YOUR MAIL IS OUR BUSINESS

CLEAR DIRECTIONS – CLEAR OBJECTIVES
ALL MAIL COMMUNICATION PROCESSES FROM A SINGLE SOURCE

FRANCOTYP-POSTALIA HOLDING AG
ANNUAL REPORT 2010

CLEAR PROCESSES FOR YOUR MAIL COMMUNICATION

We are specialists in the field of mail communication. Our products and services support business customers in all processes relating to the management of mail – from franking and inserting physical letters to mail consolidation and even hybrid and fully electronic mail. Our customers benefit from tailored solutions from a single source.

OUR PRODUCTS SERVE EVERY CHANNEL

We are the first Multi-Channel-Provider for mail communication. The company divides its business into three segments: Franking and Inserting, Software Solutions and Services.

INDIVIDUAL FRANKING AND INSERTING

Our franking systems ensure easy mail communication and mean that everyday tasks can be carried out more quickly and accurately. FP franking machines calculate the postal charges electronically and frank each letter automatically. We can also add company logos or advertising messages to customers' business letters to enhance the image of their correspondence.

INTELLIGENT MAIL SERVICES

Once the letters are ready for dispatch, we can help customers make savings on postal charges. In Germany, we offer consolidation mailing whereby we collect mail from your company, sort it according to postcode and then deliver it in batches to a sorting office operated by either Deutsche Post or an alternative mail delivery agent. In this way, and because of discounts, our customers save not only time but also money.

INNOVATIVE SOFTWARE SOLUTIONS

In the age of the internet, more and more people are sending mail at the click of a mouse. We are the frontrunner in the field of digital mail communication and offer innovative software solutions for both corporate and private customers. Depending on their needs, our customers can choose between hybrid or fully electronic mail dispatch. These are the solutions for mail communications of the future.

CLEAR DIRECTIONS – CLEAR OBJECTIVES

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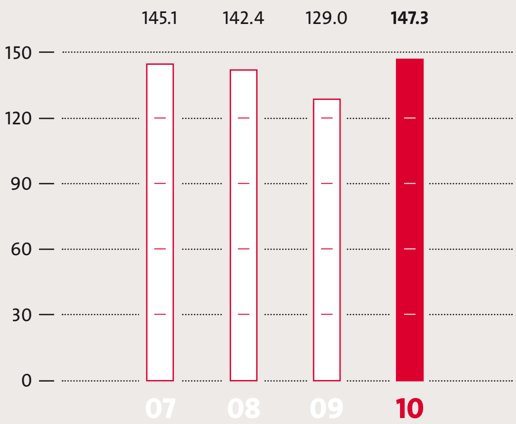
KEY FIGURES

Figures in accordance with consolidated financial statements in EUR million	2010	2009	Changes %
Revenues	**147.3**	129.0	14.2
Increase in revenues (%)	14.2	-9.3	
Recurring revenues	**111.8**	95.5	17.1
EBITDA	**25.5**	20.6	23.8
as percentage of revenues	17.3	16.0	
EBITA	**14.4**	9.2	56.5
as percentage of revenues	9.8	7.1	
Operating income EBIT	**7.5**	-15.7	n/a
as percentage of revenues	5.1	-12.2	
Net income	**2.7**	-16.6	116.3
as percentage of revenues	1.8	-12.9	
Free Cashflow	**9.4**	9.8	-3.5
as percentage of revenues	6.4	7.6	
Equity capital	**14.7**	14.7	
Shareholders equity	**19.6**	15.3	28.1
as percentage of revenues	14.4	11.4	
Return on equity (%)	13.8	-108.5	
Debt capital	**116.3**	119.0	-2.3
Net debt	**31.8**	41.0	-22.4
Net indebtedness percent	162.0	268.0	
Balance sheet total	**135.9**	134.3	1.2
Share price end of the year in EUR	**3.15**	1.62	94.4
Earnings per share in EUR	**0.23**	-1.12	120.5
Employees (exact number)	**1.113**	1.041	6,9

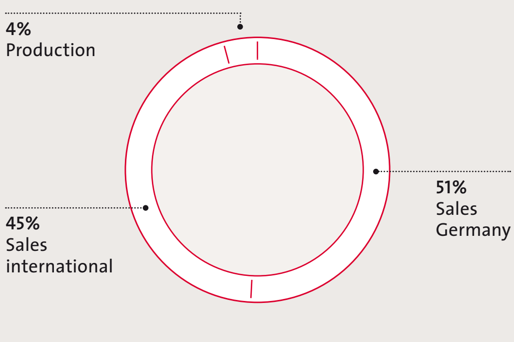
Group and revenue development

in EUR million



FP sales by segments

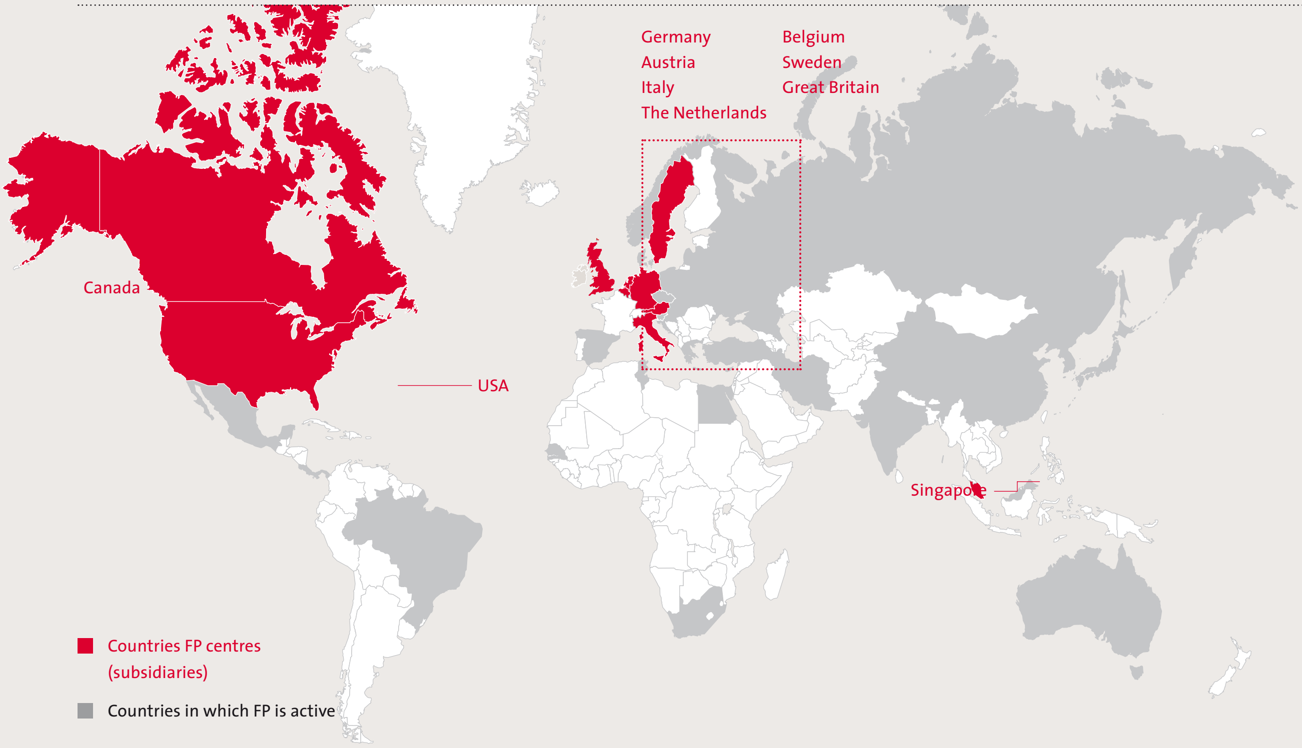
in %



COMPANY OVERVIEW

The FP Group is the first Multi-Channel-Provider for mail communication. Our long-established company, based in Birkenwerder near Berlin, operates in over 80 countries and employs more than 1,100 employees worldwide. As postal markets have become increasingly liberalised, the Group has moved from being a producer of franking machines to being the experts in mail communication.

This means that we cover the entire post distribution chain – from traditional channels through to the legally binding dispatch of e-mails.



FP SALES BY SEGMENTS (in EUR million)*

76.9	67.0	5.5
SALES GERMANY	**SALES INTERNATIONAL**	**PRODUCTION**
2009: 60.5	**2009: 63.1**	**2009: 6.2**

* Segments according to IFRS 8

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LETTER FROM THE BOARD OF MANAGEMENT

Your FP Group is on the right track. For the first time in over five years, the company once again succeeded in generating a consolidated net profit of EUR 2.7 million. We hope to continue this positive performance in the years to come. In the medium to long term, we are aiming for profitable growth and to raise the value of the company in a sustainable manner. With a clear strategy and our focus on improving our financial and earnings power, we have created the right conditions to achieve these goals.

Dear Shareholders, Ladies and Gentlemen,

The FP Group's total revenue increased to EUR 147.3 million in 2010, compared with EUR 129.0 million in the previous year. Revenues in the German domestic market climbed just as much as those abroad. On account of the successful restructuring that has taken place over the last two years, a sharp decline in depreciation and amortisation and strict cost management, the company even achieved a considerable improvement in earnings. EBITDA rose to EUR 25.5 million in comparison with EUR 20.6 million in 2009. Before restructuring costs, EBITDA was as high as EUR 26.8 million. This meant that the FP Group exceeded its forecasts.

All these figures demonstrate that the restructuring measures are paying off. We have positioned the FP Group in such a way that we are profiting from the changes taking place in the postal markets. There are essentially two trends that we are observing and exploiting: liberalisation and digitalisation.

The liberalisation of postal markets is ongoing in many European countries. We offer a diverse range of products and prices in Germany with our consolidation business and are succeeding in persuading ever more companies and authorities of the advantages of our service.

Much stronger influence, however, is wielded by the onward march of technology. Digitalisation in particular is an important trend in this respect. Many in our business equate digitalisation with e-mail and speculate accordingly on the impending extinction of the letter. Yet the letter is not being replaced by the new media – rather, it is changing, and we see this change as a clear opportunity to develop our business in a way that looks to the future.

MANAGEMENT BOARD

Andreas Drechsler (left)
Member of the Management Board (CSO)

Born in 1968, Andreas Drechsler studied and graduated in banking and business studies, and is responsible for Sales, Product Management, International Service, Quality Management, Corporate Auditing, and Investor Relations

Hans Szymanski (right)
Chairman of the Management Board – (CEO & CFO)

Born in 1963 and an economics graduate, he is responsible for Finance, Controlling and Accounting, Strategic Business Development, Production, Logistics, Purchasing, Research and Development, IT, as well as Human Resources and Legal

We anticipated this development at an early stage. The equity investment in Mentana-Claimsoft AG was a crucial strategic step in this regard. For a long time now, the FP Group has been more than just a manufacturer of franking machines. Years ago we expanded our product range to include innovative software solutions, seeing the signs of the times long before our competitors. We can now also offer our customers the completely secure and legally binding fully electronic dispatch of their documents. This makes us the first multi-channel provider for mail communication, able to cover the entire letter post distribution chain, whether physical, hybrid or fully electronic.

A hybrid letter is a mixture of electronic dispatch and physical delivery – in other words, the document is sent in digital form by the sender and the recipient receives a standard physical letter. By this point, it is our experience that, particularly in this age of increasing digital communication, people still very much appreciate receiving standard letters, which is why they remain a highly attractive means of communication for many senders. This area holds great potential. Last year, we gained the portal WEB.DE as a partner for our online mail service FP webbrief. As of April this year, we also offer this innovative product via the GMX.DE portal. As part of this cooperation, users can log in to the online mail service directly via their e-mail account and send letters in an easy and cost-effective way. In addition, we are moving forwards with the internationalisation of hybrid mail. After the UK, Belgium and Austria, we will launch on the market in further countries in order to make the most of the potential offered by this service.

With our majority stake in Mentana-Claimsoft AG, we have made strong progress in our strategic alignment of the FP Group as the first multi-channel provider for mail communication. As a company, Mentana-Claimsoft has made its name primarily in the field of electronic signatures. It is also a member of the De-Mail project supported by the German government. Mentana-Claimsoft AG plans to apply for De-Mail certification during 2011 to enable documents and messages to be sent via the internet in encrypted form and thus with the utmost confidentiality and reliability in compliance with the requirements of the De-Mail Act.

Nonetheless, we are still conscious of the FP Group's roots in the conventional franking machine business. Our traditional business still accounts for the lion's share of our revenue. Our focus will in future be on providing customers with all products from one source, tailored to their wishes and at an optimal price / quality ratio. It is for this purpose that we have developed the new Phoenix franking system, which we will introduce in our major markets in the first quarter of 2012.

