009 financial year, each Supervisory Board member receives fixed remuneration of EUR 30 thousand, payable in the final month of the financial year in addition to cash expenses and VAT for his Supervisory Board duties. From the 2009 financial year, the fixed remuneration paid to the Chairman will be 150% and that paid to the Deputy Chairman will be 125% of the remuneration for ordinary Supervisory Board members.

The Deputy Chairman of the Supervisory Board, Mr. Christoph Weise, waived the remuneration owed to him for 2008 and 2009. Total remuneration of the Supervisory Board amounted to EUR 66 thousand in the reporting year.

AUDITING FEES RECOGNISED AS EXPENSES

Based on the recommendation of the Supervisory Board, the Annual General Meeting elected KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) as the auditor for the financial year from 1 January to 31 December 2009. The auditor for the previous year, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Berlin (Deloitte), was relieved by this resolution. The total fee calculated for the 2009 financial year amounted to EUR 506 thousand and included services for the German companies and for the Dutch, Belgian and UK subsidiaries.

The following table shows the aggregate fees incurred for the services of the auditor KPMG Europe LLP in the 2009 financial year and for Deloitte in the 2008 financial year:

EUR thousands	2009	2008
Audit fees	191	196
Tax consulting fees	47	0
Other fees	268	0
Total	**506**	**196**

The other fees essentially related to a special investigation commissioned by the Supervisory Board at the start of 2009. No other assurance services were performed by the auditor in the reporting year.

EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date.

CORPORATE GOVERNANCE

The German Corporate Governance Code, as first passed in February 2002 and in its current version of 18 June 2009, contains recommendations and suggestions for the management and monitoring of German listed companies in relation to shareholders, the annual general meeting, the management board and supervisory board, transparency, accounting, and auditing.

The Management Board and Supervisory Board of Francotyp-Postalia Holding AG comply with the Code's goal of promoting responsible and transparent corporate governance and control geared to bringing about a sustained increase in enterprise value, and are committed to the implementation of the recommendations and proposals of the German Corporate Governance Code (Code), in particular where they concern shareholder interests. However, the company departs from these recommendations in some areas. These departures have been explained in detail in the Management Board and Supervisory Board's Declaration of Compliance with the 18 June 2009 version of the Code. The Declaration of Compliance and the deviations from the Code were made permanently available to the shareholders in accordance with Section 161 AktG on the company's website at *http://www.francotyp.com/en/investors/corporate-governance/declaration-of-compliance/archive/2009.html*.

PUBLICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are announced in the electronic version of the Federal Gazette (Bundesanzeiger) and the announcement, together with the documents mentioned therein, is filed with the Company Register.

Francotyp-Postalia GmbH, Francotyp-Postalia Vertriebs- und Service GmbH, FP International GmbH, FP Hanse GmbH, and FP Direkt Vertriebs GmbH are exempt from the obligation to publish their annual financial statements as of 31 December 2009 in accordance with Section 264 paragraph 3 HGB in conjunction with Section 325 HGB. Francotyp-Postalia GmbH and Francotyp-Postalia Vertriebs- und Service GmbH are also exempt from the obligation to prepare a management report as of 31 December 2009 in accordance with Section 264 paragraph 3 HGB in conjunction with Section 289 HGB. The corresponding resolutions have been announced in the electronic version of the Federal Gazette.

The statement of responsibility in accordance with Section 37 y No. 1 WpHG in conjunction with Sections 297 paragraph 2 sentence 4 and 315 paragraph 1 sentence 6 HGB can be found in the Group management report.