Production of this new generation of franking machines will take place in Wittenberge, Brandenburg. Last year, we held numerous talks on the subject of the required restructuring of production at our headquarters Birkenwerder. This realignment is a central plank of measures we are taking to secure the long-term future of the FP Group. At the same time, this means that we will cease production in Birkenwerder by the end of March 2012.

We are expecting positive momentum in new markets for the franking machine business, and intend to enter the French market in 2011. We anticipate that approval for the small franking system mymail will be granted during the course of this year. Further opportunities for growth are evident in the emerging markets in particular, where we will be stepping up our activities in order to tap into new customer groups.

As you can see, we are on the right track to increase the value of the FP Group sustainably in the medium to long term. We would like to take this opportunity to thank all our customers most sincerely for their confidence in the FP Group. Our thanks are also due to all employees for their achievements and commitment over the past financial year. We would also like to extend our gratitude to you, esteemed shareholders, friends and partners, for the trust you have placed in the FP Group. We will continue to make every effort to build upon the company's market position and would be delighted for you to remain with us on this journey.

Yours faithfully,

Hans Szymanski
(CEO & CFO)

Andreas Drechsler
(CSO)

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www.mi-berlin.de

MI-Berlin _ Prinzregentenstraße 8 _ 10056 Berlin

Frau
Charlotte Hintze
Von-Arbrecht-Straße 24 a

10478 Berlin

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INDI
VIDU

SAVING TIME AND MONEY

We offer customised solutions. Our franking systems are used for the professional management of mail and help our customers save substantial amounts of time and money. Whether for small companies or corporate groups, the products and services we offer provide customised and optimal support for mail communication.

INDIVIDUAL: FRANKING AND INSERTING

Companies have to manage many letters every day. Our customised solutions provide all the support they need.

Managing letters by hand can be an extremely laborious task. In a first process step, once the letters have been printed out, special inserting machines help fold the letters and insert them into envelopes. Franking machines frank the relevant letters automatically using the postage credit balance that has already been topped up electronically. Scales are used to calculate precisely the right postal charge.

During the franking stage, the machine can also print out advertising slogans and user-programmable text on request. These processes are an essential part of tailored, professional mail management.

Opposite page:
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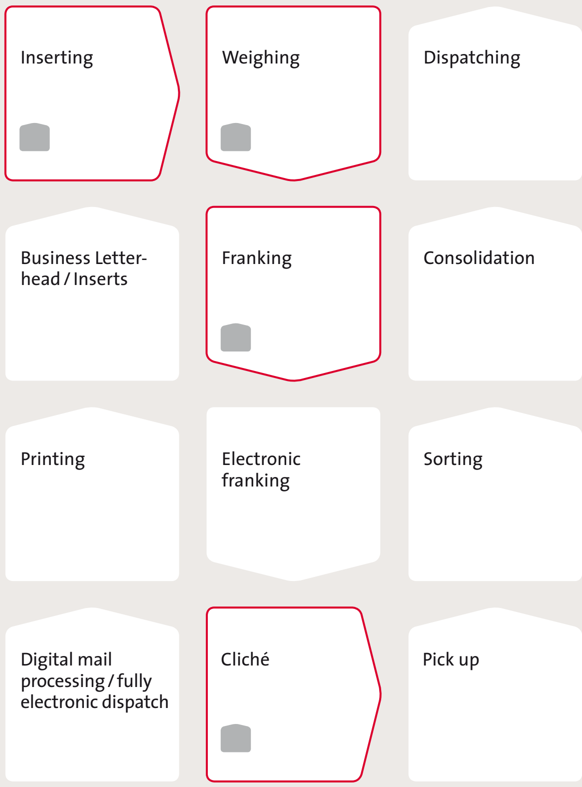


MI. Berlin
MI-Berlin _ Prinzregentenstraße 8 _ 10056 Berlin
Ms
Charlotte Hintze
Von-Arbrecht-Straße 24 a
10478 Berlin
Berlin, March 23rd, 2011
Hymn – Film music – Cantastoria song – Death cry
Alban Berg's "Symphonic pieces from the opera LULU" (1934)
Dear Ms Hintze,
Thank you very much for visiting us. As discussed, I am sending
instrument museum SIMPK.
I think that this lecture will complement
If you wish, we could meet at
opportunity to introd
If you have any
Kind regards
(Dr. Oliver Vogel)
Attachment
egentenstraße 8–12
0056 Berlin
E-Mail: info@mi-berlin.de
Tel. 030.200.15.89 – 12
Fax. 030.200.15.89 – 55
www.mi-berlin.de
SIM PK
Einladung
ALBAN BERG
SYMPHONISCHE
Hymne – Filmmusik – Lied – Bänkelsang – Todesschrei
Alban Bergs ›Symphonische Stücke aus der Oper LULU‹ (1934)
Bald nach Abschluß der Komposition seiner zweiten Oper stellte Berg Teile der
Opernmusik zu einer fünfsätzigen Suite zusammen, die im Konzertsaal für die
Uraufführung des Bühnenwerks werben sollte. Zu diesem Zweck griff er auf
besonders eindringliche und spektakuläre Partien der Oper zurück.
Am 13., 14. und 15. Mai wird das Werk von den Berliner Philharmonikern
Claudio Abbado (Gesang: Anna Prohaska) aufgeführt. Aus diesem Anla
Dr. Thomas Ertelt, Direktor des Staatlichen Instituts für Musikforsch
Mitarbeiter der Alban Berg Gesamtausgabe, in einer Sonderveranst
Entstehung, Hintergründe und Aufführungsfragen von Alban Be
anhand von Quellen aus dem Nachlaß des Komponisten.
Sonntag, 15. Mai 2011 | 17.30 Uhr
Curt-Sachs-Saal
Musikinstrumenten-Museum SIMPK
Tiergartenstraße 1 | Eingang Ben-Gurion-Straße
10785 Berlin | Info: (030) 25481-101
Die Fotografie von Felix H. Man zeigt Berg in seinem
des I. Akts der Oper Lulu, T. 377–407 des Trios (Ca
das einzige Zwischenspiel der Oper, das nicht i

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In 2010 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. A total of 13 meetings were held in the last year, of which four were ordinary meetings and nine were extraordinary meetings.

The Supervisory Board held seven meetings at which the members of the Supervisory Board and the Management Board were present in person. The Supervisory Board also held six meetings via telephone conference. The meetings focused on the following issues:

- Sales and the expansion of the sales organisation
- Current Products and new products
- The setting up of a new production site
- Rescheduling of existing liabilities to banks

Meetings at which the Management and Supervisory Boards were present in person took place on 11 February 2010, 25 March 2010, 1 June 2010, 30 June 2010, 25 August 2010, 30 September 2010 and 7 December 2010. On 15 February 2010, 22 June 2010, 13 October 2010, 21 October 2010, 8 November 2010 and 10 December 2010, Supervisory Board meetings were held via telephone conference.

The entire Supervisory Board attended all meetings bar one, from which one member was absent due to illness. The entire Management Board was present at ten of all the Supervisory Board meetings arranged.

Advice and supervision in ongoing dialogue with the Management Board

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Events after the balance sheet date p. 68

The 2010 financial year showed the first results of the strategic realignment of the FP Group, which the Management Board decided on in 2009. This was reflected primarily in the positive development of ***REVENUE AND INCOME*** →. At the same time, the FP Group recorded a series of strategic achievements in the last financial year. Some examples include the approval of ultimail for the Indian market, the partnership with United Internet, the founding of our own subsidiary in Sweden, the preparatory measures for entry to the French market and, finally, the purchase of a 51% stake in ***MENTANA-CLAIMSOFT AG*** →. With this acquisition in early 2011, the FP Group took a crucial step towards becoming a company that can offer customers all products for efficient mail communication.

The Management-Board has kept the Supervisory Board up-to-date through written and verbal reports of all strategic projects and of the business policy, the business situation and development, profitability, corporate planning including the company's financial, investment and staff planning and any discrepancies between actual business performance and the plans. The Supervisory Board has discussed the reports of the Management Board in detail and has held intensive discussions with the Management Board regarding the development prospects of the company and the individual business segments. The Management Board has also regularly updated the Supervisory Board outside Supervisory Board meetings on current developments in the business situation and significant transactions. The Supervisory Board has always been involved in important decisions from an early stage. Whenever a decision was required from the Supervisory Board regarding individual measures of the Management Board, the Supervisory Board passed resolutions on this, if necessary by circulation.

STRATEGIC DEVELOPMENT OF THE FP GROUP

One special focus of supervisory activities in 2010 – particularly in view of the challenges of the last few years – was the development of Francotyp-Postalia Holding AG into the first Multi-Channel-Provider for mail communication. For this reason, the Supervisory Board called an extraordinary meeting on 11 February 2010, which was dedicated solely to the sales organisation and strategy of the FP Group in Germany and abroad. At this meeting, the Management Board also informed the Supervisory Board of the forthcoming project to establish the optimum production site for the new generation of franking machines, the ***PHOENIX*** →.

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In a resolution passed at the following telephone conference held by the Supervisory Board on 15 February 2010, the Supervisory Board approved the proposal of the Management Board to appoint an external consultant to analyse potential sites for the production of Phoenix production site. The Management Board reported to the Supervisory Board regularly over the course of the year about the progress made with the analysis of potential and the development of an appropriate site, and collaborated closely with the Supervisory Board. The analysis looked at potential sites in the USA, Singapore, Bulgaria and Germany. These were assessed not only on the basis of labour cost parameters. The major considerations also took into account the cost of logistics for incoming and outgoing goods. In accordance with the comprehensive criteria drawn up, sites in the USA, Singapore and Bulgaria were ruled out. The Management and Supervisory Boards ultimately decided on a site in Germany at the extraordinary meeting of 22 June 2010. It was also decided that the company would attempt to introduce the conditions that apply to an optimum production site in Germany at its existing production site in Birkenwerder.

On 24 June 2010, the economic committee of Francotyp-Postalia GmbH and Francotyp-Postalia Vertrieb und Service GmbH, both subsidiaries of Francotyp-Postalia Holding AG, was informed of plans to set up a new production line for the Phoenix at the Birkenwerder site and plans for extensive restructuring in order to improve competitiveness, optimise business processes and improve results and liquidity, in accordance with the resolution passed by the Management and Supervisory Boards.

The Supervisory Board supported the concept of the long-term protection of the Birkenwerder production site, in order to safeguard the future viability of the company and ensure the successful launch of the new generation of franking machines in 2012. However, the company has been unable to reach an agreement with employee representatives on the preservation of the production site, despite lengthy negotiations. At the beginning of 2011, the Supervisory Board approved the decision of the Management Board to close production in Birkenwerder and set up production activities at the ***NEW SITE IN WITTENBERGE*** →. The Supervisory Board is updated regularly and in detail by the Management Board on the development of the project.

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NET ASSETS, FINANCIAL AND EARNINGS POSITION

The Management Board has reported to the Supervisory Board on the net assets and financial and earnings position of the FP Group at every meeting. Issues of particular importance were discussed in detail between the Supervisory and Management Boards. The Supervisory Board paid particular attention to the development of the financial position. At the meeting on 1 June 2010, the Management Board informed the Supervisory Board that it was to make an unscheduled repayment of a loan of EUR 4 million at the end of that month.

At the meeting on 30 June 2010, the Management and Supervisory Boards also discussed the impact of the amendment of the law on sales tax passed by the Bundestag and Bundesrat, which came into effect on 1 July 2010, on the revenue and earnings position of the FP Group. In accordance with this, Deutsche Post AG lost its sales tax privilege for business customers. The same regulation has now also been applied to competitors of Deutsche Post that offer nationwide services. These competitors include FP's subsidiaries freesort GmbH and iab – internet access GmbH, which provide consolidation and franking services for their customers.

ANNUAL GENERAL MEETING

At its meeting on 25 March 2010, the Supervisory Board discussed the agenda for the upcoming Annual General Meeting in June 2010. The main points discussed were the proposed resolution for a stock option plan and the remuneration system for the Management Board. The latter was discussed in particular in light of the new requirements arising from the Act on the Appropriateness of Management Board Compensation (VorstAG). The Management and Supervisory Boards agreed to submit a resolution proposal to the 2010 Annual General Meeting on the approval of the remuneration system for members of the Management Board of Francotyp-Postalia Holding AG.

SHAREHOLDERS – CHANGE IN OWNERSHIP OF A LARGE PROPORTION OF SHARES

Quadriga Capital Private Equity Fund II L.P., until now the main shareholder in Francotyp-Postalia Holding AG, sold its shares in December 2010. The private equity company had held a 26.3% stake in the company for over five years and held a share in the voting rights. As specified in the company's business model, stakes in the company may be held for a maximum of three to five years. The point at which the stake was sold was thus determined purely by reasons of time. The shares have been sold to a wide variety of institutional investors in Germany, France, the UK and Switzerland. The free float of Francotyp-Postalia Holding AG has therefore increased significantly to around 92%.

Composition of the Supervisory Board and Management Board

SUPERVISORY BOARD

As already reported in the report by the Supervisory Board for the 2009 financial year, Dr Claus Gerckens was appointed by a court as a member of the Supervisory Board until the next Annual General Meeting by means of a resolution passed on 12 August 2009, replacing George Marton. The appointment of Dr Gerckens as a member of the Supervisory Board at the Annual General Meeting on 1 July 2010 took place in accordance with Section 10 paragraph 4 of the Articles of Association for the remaining term in office of the member who had left the Board, i.e. he was elected to the Supervisory Board until the close of the Annual General Meeting that resolves on the approval of actions for the 2010 financial year.

Dr Gerckens was Chairman of the Management Board of BÖWE SYSTEC AG until 31 January 2009 and is managing director of GVG Industrieverwaltungs GmbH, Butenfeld Vermögensverwaltungs GmbH and Königsdorf Vermögensverwaltungs-GmbH, all of which are based in Augsburg. As an independent member of the Supervisory Board and a former auditor and tax consultant, he meets the personal requirements of Supervisory Board members set out in Section 100, paragraph 5 AktG.

In accordance with Section 5.5.2 of the Corporate Governance Code, members of the Supervisory Board must report any potential conflicts of interest. In the last financial year, one member of the Supervisory Board disclosed a conflict of interest.

MANAGEMENT BOARD

At its meeting on 8 November 2010, the Supervisory Board resolved to appoint Hans Szymanski as Chairman of the Management Board with effect from 1 January 2011. At the same time, it was resolved to extend his existing contract of employment as a member of the Management Board, which is due to expire on 31 December 2011, by three years. The period of extension thus begins on 1 January 2012 and ends on 31 December 2014.

At another meeting, on 10 January 2011, the Supervisory Board resolved to extend the existing contract of employment as a member of the Management Board of Andreas Drechsler until 22 February 2015. Mr Drechsler has been Chief Sales Officer for the FP Group's global operating business since February 2009.

By making these personnel decisions at Management Board level ahead of schedule, the Supervisory Board is ensuring the continuity of the successful operational and strategic work of the Management Board. This is of great importance to the Supervisory Board, particularly in the light of the past few years.

LEGAL DISPUTES WITH DR SLUMA

The Supervisory Board continued to deal with the pending lawsuits resulting from the revocation of the appointment and the termination of the contract of employment as a member of the Management Board of Dr Heinz-Dieter Sluma as CEO of the company for good cause.

Suit for wrongful dismissal (Neuruppin Regional Court, 6 O 26 / 09, Brandenburg Higher Regional Court 6 U 114 / 10)
In March 2009, Dr Sluma filed a suit to have the revocation of his appointment to the Management Board declared void and to repeal the termination of his contract of employment. These proceedings were instituted at the Neuruppin regional court under file reference 6 O 26 / 09. The court dismissed the suit in its ruling of 5 November 2010. Dr Sluma lodged an appeal against the ruling of the first instance. The proceedings will now be continued at the Brandenburg higher regional court under file reference 6 U 114 / 10. The date for the first hearing has been set by the higher regional court for 27 September 2011.

Suit for compensation (Neuruppin Regional Court, 6 O 27 / 09, Brandenburg Higher Regional Court 6 U 115 / 10)
Also in March 2009, Dr Sluma sued for payment of remuneration in arrears dating back to the extraordinary termination of his employment contract. These proceedings were instituted at the Neuruppin regional court under file reference 6 O 27 / 09. The suit for regular remuneration since termination of the employment contract was dismissed in a partial judgement on 5 November 2010. The decision on the bonus claim for 2008 together with claims for compensation for damages remains subject to a final judgement.

Dr Sluma lodged an appeal against the ruling of the first instance. The proceedings will now be continued at the Brandenburg higher regional court under file reference 6 U 115 / 10. The date for the first hearing has been set by the higher regional court for 27 September 2011.

Action for rescission (Neuruppin Regional Court, 6 O 73 / 09)
The Annual General Meeting of the company had resolved to strip Dr Sluma of his powers on 23 June 2009. Dr Sluma had also filed a suit against the resolution of the Annual General Meeting. In a final judgement on 5 November 2010, the Neuruppin regional court declared the resolution of the Annual General Meeting in which the plaintiff was stripped of his powers to be void. This judgement is legally binding.

www.francotyp.com/en/ investors.html

Detailed information about current developments in the case can be found on the website of Francotyp-Postalia Holding AG at ***HTTP://WWW.FRANCOTYP.COM/DE/INVESTOREN.HTML*** →.

Work on 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.

Risk and opportunity report p. 71

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.

Audit of the annual and consolidated financial statements discussed in detail

Independent auditors' report p. 149

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 2010 as well as the consolidated financial statements and Group management report to 31 December 2010, 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 6 April 2011, in the presence of the independent auditor, who reported on his main audit findings, the 2010 annual financial statements, 2010 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 approved the financial statements drawn up by the Management Board in a resolution on 13 April 2011. These have thus been established 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 2010 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 2010 financial year. This will be repeated at regular intervals.

Declaration on Corporate Governance p. 16

As disclosed in the Supervisory Board's report for the last year, the Management and Supervisory Boards had jointly resolved to update the existing compliance regulations and also to introduce new regulations binding all FP Group companies. In this respect, the Management and Supervisory Boards discussed appropriate measures with regard to compliance regulations and arranged for these to be implemented (meetings on 1 June and 30 September 2010).

Acknowledgements

Following the difficult period experienced by the FP Group in the last few years, the Supervisory Board now believes that the company is back on track. The Supervisory Board would like to thank the members of the Management Board, all employees and the Works Council for their commitment. Likewise, it would like to thank the shareholders for the confidence they have shown in the company.

April 2011

The Supervisory Board
Francotyp-Postalia Holding AG

Prof. Michael J. A. Hoffmann

Members of the Supervisory Board

Prof. Michael J. A. Hoffmann (right)
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 AND CORPORATE GOVERNANCE REPORT

The Management Board and Supervisory Board submit an annual corporate governance report on the corporate governance of the company. As with the Declaration of Compliance, this is also a component of the company's Declaration on Corporate Governance 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 interests of shareholders and thus to the implementation of the recommendations and proposals of the German Corporate Governance Code (the Code). In line with the principles of the social market economy, the Management Board and 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 the following extensive disclosures with reference to the version of the Code dated 26 May 2010.

DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR 2011

Pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz - AktG), the Management Board and Supervisory Board of Francotyp-Postalia Holding AG hereby present its Declaration of Compliance, setting out which recommendations of the version of the German Corporate Governance Code dated 26 May 2010, 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.

2.3.1 As the company is not going to offer postal votes at its next Annual General Meeting, it will not publish the applicable forms on its website.

2.3.3 The company will not offer postal votes at its next Annual General Meeting. To date, the Articles of Association of Francotyp-Postalia Holding AG have not allowed for the possibility of postal voting. Moreover, this system has not yet been sufficiently tested and involves legal uncertainty.

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.

5.4.6 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. Due to the large amount of consolidation work involved, the quarterly and half-yearly reports are also published, at the latest, within two months of the end of the reporting period, in compliance with the Stock Exchange Rules (Börsenordnung) and the Transparency Guidelines Implementation Act (Transparenzrichtlinien-Umsetzungsgesetz).

Birkenwerder, 6. April 2011

For the Supervisory Board

Prof. Michael J. A. Hoffmann
Chairman of the Supervisory Board

For the Management Board

Hans Szymanski
(CEO & CFO)

Andreas Drechsler
(CSO)

BASIC INFORMATION ON THE STRUCTURE OF COMPANY MANAGEMENT AND THE UNDERLYING RULES

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. 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, the two members of the Management Board are required within the remit of tasks allocated to them to cooperate 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.

COMMITTEES OF THE SUPERVISORY BOARD

Due to the size of the company and the number of members of the Supervisory Board prescribed by the Articles of Association, 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. One member of the Supervisory Board possesses the requisite specialist knowledge in the area of accounting.

COOPERATION 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 Management and Supervisory Boards meet at regular intervals to jointly coordinate the strategic direction of the company. The Management Board also provides the Supervisory Board with regular information on all issues relating to planning, business trends, risk, risk management, internal accounting and compliance. The Management Board reports any discrepancies between actual business performance and the plans and goals drawn up, and provides justification for these. The Supervisory Board has stipulated in the Rules of Procedure for the Management Board how the Management Board must provide information and reports. These Management Board Rules of Procedure also stipulate that the Supervisory Board has the right of veto with respect to decisions or measures could materially affect the company's assets, financial situation or earnings position, and also concerning transactions of major importance.

Francotyp-Postalia Holding AG has taken out D & O insurance, which includes an excess of 10% of the loss, for the members of the Supervisory and Management Boards in accordance with the provisions of the German Corporate Governance Code.

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 Group management report and the management report.

Group management report p. 87

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.

DIVERSITY

With regard to its future composition, the Supervisory Board must bear in mind the composition of the Supervisory Board recommended by the Corporate Governance Code, with male and female members. At present, there are still no women on the company's Supervisory Board. For a Supervisory Board consisting of three members in total, it is considered to be adequate to have one female Supervisory Board member. In the Supervisory Board elections planned for the 2011 Annual General Meeting, no female candidates are to be put forward for election for the time being. This is in the interests of Francotyp-Postalia Holding AG, which is currently undergoing restructuring measures.

It therefore seems crucial to maintain continuity in the work of the Supervisory Board for the moment. The Supervisory Board will take into account the issue of diversity when seeking suitably qualified candidates for Management Board positions that need to be filled.

Furthermore, at least one member of the Supervisory Board is to fulfil criteria with regard to internationality. One member already meets these criteria.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

The Management Board convenes an Annual General meeting at least once a year. At the Annual General meeting, the shareholders receive the consolidated and annual financial statements and the related management reports and resolve on the use of the unappropriated surplus and on the approval of the actions of the members of the Supervisory and Management Boards in connection with this. Those present at the Annual General Meeting also re-elect the auditor each financial year.

At the Annual General Meeting, shareholders in Francotyp-Postalia Holding AG exercise their rights of control and their rights to have a say in the running of the company. They have the option of exercising their voting rights themselves or having them exercised through an authorised representative of their choice, including a shareholders' association. The company also makes it easier for shareholders to exercise their rights in person by providing a proxy who can also be reached during the Annual General Meeting.

The company publishes the documents required for the Annual General Meeting and the agenda on its website, where they can be accessed easily by shareholders. Moreover, the company offers all financial service providers in Germany and abroad, shareholders and shareholders' associations the option of receiving the invitation to the Annual General Meeting, together with the documents relating to the convening of the meeting, via electronic means, provided that Francotyp-Postalia has obtained approval for this. Naturally, it is in the interests of the company and of the shareholders to ensure that the Annual General Meeting is concluded quickly. In accordance with the Articles of Association, the chairman of the meeting has the option to impose appropriate limits on the time for which shareholders are permitted to ask questions and to speak. Owing to the high organisational costs involved, an internet broadcast of the entire Annual General Meeting is still not planned.

TRANSPARENCY

For Francotyp-Postalia Holding AG, corporate governance means responsible and transparent leadership and control of the company. In particular, this includes equal treatment of shareholders when passing on information. We disclose all new facts and circumstances to shareholders, financial analysts and the like without delay. This involves disseminating the information in German and English both on the Francotyp-Postalia Holding AG website and through the use of systems 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.

In accordance with legal guidelines, Francotyp-Postalia Holding AG publishes the relevant information on its website if members of the Management and Supervisory Boards or related parties have purchased or sold FP shares or related derivatives. Pursuant to Section 15a of the Securities Trading Act, these persons are obliged to disclose transactions with a value that reaches or exceeds EUR 5,000 in one calendar year.