Birkenwerder, 17 March 2010

The Management Board of Francotyp-Postalia Holding AG

Hans Szymanski	Andreas Drechsler
Member of the Management Board	Member of the Management Board

ANNEX 3 – ADJUSTED CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2008

ASSETS

EUR thousands	31 Dec. 2008	01 Jan. 2008
Non-current assets		
Intangible assets		
Intangible assets including customer lists	34,208	47,699
Goodwill	20,994	22,269
Development projects in progress	3,514	3,004
	58,716	**72,972**
Property, plant and equipment		
Land, land rights and buildings	33	34
Technical equipment and machinery	1,650	1,631
Other equipment, operating and office equipment	4,149	5,970
Leased products	11,445	12,305
Assets under construction	24	0
Assets under finance leases	4,827	3,356
	22,128	**23,296**
Other assets		
Equity investments	318	337
Finance lease receivables	4,048	3,284
Other non-current assets	255	203
	4,621	**3,824**
Deferred tax assets	**9,733**	**7,560**
	95,198	**107,652**
Current assets		
Inventories		
Raw materials, consumables and supplies	5,475	8,451
Work/services in progress	2,059	1,640
Finished products and merchandise	8,599	9,604
	16,133	**19,695**
Trade receivables	**18,656**	**18,289**
Securities	**666**	**0**
Cash and cash equivalents	**21,946**	**26,593**
Other assets		
Finance lease receivables	2,078	1,577
Income tax assets	485	1,166
Derivative financial instruments	17	482
Other current assets	6,910	6,702
	9,490	**9,927**
	66,891	**74,504**
	162,089	**182,156**

EQUITY AND LIABILITIES

EUR thousands		31 Dec. 2008	01 Jan. 2008
Equity			
Equity attributable to shareholders of the parent company			
Subscribed capital		14,700	14,700
Capital reserves		45,708	45,708
Treasury shares		-1,829	-552
Loss carried forward		-13,393	-8,314
Consolidated net income after minority interests		-13,783	-2,578
Other comprehensive income		-3,027	-712
		28,376	**48,252**
Minority interests		**2,650**	**3,383**
	I.	**31,026**	**51,635**
Non-current liabilities			
Provisions for pensions and similar obligations		12,228	12,070
Other provisions		1,514	1,663
Financial liabilities		56,030	52,941
Other liabilities		42	65
Deferred tax liabilities		3,600	6,202
		73,414	**72,941**
Current liabilities			
Tax liabilities		1,389	989
Provisions		10,297	9,922
Financial liabilities		4,172	6,062
Trade payables		7,471	4,568
Other liabilities		34,320	36,039
		57,649	**57,580**
		162,089	**182,156**

STATEMENT OF CONSOLIDATED NON-CURRENT ASSETS AS OF 31 DECEMBER 2008

(EUR thousands)	Costs of purchase or production							
	Carryfor-ward 1 Jan. 2008	Currency	Additions differences	Additions	Disposals from relocation	Disposals from relo-cation	Reclassi-fication from relo-cation	Balance at 31 Dec. 2008
Intangible assets								
Internally generated intangible assets	13,064	-4	0	1,333	0	0	805	15,198
Intangible assets including customer lists	92,914	185	0	2,316	0	49	167	95,533
Intangible assets including customer lists	105,978	181	0	3,649	0	49	972	110,731
Goodwill	23,899	0	0	0	0	0	-106	23,793
Development projects in progress	3,004	0	0	3,776	0	0	-845	5,935
Total	**132,881**	**181**	**0**	**7,425**	**0**	**49**	**21**	**140,459**
PROPERTY, PLANT AND EQUIPMENT								
Land, land rights and buildings	156	-21	0	8	0	6	0	137
Technical equipment and machinery	4,940	2	0	440	0	101	0	5,281
Other equipment, operating andboffice equipment	33,711	-641	648	1,212	0	1,090	-21	33,819
Leased products	53,520	625	0	4,936	558	799	0	57,724
Assets under construction	0	0	0	24	0	0	0	24
Assets under finance leases	4,911	0	0	1,939	0	12	0	6,838
Total	**97,238**	**-35**	**648**	**8,559**	**558**	**2,008**	**-21**	**103,823**
Non-current assets								
Total	**230,119**	**146**	**648**	**15,984**	**558**	**2,057**	**0**	**244,282**