ACCOUNTING

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, the consolidated financial statements of Francotyp-Postalia Holding AG 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 also 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 2010 Annual General Meeting resolution on the matter, the Supervisory Board has appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, to conduct the audit of the 2010 annual financial statements and consolidated financial statements. In compliance with the recommendations of the Code, it was agreed with the auditor that he will inform the Chairman of the Supervisory Board immediately of any grounds for exclusion or bias which might arise during the audit, unless said grounds are eliminated without delay. The auditor is also required to immediately report any material findings or occurrences arising during the execution of the audit which may be relevant to the Supervisory Board's performance of its duties. The auditor is further required either to notify the Supervisory Board or make a corresponding note in its audit report should it discover circumstances indicating inaccuracies in the Declaration of Compliance with the Code given by the Management Board and Supervisory Board, pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz - AktG).

INTE

GENT

Deutsche Post
FRANKIT 2,20 EUR
02.05.11 3D060004A4

Fortuna Düsseldorf e.V. · Flinger Broich 87 · D-40235 Düsseldorf

freesort GmbH
Herrn Ralf Müller
Karl-Benz-Straße 10

40764 Langenfeld

K2055 01661

BUNDESLIGA

SERVICES DESIGNED TO OFFER KEY ADVANTAGES

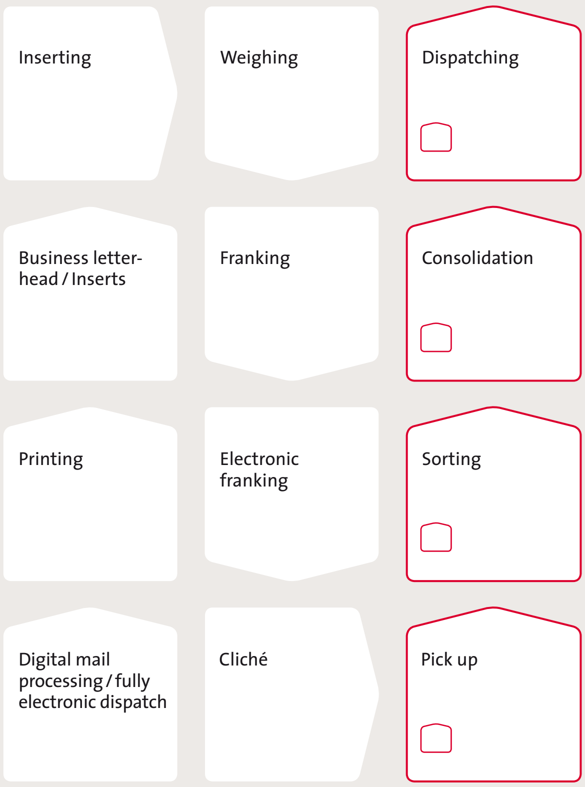
Customers now have numerous options that allow them to structure their mail processing much more efficiently, not only in terms of the form of their mail but also in terms of their choice of mail delivery agents. This not only creates an optimised process, but also delivers significant cost savings.

If companies no longer want to take their mail to the post office themselves, they can contact us and we will arrange to have it picked up for them. As a specialist in all aspects of mail management, we perform this service every single day and ensure that all business mail is taken care of by a reliable mail delivery agent. This is the quickest way of ensuring that letters reach their destinations as quickly as possible – a smart solution helping our customers to save time and money.

INTELLIGENT: MAIL SERVICES

Many companies send a lot of of letters every day. Our reliable and intelligent services help save customers that daily trip to the post office.

With a minimum volume of 50 mail items per day, we offer our customers in Germany the chance to consolidate their business mail so that they can benefit from a range of discounts. The process could not be easier: our subsidiary freesort collects the letters from the company. In nine of its own sorting centres nationwide, all the letters are then consolidated, that is, they are sorted according to postcode and then delivered in batches to a sorting office operated by either Deutsche Post or an alternative mail delivery agent. This allows even small companies to benefit from postage discounts for large volumes of letters.



Opposite page:
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.

Fortuna Düsseldorf e.V. · Flinger Broich 87 · D-40235 Düsseldorf

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E-Mail: service@fortuna-duesseldorf.de
Web: www. fortuna-duesseldorf.de

Stadium ticktes + parking pass

Düsseldorf, 02 May 2011

Dear Mr Müller,

We are pleased to invite you to the Fortuna home match at our stadium. As discussed, enclosed are your tickets + parking pass for the home match on

Sunday, 8 May 2011,
Fortuna Düsseldorf vs. Alemannia Aachen.

From the P1 carpark, proceed to ... where you will be seated.

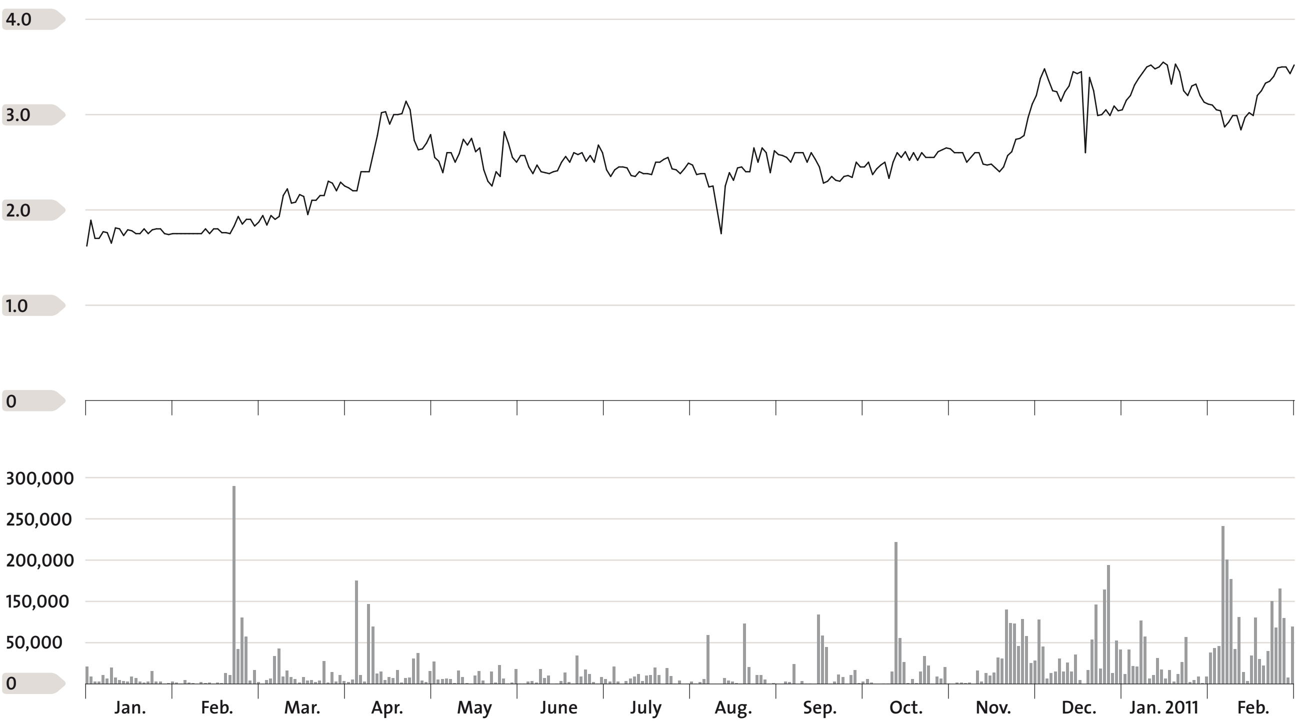
We hope you enjoy the event an... one.

Sincerely

Your Fortuna Team

FP SHARES – AN EXCELLENT YEAR IN A GOOD STOCK MARKET ENVIRONMENT

Performance of the Francotyp-Postalia share (4 January 2010 – 28 February 2011) [Share price in EUR, volumen in shares]



As per the previous year, the FP shares performed extremely well in a stock market environment that was generally favourable. Over the course of the year, the success of the restructuring, good business figures and positive analyst comments provided significant impetus for the share price increase. In November 2010, the FP Group raised its revenue and profit forecast for 2010.

The shares' performance also reflects rising confidence in the medium-term prospects of the Group. The company hopes to build on this in 2011 and beyond and to highlight the attractiveness of the share to both institutional and private investors. The positive development of profits, a strong free cash flow and the high proportion of recurring revenue underpin the good prospects of the FP Group.

RECOVERY OF THE CAPITAL MARKETS CONTINUES

FP shares began 2010 at a price of EUR 1.62. Following a muted start to the year, the share price saw a sharp rise in the spring and then generally recorded sideways movements until November 2010. At the end of November, the share price recorded a strong increase until it reached an annual high of EUR 3.45 in trading on Xetra. The share closed the year at a price of EUR 3.15. On average, around 20,000 shares changed hands each trading day in 2010. The highest number of FP shares traded in a single day was just under 300,000.

Overall, FP shares recorded an increase of 83% in 2010, which means that the shares once again significantly outperformed the capital markets. By way of comparison, the leading US index, Dow Jones, gained 10% and the German stock exchange indicator, the DAX, rose by around 16% over the course of the year. The German second-tier stock index, SDAX, climbed 46% in 2010. The FP share also performed well in comparison with listed competitors such as the US company Pitney Bowes and France's Neopost. Pitney Bowes shares gained around 7% in 2010, while Neopost rose by 13%.

FP GROUP BROADENEND ITS SHAREHOLDER STRUCTURE

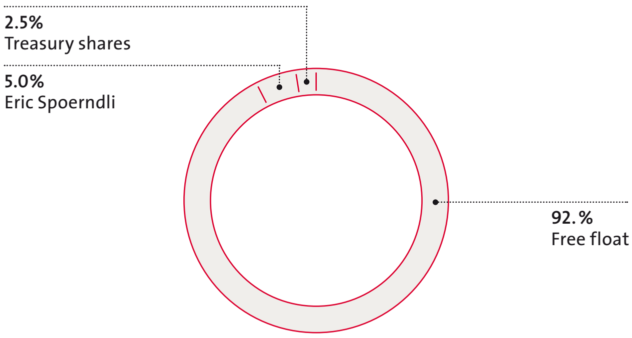
At the end of the 2010 stock market year, the FP Group broadened its shareholder structure once again. The existing shareholders Quadriga Capital and Stockwell, which had held around 34.64% of FP shares, sold their shares to widely dispersed institutional investors in Switzerland, Germany, France and the UK at the end of 2010, which means that the free float is now around 92%. The company itself holds 2.5% of the shares.

As of 31 December 2010, notifications received showed that the following investors each held voting rights in excess of 3%: Amiral Gestion (11.30%), Financière de L'Echiquier (5.11%), Eric Spoerndli (5.02%) and KBL Richelieu (4.85%). The share in the voting rights held by KBL Richelieu dropped below the threshold of 3% on 4 February 2011 and amounted to 2.07% on that date.

Shareholder structure

in %

The free float of 92% is distributed among institutional investors in Switzerland, Germany, France and the UK



Distribution of shares in free float (in %)

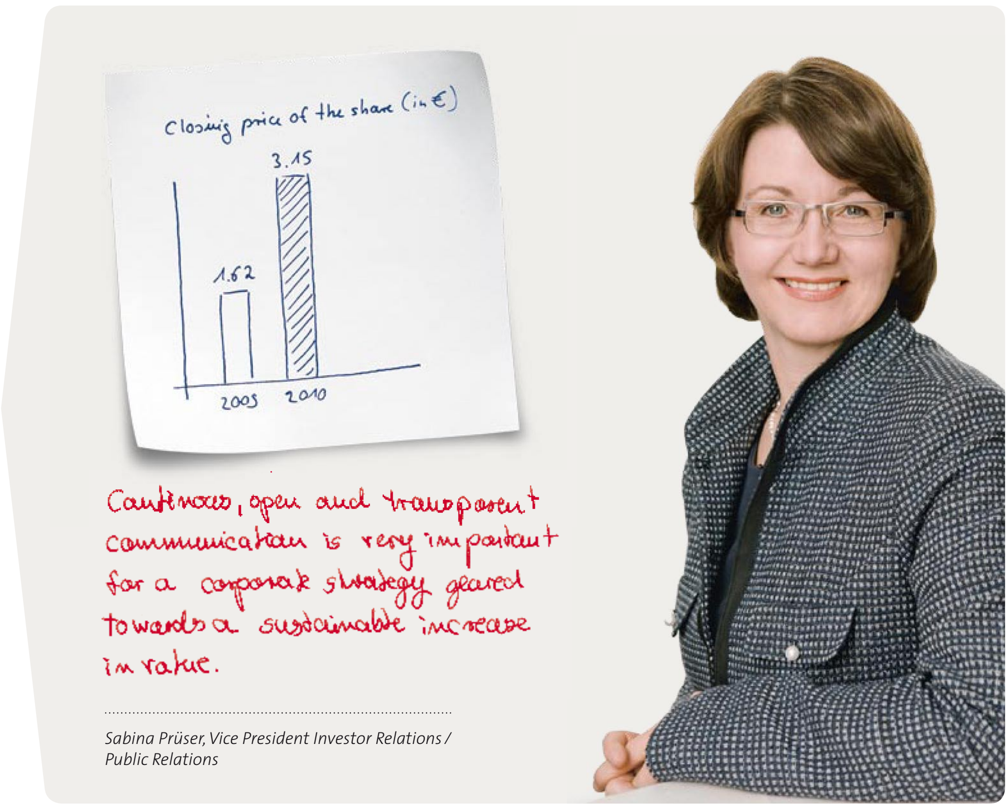
Amiral Gestion	11.3
Financière d L'Echiquier	5.11
KBL Richelieu	4.85

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

GOOD RELATIONS BETWEEN INVESTORS AND THE COMPANY

Continuous, open and transparent communication with all capital market participants is very important for a corporate strategy geared towards a sustainable increase in value. The aim is to inform market participants regularly and in detail of the development of the FP Group. Direct contact with analysts, investors and banks is of great importance to the Management Board. The stated aim is to increase the efficiency of information between the capital market and the FP Group. With this in mind, we not only make available all information that is important and of relevance to the capital markets through digital media and our website, the Management Board and the investor relations team also use and enjoy seeking out opportunities for one-on-one meetings, investor conferences and roadshows to explain the company's business model and to highlight the Group's potential.