Depreciation and amortisation							Carrying amounts	
Carryfor-ward 1 Jan. 2008	Currency	Additions differences	Additions from relo-cation	Disposals	Transfers	Balance at 31 Dec. 08	31 Dec. 2008	1 Jan. 2008
3,126	-4	0	2,970	0	0	6,092	9,106	9,938
55,153	175	0	15,015	21	109	70,431	25,102	37,761
58,279	171	0	17,985	21	109	76,523	34,208	47,699
1,630	0	0	1,275	0	-106	2,799	20,994	22,269
0	0	0	2,421	0	0	2,421	3,514	3,004
59,909	**171**	**0**	**21,681**	**21**	**3**	**81,743**	**58,716**	**72,972**
122	-19	0	4	3	0	104	33	34
3,309	0	0	414	93	0	3,630	1,651	1,631
27,741	-367	84	3,043	828	-3	29,670	4,149	5,970
41,215	1,698	0	3,549	183	0	46,279	11,445	12,305
0	0	0	0	0	0	0	24	0
1,555	8	0	449	1	0	2,011	4,827	3,356
73,942	**1,320**	**84**	**7,459**	**1,108**	**-3**	**81,694**	**22,129**	**23,296**
133,851	**1,491**	**84**	**29,140**	**1,129**	**0**	**163,437**	**80,845**	**96,268**

Independent Auditor's Report

We have audited the consolidated financial statements prepared by Francotyp-Postalia Holding AG, Birkenwerder, comprising the consolidated balance sheet, consolidated statement of comprehensive income, notes to the consolidated financial statements, consolidated cash flow statement and consolidated statement of changes in equity, together with the Group management report, for the business year from 1 January to 31 December 2009. 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 German Commercial Code (Handelsgesetzbuch – HGB) is the responsibility of the company officers. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the 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 German Commercial Code (HGB) 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, 17 March 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Großmann	Sternberg
(German Public Auditor)	(German Public Auditor)

Glossary

A Segment	Describes franking machine segment for customers with low mail volume (up to 200 letters per day).
B Segment	Describes franking machine segment for customers with medium mail volume (from 200 to 2,000 letters per day).
C Segment	Describes franking machine segment for customers with high mail volume (over 2,000 letters per day).
Advertising Message	An individualised imprint next to the franking, such as the sender's logo.
After-Sales Business	Sale or rental of franking machines with follow-up business, e.g. service and technical support, sale of consumables.
Cash Deal/Spot Deal	A cash deal is defined as a contract for the purchase or sale of securities or other financial instruments, and a spot deal as a contract for the purchase or sale of foreign currencies or goods, both of which, in contrast to a forward deal, must be performed immediately after the transaction has been concluded. Immediately in this context usually means a period of two business days.
Certification	Official operating authorisation for franking machines.
Collective Communication	Individual daily mail, collated centrally.
Consolidation	Refers to the sorting of letters by postcode, followed by bundling and passing on to a mail delivery centre in order to gain a rebate on the franking charge.
Country-Specific Variations	The postal organisations certify franking machines for a specific country in an extensive certification procedure. In order to obtain certification, the franking machines must meet the specifications set by the postal organisations. This results in a country-specific variation for each country in which a franking machine is certified.
Decertification	Withdrawal of certification for franking machines by the competent postal organisation in connection with a change in the technical requirements of the machines. A differentiation is made between hard decertification, whereby certification is also withdrawn from machines in the market, and soft decertification, whereby the new requirements are only applied to the type certification of new machines, while the old machines remain in the market and may continue to be used.
Derivatives	Derivatives are financial instruments whose price or value is linked to the rates or prices of other commercial goods (e.g. commodities or agricultural goods), assets (securities, such as shares or bonds) or to market-based parameters (interest rates, indices).
Digital Postage Mark	2D bar code franking.
Digitalisation	Using the services offered by FP iab GmbH, mail processing can be digitalised at certain points, i.e., inbound mail can be scanned and archived electronically. Outbound mail is sent electronically by PC to the printing centre, where it is processed into a completed letter.
DPAG	Abbreviation for Deutsche Post AG.
Electronic Franking	Also known as electronic franking in window, especially as used by high volume senders. Franking is carried out using the local IT system, whereby all relevant parameters are determined and the letters printed out with the correct franking in one operation.
EURIBOR	European InterBank Offered Rate (EURIBOR) is the interest rate in euros for short-term money in interbank lending.

Fair Value	In Anglo-Saxon accounting systems (IFRS and US GAAP), the fair value is the amount at which an asset could be bought or sold or a liability settled in a transaction between expert, willing and unrelated business partners ("arm's length transaction").
Field Bus	Electronic communication components between a franking machine and a peripheral device.
Frankit	A digital franking system introduced by Deutsche Post AG in Germany. As from April 1, 2006, the system covers the certification of new franking machines operating digital franking, resulting in greater security.
Hybrid Mail	Generic term for solutions in which letters are initially transported digitally, then printed out, inserted and franked. The finished letters are then passed on to a mail delivery centre.
Installed Base	Refers to the number of franking machines in the market as located at customers.
LIBOR	London Interbank Offered Rate (also Libor, LIBOR) is the reference interest rate fixed daily for interbank lending that is fixed every working day at 11:00 hours London time.
Mailroom	Office where mail is sorted and processed.
Mailstream	Refers to mail processing. Generally understood to include all mail services apart from the franking and inserting business. In the case of the FP Group this covers consolidation, outsourcing, and hybrid mail.
NetSet	Innovation programme by the Dutch postal authority in connection with the introduction of security standards for franking machines.
OEM	Abbreviation for "original equipment manufacturer".
Optimisation	This set of services from the FP Group enables customers to optimise their outbound mail processing chain.
Outsourcing	Refers to the delegation of production and tertiary services to third parties.
Postage Credit Balance	Also referred to as restricted cash – in some countries, users of franking machines are obliged to pay postage credit in advance. These monetary amounts are managed by the FP Group and constitute amounts owed to customers. These credit balances are to be distinguished from teleporto.
Regular Communication	Repeat standardised letters sent to customers and business associates, e.g. invoices.
STAMPIT	Internet franking provided by Deutsche Post AG, of particular interest to customers with low mail volumes.
Teleporto	A system of franking whereby the franking charge is downloaded by telephone or modem to the franking machines.
Track & Trace Function	Systematic approach to tracking and tracing mail.
USPS	US Postal Service

Financial Calendar

2009 Annual Report Presentation – Analyst and Press Conference	29 April 2010
1st Quarter Report	28 May 2010
Annual General Meeting 2010, Ludwig Erhard Haus, Berlin	01 July 2010
Half-yearly results	27 August 2009
3rd Quarter Results	18 November 2010