In November 2010, the company participated once again in the German Equity Forum in Frankfurt, Europe's most important platform for equity capital finance for medium-sized companies. The FP Group presented itself here to a large number of investors and analysts. The company also organised telephone conferences each time it published quarterly figures, in which management explained the company's performance and answered questions from analysts and investors.



Sabina Prüser, Vice President Investor Relations / Public Relations

In addition, investors are regularly invited to the FP Group Investor's Day. The aim of this day is to give investors the opportunity to discuss current issues relating to business performance in detail with the Management Board. The 2010 Investor's Day was heavily dominated by hybrid mail products. At the beginning of 2011, the Management Board used Investor's Day as an opportunity to present the company's strategic development into the first Multi-Channel-Provider for mail communication and the measures planned for this, such as the setting up of the Phoenix production line, and to discuss this intensively with investors.

The FP Group's Annual General Meeting on 1 July 2010 in Berlin was an important platform for direct dialogue with shareholders. Around 73% of share capital with voting rights was represented at the Annual General Meeting.

The company is to further intensify its Investor Relations work in future. Along with additional roadshows in European countries, members of the Management Board will not only use one-on-one meetings with existing and potential investors to highlight the attractiveness of the FP Group's business model, but will also increasingly take part in capital market conferences.

The investor relations area of the company's website is a central point of contact for all 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 also be obtained by phoning the investor relations team directly on +49 (0)3303 525 410.

www.francotyp.com

Key figures for the FP share

Number of shares	14.7 million
Type of shares	Bearer shares
Equity capital	EUR 14.7 million
Voting rights	Each share grants one vote
WKN	FPH900
ISIN	DE000FPH9000
Ticker symbol	FHP
Trading segment	Official Market (Prime Standard)
Stock exchanges	Xetra and regional German exchanges
Designated sponsor	Close Brothers Seydler Bank
Coverage	Warburg Research, Hauck & Aufhäuser
Announcements	Electronic Federal Gazette
Closing price on Xetra on 30 December 2009	EUR 1.62
Highest price for the year on Xetra	EUR 3.45
Lowest price for the year on Xetra	EUR 1.72
Closing price on Xetra on 30 December 2010	EUR 3.45
Market capitalisation on 30 December 2010	EUR 46.3 million
Earnings per share	EUR 0.23

INNO
TIVE

DVA-


FP webmail
Die Onlinelösung für Ihre Briefpost
17230
12529 Schönefeld BZ
Port payé
Freimachung (DV) im Fenster
Deutsche Post
Francotyp-Postalia Holding AG • Triftweg 21-26 • 16547 Birkenwerder
DV 05 0,55 Deutsche Post
K2055
IR-One AG & Co. KG
Herrn Andreas Wittenburg
Bugenhagenstraße 5
20095 Hamburg


INNO

OVA-

SOFTWARE SOLUTIONS FOR THE MAIL COMMUNICATION OF THE FUTURE

Our innovative software solutions are extremely quick and easy to use.
A letter can be posted over the internet with just a single click of the mouse, but is subject to the highest security standards.

INNOVATIVE: SOFTWARE SOLUTIONS

In the age of the internet, more and more people are sending mail at the click of a mouse. We are the frontrunner in this field and offer a range of innovative and secure software solutions.

We offer our customers two digital dispatch methods: Hybrid mail and fully electronic dispatch. Hybrid mail is the combination of electronic and physical mail. The sender sends a letter in digital form and the recipient receives a standard letter. Between these two points, we print and frank the letter. We then insert it into the envelope and hand it over to a mail delivery agent. Particularly in this age of increased digital communication, people still very much appreciate receiving standard letters, which is why they remain a highly attractive means of communication for many senders.
Fully electronic dispatch means that you send your letters digitally and securely with a legally binding signature. The recipient then receives an officially recognised electronic mail. This is the way forward for innovative mail processing in the 21st century.

Opposite page:
Many in our business equate digitalisation with e-mail and speculate accordingly on the impending extinction of the letter. Yet the letter is not being replaced by the new media – rather, it is changing, and we see this change as a clear opportunity.


YOUR MAIL IS OUR BUSINESS
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DV 05 0,55 Deutsche Post
K2055
IR-One AG & Co. KG
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Triftweg 21-26
16547 Birkenwerder
Telefon +49 (0) 3303 525-0
Telefax +49 (0) 3303 525-799
info@francotyp.com
www.francotyp.com
Hanover, March 2011
CeBIT 2011
Dear Mr Wittenburg,
Thank you for your very pleasant call and your interest in Francotyp-Postalia.
We would like to invite you to visit us at this year's CeBIT and look forward to meeting you at our booth in Hall 8, Stand D08.
FP webmail
Fachbesucher-Ticket/Complimentary Ticket
Erst nach Registrierung unter www.cebit.com gültig.
Registration under www.cebit.com required.
Öffnungszeiten/Opening hours, 1 – 5 March 2011, 9.00 – 18.00 h.
Tagesticket
Day Ticket
PUSH
YOUR BUSINESS
TURKEY
CeBIT
cebit.com
HANNOVER
1–5 MARCH 2011
TICKET
CeBIT
1–5 MARCH 2011
Deutsche Messe
GVH
and download

GROUP MANAGEMENT REPORT FOR THE 2010 FINANCIAL YEAR

BUSINESS AND GENERAL ENVIRONMENT

Business activity

Francotyp-Postalia Holding AG (FP Group), based in Birkenwerder near Berlin, is a complete service provider for mail communication. As postal markets have become increasingly liberalised, the FP Group has moved from being a producer of franking machines to being a multi-channel service provider. The company covers the entire letter post distribution chain – from franking and inserting actual letters to mail ***CONSOLIDATION*** → and even hybrid and fully electronic mail. The FP Group can thus offer corporate clients of all sizes a complete package of products and services for easy and cost-efficient mail communication.

Glossary p. 150

The company divides its business into three product segments: Franking and Inserting, Software Solutions, and Services.

PRODUCT SEGMENTS

Franking and Inserting

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

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 onto the machine, followed by the franking process, which automatically stamps the correct value on each item. 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. All franking machines are certified by the national, legally authorised, public or private postal companies. 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.

Glossary p. 151

The Group's most important revenue generator in the franking machine segment is its ***AFTER-SALES BUSINESS*** → with recurring revenue for consumables and services. These include the automatic electronic loading of ***POSTAGE*** → into the franking machine, the sale of consumables, the creation of printing plates, services or even software solutions for cost centre management. For this service, the FP Group receives a service fee, referred to as ***TELEPORTO*** →. In essence, consumables comprise the various inks for the franking machines. These are supplied in the form of a ribbon cartridge or as a normal cartridge depending on the model of franking machine. The creation of customer-specific printing plates (cliché) also counts as consumables. These add advertising or informative text and pictures to the franking imprint. In terms of services, the FP Group offers a range of combined maintenance and servicing contracts, which differ according to the country and customer segment.

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Glossary p. 151
Glossary p. 151

Software Solutions

Technological progress in mail processing presents extensive growth opportunities. Following flotation in late 2006, the FP Group acquired a majority stake in iab – internet access GmbH, a software specialist in the area of digital mail communication.

The current innovative software solutions are extremely quick and easy to use. A letter can be posted over the internet with just a single mouse click, but is subject to the highest security standards. Two different types of this solution are currently available to customers: ***HYBRID MAIL*** → and in the future a fully electronic solution as well.

Glossary p. 151

The term 'hybrid mail' refers to a combination of both electronic and traditional mail. The sender sends a letter in digital form and the recipient receives a classic letter. The FP Group takes over the entire production process, from the printing, franking and inserting of mail items to their handover to a mail delivery agent. Sending the letter digitally eliminates customers' high expenditure on paper, envelopes and printers, and also saves them the trip to the post office or letter box, while retaining the advantages of traditional mail. Hybrid mail also makes a contribution to environmental protection as the physical route of transportation from the sender to the recipient is reduced dramatically by electronic transmission. The FP Group offers this service to business customers and private individuals alike, starting from the delivery of a single letter.

The entry-level solution ***FP WEBMAIL*** → is tailored to small businesses and freelancers, whereas ***FP BUSINESSMAIL*** → is more suited to large companies. Both solutions work as virtual printers, meaning that they send documents from Windows environments at the click of a mouse button. The online solution ***FP WEBBRIEF*** → has been developed for private customers. This application is loaded via an internet browser. The user then types the text into a window as with a normal text programme. Last year, the FP Group gained the portal WEB.DE as a partner for its online mail service FP webbrief. As part of the cooperation, users can log in to the online mail service directly via their e-mail inbox and send letters in an easy and cost-effective way.

Glossary p. 150

Glossary p. 150

The fully electronic solution enables customers to send letters securely in digital form with the use of a valid signature and the recipient receives a legally binding electronic letter. The FP Group secured its entry in this area with the acquisition of a majority stake in ***MENTANA-CLAIMSOFT AG*** → . The company specialises in electronic signatures and additionally offers products for securing electronic documents and legally binding communication.

Events after the balance sheet date p. 68

With this strategic step, the FP Group is expanding its Software Solutions segment and rounding off its product portfolio in the best possible way to provide its customers with a multi-channel strategy. The company is therefore the first complete service provider for mail communication, able to cover the entire letter post distribution chain.

Services

In the Services segment, mail communication expert FP Group offers mail ***CONSOLIDATION*** → services to businesses. The company is benefiting here from the increasing liberalisation of postal markets. Following flotation, the company acquired freesort GmbH in late 2006.

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With nine branches throughout Germany, freesort is one of the leading independent consolidators of outbound business mail in the German market. Their mail consolidation services include collecting letters from clients, sorting them by postcode and delivering them in batches to a sorting office of Deutsche Post or an alternative postal distributor.

Since liberalisation, Deutsche Post has granted a discount for consolidated mail, which is now up to 38%. A part of this discount is passed on to the customers by the FP Group. Mail consolidation therefore saves customers time and money.

KEY SALES MARKETS AND COMPETITIVE POSITION

The FP Group's franking machines are present in the main markets worldwide, including Germany, the USA and Great Britain. With an ***INSTALLED BASE*** → of some 254,000 franking machines, the company has a global market share of 10%, making it the third largest provider in the world. The company is the market leader in both Germany and Austria with a market share of between 43% and 47% in each country.

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Global sales are realised via its ten subsidiaries in key markets, as well as through a consolidated dealer network in 44 countries. At the end of 2010, the company made the decision to enter the French market for franking machines. A corresponding agreement was signed with the French postal service. The FP Group is planning to launch its products onto the market over the course of this year and, in a first step, wants to introduce its small franking system mymail to the French market.

The company has been operating in the fast-growing Asian market since the beginning of 2009 through its subsidiary Francotyp-Postalia Asia Pte Ltd in Singapore. From there, the FP Group is expanding its sales business and its presence in Asia with new partners and customers. The core markets are Singapore, followed by India and Malaysia. At the beginning of 2010, the company already entered the Indian market.

In the Services segment, the FP Group focuses primarily on the German market. However, over the past year, the Group was able to push ahead with the internalisation strategy for its software solutions. After market entry in Great Britain and Belgium in 2010, entry to other countries is set to follow in the future in a drive to tap into new sales markets.