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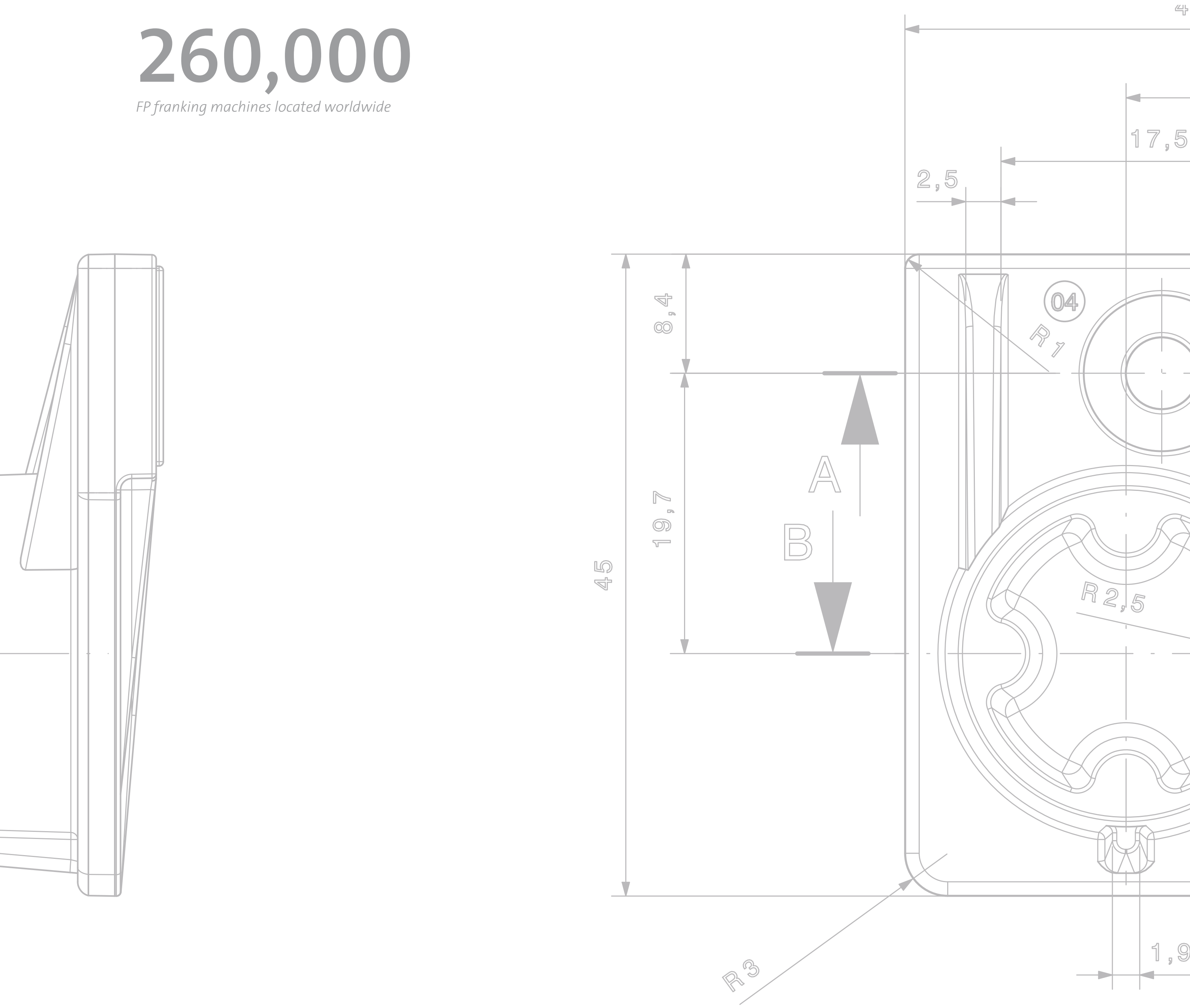
STATEMENTS RELATING TO THE FUTURE

This annual report contains statements that relate to the future and are based on assumptions and estimates made by the management of Francotyp-Postalia Holding AG. Even if the management is of the opinion that these assumptions and estimates are appropriate, the actual development and the actual future results may vary from these assumptions and estimates as a result of a variety of factors. These factors include, for example, changes to the overall economic environment, the statutory and regulatory conditions in Germany and the EU and changes in the industry. Francotyp-Postalia Holding AG makes no guarantee and accepts no liability for future development and the actual results achieved in the future matching the assumptions and estimates stated in this annual report. It is neither the intention of Francotyp-Postalia Holding AG nor does Francotyp-Postalia Holding AG accept a special obligation to update statements related to the future in order to align them with events or developments that take place after this report is published.

The annual report is available in English. If there are variances, the German version has priority over the English translation. It is available for download in both languages at http://www.francotyp.com.

260,000

FP franking machines located worldwide



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