GROUP 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 the shares in iab – internet access GmbH. These two companies offer consolidation and software solutions.

Acquisition of Mentana-Claimsoft AG, p. 68

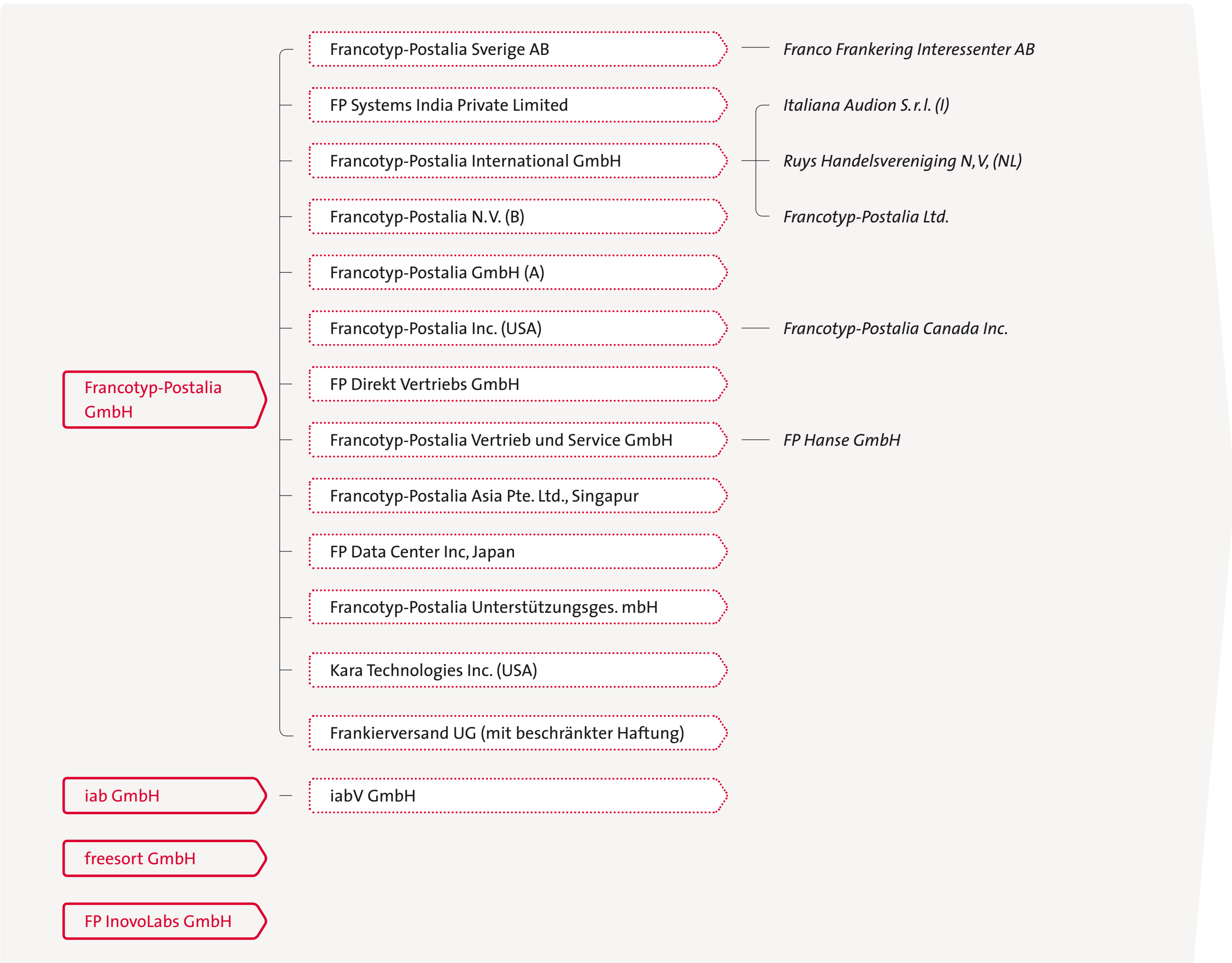
In financial year 2009, FP InovoLabs GmbH was established as a 100% subsidiary of the FP Group. You will find more information on this topic in the section on ***RESEARCH AND DEVELOPMENT*** →.

R & D p. 37

In financial year 2010, FP Sverige AB was established in Sweden. The FP Group thereby now owns ten sales companies and is directly represented in key international markets.

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

Francotyp-Postalia Holding AG



On 18 January 2011, the merger of the company Franco Frankering Interessenter AB was registered to Francotyp-Postalia Sverige AB.

KEY SITES

The company's registered offices and the FP Group's largest site is situated in Birkenwerder, near Berlin. 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 ten subsidiaries in key markets, as well as through a tightly integrated dealer network. An overview of the subsidiaries is also provided in the ***NOTES*** to the consolidated financial statements.

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Over the coming months, the Group will develop a new production line in Wittenberge, Brandenburg for the new ***PHOENIX*** → franking system . Parts of the manufacturing activities currently taking place in Birkenwerder will also be transferred here. The discontinuation of production at the Birkenwerder site is also scheduled for the end of the first quarter of 2012 at the latest. The company's registered offices will remain in Birkenwerder, however (please also refer to the section ***EVENTS AFTER THE BALANCE SHEET DATE*** →).

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The discontinuation of production activities in Singapore is set to be completed in March 2011. The company had previously manufactured preliminary products here, but the entire production line for these products will be moved to Wittenberge in the future.

MANAGEMENT AND CONTROL

The FP Group business is managed by a ***TWO-MEMBER MANAGEMENT BOARD*** → . Hans Szymanski is responsible for Finance, Controlling and Accounting, Strategic Business Development, Production, Logistics, Purchasing, Research and Development, IT, as well as Human Resources and Legal. In November 2010, the Supervisory Board of Francotyp-Postalia Holding AG resolved on the early extension of his Management Board contract. The contract has been extended by three years and is scheduled to run until 31 December 2014. The Supervisory Board also appointed Hans Szymanski Chairman of the Managing Board effective from 1 January 2011.

Group development p. 4

His Management Board colleague, Andreas Drechsler, is responsible for Sales, Marketing, Product Management, International Service, Quality Management, Corporate Auditing, and Investor Relations. At the beginning of 2011, the Supervisory Board resolved on the early extension of his Management Board contract, which would have originally run until February 2010, by an additional two years.

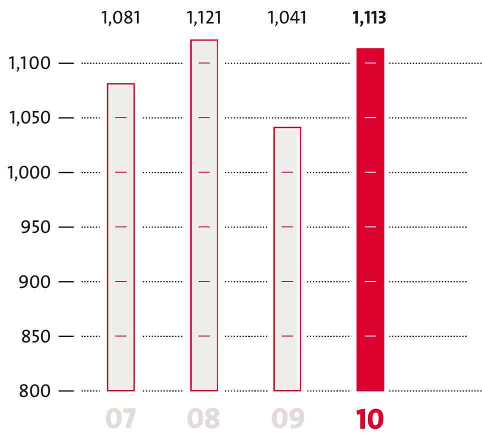
A three-member Supervisory Board monitors the activity of the Management Board and advises it. The ***MEMBERS OF THE SUPERVISORY BOARD*** → are Prof. Michael J.A. Hoffmann, Christoph Weise and Dr. Claus Gerckens.

Group development p. 15

EMPLOYEES

As of 31 December 2010, the FP Group employed a total of 1,113 people worldwide, compared with 1,041 employees in the previous year. This rise is a direct consequence of personnel increases in the foreign and German subsidiaries. Accordingly, at the end of 2010, 709 employees were attributable to the German companies (previous year: 691) and 404 to foreign subsidiaries (previous year: 350).

In Germany, a total of 470 employees belonged to the Franking and Inserting segment (previous year: 466) and 239 to the Software Solutions and Services segments (previous year: 225). At the end of 2010, 183 people were employed at freesort, compared with 172 employees in the previous year. At iab, the number of employees rose from 53 in the previous year to 56. The increase in personnel in these segments underlines the increasing significance of the Software and Services business for the entire company.



Headcount development *

The 9.3% staff increase is primarily due to recruitment at the subsidiaries.

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

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 use 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 are complied with at all times.

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In the last financial year, Francotyp-Postalia Holding AG introduced its environmental management system in accordance with ***ISO 14001:2004*** → . The company thereby fulfils all requirements under ***DIN EN ISO 14001:2009*** → . The environmental management system specifies responsibilities, processes and procedures for the continued reduction of its environmental impact in the Group's operating activities. One of the company's most important goals is to optimise environmentally friendly processes and raise awareness of the responsible use of resources and foster behaviour that is in line with these objectives among all employees.

The British subsidiary Francotyp-Postalia Ltd has maintained ISO 14001 certification since 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-orientated companies.

The FP Group will continually develop the environmental management structure to meet the constantly evolving demands of environmental protection on a permanent basis. With this step, FP is investing in sales and marketing of its product range. For many international projects, ISO 14001 certification is now mandatory for participation in international tenders. However, existing customers and new customers, in particular, are increasingly looking for environmentally friendly factors in our products.

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For this reason, the issue of environmental protection also plays a major role in product development. In 2009, the company launched the first franking system with ***GOGREEN*** → functionality and is consequently supporting Deutsche Post's climate protection programme. This records the CO_2 emissions generated in transporting a GOGREEN 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 further developed franking machine, the required logo can be printed on every envelope that is franked.

Quality management also plays a vital role. In early 2010, 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 these companies in particular and noted 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.

The subsidiary freesort is certified by the quality association of the Bundesverband Deutscher SachverständigenRat e.V. and iab GmbH is certified in accordance with DIN EN ISO 9001:2008.

SOCIAL RESPONSIBILITY

The FP Group is aware of its responsibility to society, an example being its support of people with disabilities. 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 consequently recognised as a barrier- free and disability-friendly business by the City of Frankfurt am Main. Last year, the company won the ***GERMAN JOB INVESTMENT AWARD (ARBEITSPLATZINVESTOR-PREIS)*** → in the category “job opportunities for people with disabilities”. The Rhein-Main Business Club and the Federal Employment Agency award this prize to companies which make an extraordinary contribution to social responsibility awareness by creating new jobs.

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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. The strategy is drawn up for three years, but reviewed annually during a comprehensive budget process and adjusted over the course of 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. The segments also provide an assessment of their current and forecast business performance.

Group management takes place by means of the indicators:

- Revenue
- EBITDA
- Net working capital
- Free cash flow
- Annual and monthly net income
- The number of franking machines placed on the market

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.

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 segments
- 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. Targets of central importance include increasing revenue in the medium and long term, increasing EBITDA and annual profit and improving free cash flow and net working capital.

This is why the FP Group 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 both stakeholder interests and non-financial values.

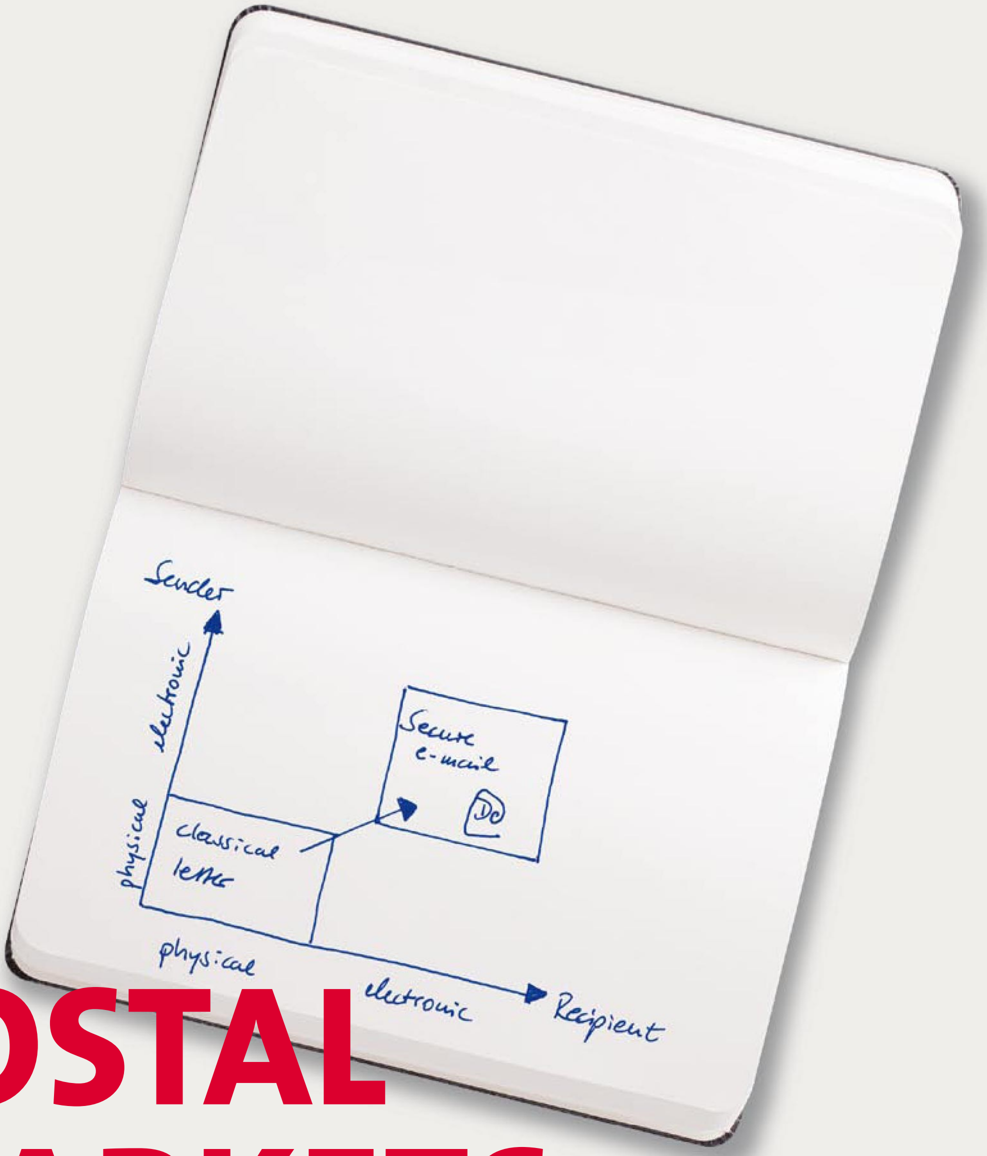
NON-FINANCIAL TARGETS

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

Optimal service for customers	→	customer satisfaction
Fairness towards suppliers	→	quality
Commitment 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. 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. 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. The company and its employers are particularly motivated to maintain this high level and to continually improve on a continuous basis.

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.



POSTAL MARKETS

The postal markets are undergoing a radical change and have grown more strongly over the past decade than at any time in the past 500 years since their emergence. Liberalisation and digitalisation are the primary reasons for this – and both these trends are having a massive impact on our business.

EXPLOITING CHANGES ON THE POSTAL MARKETS*

LIBERALISATION

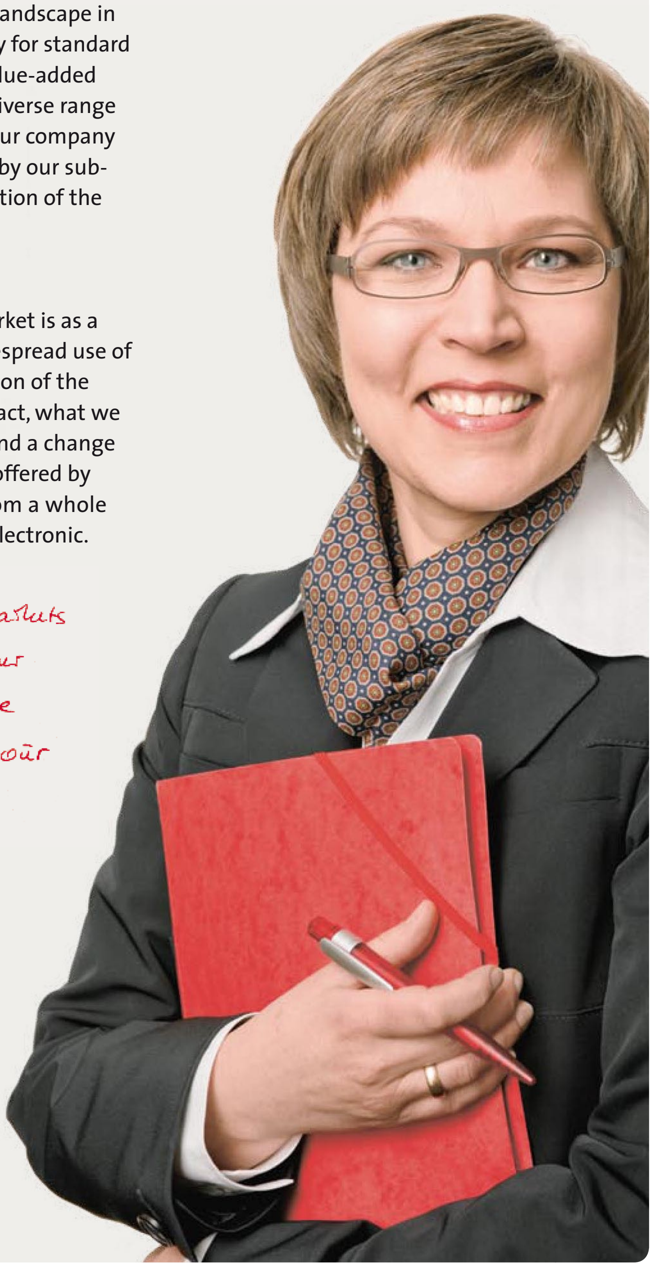
The liberalisation of the postal markets, which has been driven more intensively within the EU, has lead to a change in the competitive landscape in many countries. In addition to new service providers – not only for standard delivery services, but also in adjoining segments along the value-added chain – these changes have seen the emergence of a highly diverse range of products and services now offered in the postal industry. Our company can benefit from this too. The consolidation business offered by our subsidiary freesort would be inconceivable without the liberalisation of the German postal market.

DIGITALISATION

Arguably, the even more important upheaval in the postal market is as a result of technological innovation. With the increasingly widespread use of e-mail, many people have for years speculated on the extinction of the letter – but new media has only partially replaced letters. In fact, what we are seeing is an expansion of the communication spectrum and a change in communication processes as a result of the opportunities offered by electronic media. Senders and recipients can now choose from a whole range of communication channels – physical, hybrid or fully electronic.

"We are watching and analysing the postal markets and their diversification very closely. With our focused multi-channel strategy we can take advantage from these market changes for our own and our customers' benefit."

Dr. Monika Plum, Manager Strategy & Markets



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

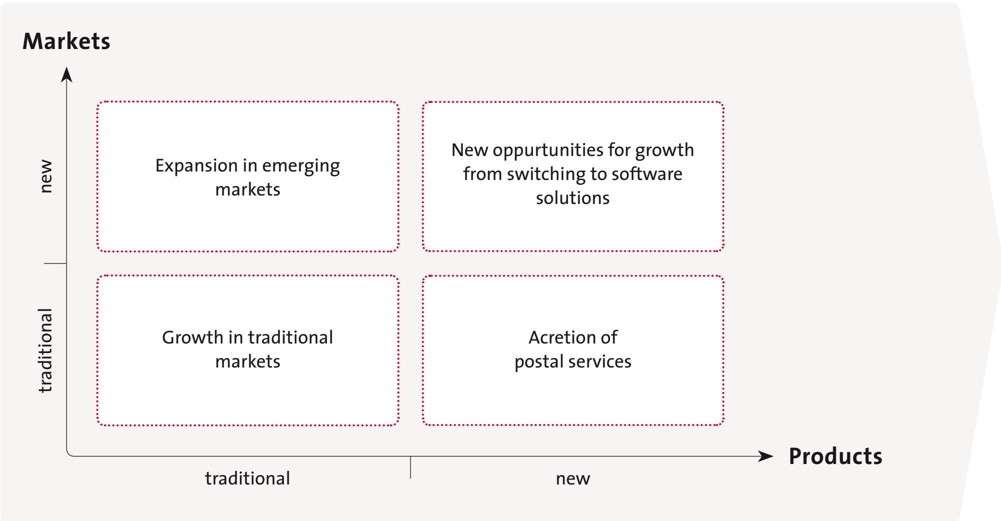
The Group's employees are a key part of its capital. Their identification with the company and their commitment to its targets make a crucial contribution to the company's success. Employees' potential is recognised and encouraged through a substantial degree of individual responsibility.

Another important non-financial target of the FP Group is responsible use of resources and environmental protection. Nationally and internationally, protection of the environment and resources is playing an ever greater role. For the FP Group, this is much more than an inescapable duty, it is part of the responsibility it assumes towards staff, customers, partners and the general public alike.

STRATEGY

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

1. Expanding the franking and inserting machine business in traditional markets
2. Entry into new, fast-growing markets in emerging economies
3. Extending the postal services business in Germany
4. Exploiting growth opportunities by switching to software solutions



With its strategic direction, the FP Group is anticipating market changes. Industrialisation, globalisation, technological innovations and changes in regulation all present the company with diverse opportunities.

Globalisation is leading to companies becoming increasingly networked across national borders, which also opens up new opportunities for mail communication service providers. At the same time, new markets and major growth potential are emerging from the industrialisation of emerging economies. ***THE UNIVERSAL POSTAL UNION (UPU)*** → announced at the end of 2010 that mail volumes in numerous emerging countries are on the rise.

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A brief comparison highlights this: in the USA, more than 600 letters are sent per inhabitant per year, while an Indian citizen doesn't even receive 10 letters per year at present. The anticipated increase in the volume of mail in countries such as India will also increase the demands on professional letter processing. Companies in developing and industrialised countries will continue to employ constantly evolving technology that 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. In addition to traditional letter post, software solutions and electronic mail communication are coming increasingly to the fore.

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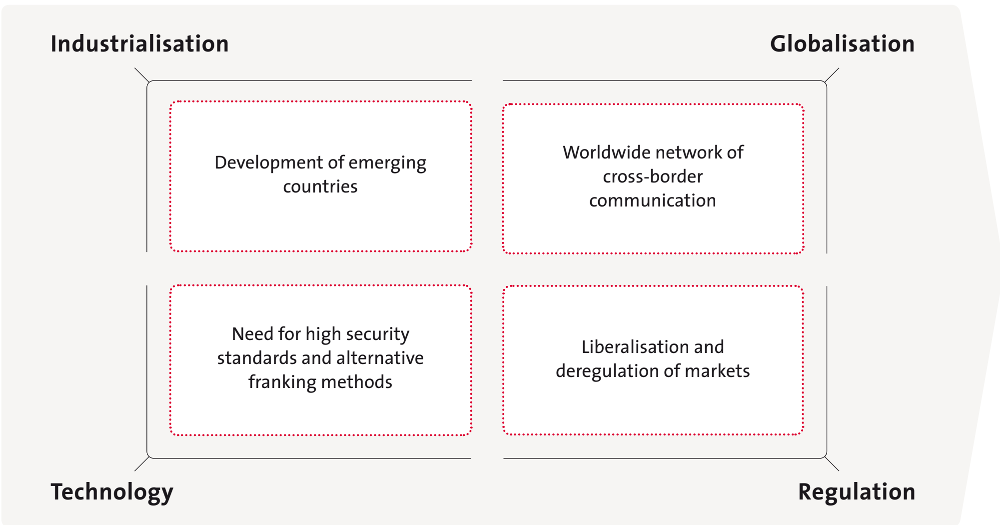
In 2011, ***DE-MAIL*** was introduced in Germany. De-Mail is a communication tool, which enables legally binding and confidential exchange of electronic documents over the internet. At the beginning of 2011, the FP Group acquired a majority shareholding in ***MENTANA-CLAIMSOFT***, which is a member of the De-Mail project.

The German market has been fully liberalised since the beginning of 2008 and most EU countries will follow between 2011 and 2013. The FP Group will benefit from the increasing liberalisation of postal markets in the medium and long term.



Research and development

FOCUS OF ACTIVITIES

The main focus of R&D activities in the 2010 reporting year was the new development of the franking system platform Phoenix. It comprises a basic unit, which comes in 4 different speed variations, an automatic letter feeder and a filing system. This latest franking platform is distinguished by numerous innovations in mechatronics, software management and distribution processes. Series production is set to begin in the second quarter of 2012.

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A total of 35 country-specific versions of the franking system models ***MYMAIL***, ***OPTIMAIL30***, ***ULTIMAIL*** and ***CENTORMAIL*** were newly developed or refined, either by creating new operating software or by updating existing operating software. The model ranges are then continuously expanded to target new markets and tailored to meet new requirements in existing markets. The Austrian postal service, Österreichische Post, introduced machine readable franking imprints, and in the British market, franking systems were configured so as to be able to create alternative franking imprints, in addition to the well-known ***ROYAL MAIL*** imprints, for three private mail delivery agents, so that customers can choose the most reasonably priced provider.

In December, the authorisation process for entry to the French postal market was initiated. Another significant new market is India. Final optimisation steps are being carried out here to enable entry to the postal market in the coming year.

There is increasing demand for new solutions for networking of franking systems and the further processing of data recorded by franking systems. The new PC software ***MAILONE™*** → was developed for the US market, offering ultimail or centormail users three distinct advantages. They can comprehensively operate their franking machine from their PC, create and print out all cost reports required for accounting purposes and also create and print out adhesive labels for custom-made packages and parcels. This is afforded a particular discount by US postal services. The PC software ***MAILREPORT*** → was also developed, which comprises a specialised solution for creating cost reports in different countries.

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In contrast to the telecoms industry and many e-commerce platforms, worldwide postal charges are usually prepaid and not billed by invoice at the end of the month for example. This serves to protect prepaid electronic postal charges from manipulation. In this area, the Research and Development business advises many postal companies on ways to develop their security requirements further and implements these into the international server infrastructure of the FP Group. 2010 was marked by significantly stricter cross-country security requirements and relevant standards issued by American and European IT security authorities.

The Research and Development business also carries out preliminary development work in the areas of dynamic weighing, digital printing, internet technologies and IT security / cryptography to pave the way for product innovations.

All of our product innovations are aimed at complementing the changing processes of our customers better than is currently possible with existing products, which translates into an increase in productivity for the customer. As the Group continues to develop into a complete service provider, the integration of software and server concepts, and the development of ***OUTSOURCING*** → interfaces become increasingly important.

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At the end of 2009, InovoLabs GmbH was established as a 100% subsidiary of the FP Group. FP InovoLabs' purpose comprises 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.

RESULTS

The previous year was shaped by development work for the new generation of machines, Phoenix, the development of ***COUNTRY-SPECIFIC MODELS*** → and ongoing optimisation of existing products. Process innovations for integrating outsourcing and consolidation services into existing solutions were another focal point of our activities.

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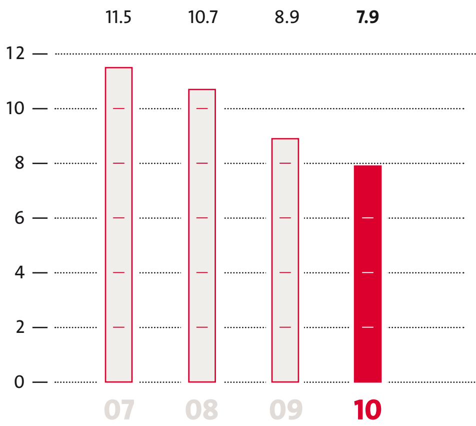
EMPLOYEES

At the end of 2010, 52 permanent staff were employed in Research and Development, which represents around 5% of the Group's total workforce. Additional external staff are also employed for certain projects as needed. At the end of 2010, they accounted for 9.6% of the permanent R&D workforce.

This segment is responsible for all of the FP Group's development and product maintenance orders and is made up of five specialist departments: Mechanics and Electronics Development, Transition to Production, Software Development, Compliance (Lifecycle Management and Data Centre Administration) and Project Management / Control.

RESEARCH & DEVELOPMENT INVESTMENT

In the past financial year, research and development expenses came to a total of EUR 7.9 million and were thus 11% lower than the previous year's figure of EUR 8.9 million. These amounts are reduced on account of subsidies totalling EUR 1.4 million (previous year: EUR 0.2 million). Of this figure, EUR 3.5 million was capitalised in accordance with IAS 38, compared with EUR 2.8 million in the previous year. A total of EUR 4.4 million was expensed, against EUR 6.1 million in the previous year. At 5.4% in 2010, the research and development ratio, measured against revenue, was down from the previous year's level of 6.9% on account of the significant revenue increase.



Research and development costs *

in EUR million

Despite numerous projects, costs were decreased by 11% in 2010.

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

General environment

MACROECONOMIC ENVIRONMENT

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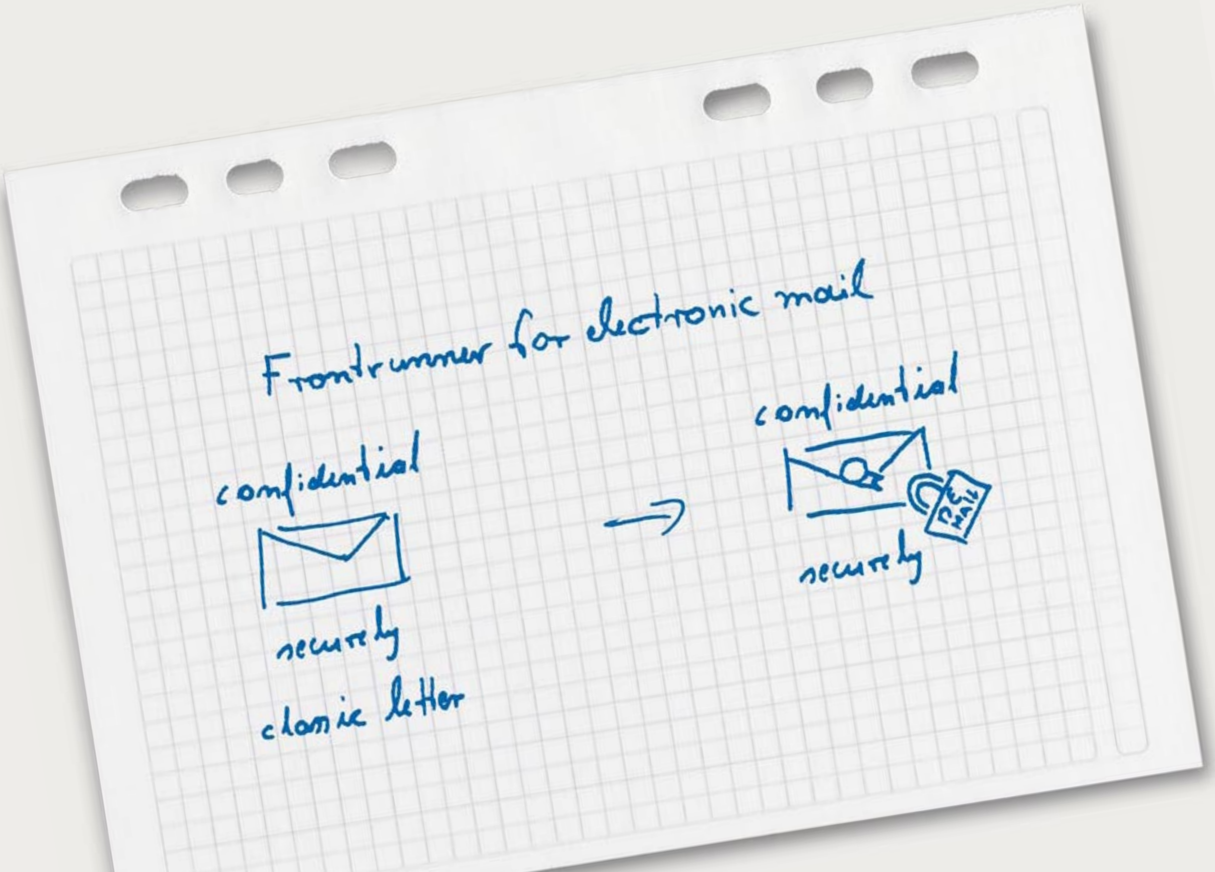
In the last year, the global economy recovered from the worst economic crisis on record since the Second World War. The ***INTERNATIONAL MONETARY FUND (IMF)*** reported global economic growth of 5.0% in 2010. Industrialised countries registered a 3.0% rise in ***GDP*** while emerging economies grew by 7.1%.

An economic upturn also impacted on critical markets for the FP Group. Economic output increased by 2.8% in the USA and by 1.8% in the euro zone. Economic development in the German economy, the home of the FP Group, was extremely positive. GDP in Germany rose by 3.6% in 2010, according to IMF figures. The German economy therefore recovered from the aftermath of the recession much quicker than other European countries.

The growth rates posted by Asian countries were even higher still. Economic growth in China was 10.3% in 2010, while GDP in India climbed to 9.7%. This growth momentum in the Asia / Pacific area creates a good environment for the FP Group to press ahead with its growth strategy in these markets of the future.

The exchange rate between the euro and the US dollar is of paramount importance for the FP Group as an exporting company. The performance of the US dollar was extremely volatile in the previous year. It hit its high of 1.45 dollars per euro in January, and was caught in a downward slump in the following months. It reached its low price of 1.19 in June 2010. At the end of 2010, 1 euro was 1.33 US dollars, compared with an exchange rate of 1.44 in the previous year.



ELECTRONIC MAIL

Since the start of 2011, the FP Group has offered customers fully electronic mail communication solutions. This has seen us expand our range of services, making us the first Multi-Channel-Provider for mail communication.

FRONTRUNNER FOR ELECTRONIC MAIL*

Our new solutions allow corporate customers of any size to send their mail digitally and securely at the click of a button so that the recipient receives a legally binding electronic mail. To enable us to offer this service to our customers, our company acquired, at the start of 2011, a majority shareholding in Mentana-Claimsoft AG. Mentana-Claimsoft AG specialises in electronic signatures and additionally offers products for the securing of electronic documents and legally binding communication. As one of three members of the De-Mail project, it plans to apply for De-Mail certification during the course of 2011 to enable documents and messages to be sent via the internet with the utmost confidentiality and reliability in compliance with the requirements of the De-Mail Act. This new offering means that we can expand our market position and offer state-of-the-art, future-orientated solutions which will, in combination with iab products, round off our range of services.

"We are specialists in the field of digital mail communication. Our solutions allow corporate and private customers to benefit from the latest opportunities offered by electronic mailing."

Dr. Alexander Seyferth, Managing Director, iab GmbH

Our subsidiary iab has been specialising in the development of innovative software solutions for many years now. Take its highly successfully hybrid mail solution, for example. With this mixture of electronic and physical mail, the sender sends a letter digitally and the recipient receives a standard physical letter. iab takes care of tasks such as printing out and franking the letter as well as inserting it into the envelope and handing it over to a mail delivery agent. Sending the letter digitally eliminates customers' high expenditure on paper, envelopes and printers, and also saves them the trip to the post office or letter box. Since last year, this solution has also been available via the WEB.DE portal. As part of the cooperation with WEB.DE, our customers can now log in to our online mail service directly via their e-mail inbox, allowing them to send mail easily and cost-effectively.

The advantages of traditional mail are retained. Another benefit of hybrid mail is that it reduces the load on the environment because only part of the transport route takes place physically.

Over the past few years, the FP Group has specifically focused on technologies of the future. Technological progress combined with the increasing liberalisation of the markets represents a massive opportunity for us.

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

SECTORAL OPERATING CONDITIONS

The economic upturn revived companies' willingness to invest in the past financial year and translated into increasing demand for franking and inserting machines.

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.

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

The number of business letters delivered worldwide is around 360 billion a year, according to various postal statistics [1]. The majority of global mail traffic still takes place in European and North American markets.

According to Universal Postal Union figures, the decline in global mail volumes for private and business post abated at the end of 2009. By the middle of 2010, mail volumes had reached pre-crisis levels. They then went on to develop very differently depending on the region. According to the UPU, growth in mail volumes can be observed particularly in emerging and developing countries. This results in opportunities for growth for the FR Group in new markets, such as India, Malaysia and Singapore. There is evidence of great interest in entry-level models here.

The increasing liberalisation of postal markets is also opening up 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 from 2011. As a result of factors such as liberalisation and technological change, companies can make use of alternative products and services, such as consolidation and outsourcing, to increase the efficiency of their mail communication. Attractive new markets are emerging here, as developments in the Scandinavian and Baltic countries show.

On 1 July 2010, changes in the regulations for the taxation of postal services took effect in Germany. All postal service providers are now universally exempt from paying sales tax, as is already the case for Deutsche Post. Letters weighing up to 2 kg, packets weighing up to 10 kg and services for registered and insured items are exempt from sales tax. All other products and services are subject to sales tax. Changes to the reporting logic as part of the new regulations for sales tax had a positive effect on FP Group revenue in 2010 (this effect is hereinafter referred to as "revenue effect").

The industry is also expecting positive impetus to be generated from software solutions. The Federal Network Agency estimates that written communication in Germany will undergo fundamental change. It is estimated that this area holds substantial potential for product innovations. De-Mail in particular is a promising prospect. De-Mail is a project initiated by the German government and will enable legally binding and confidential exchanges of electronic documents over the internet. With its solutions, the FP Group is one of the frontrunners in this market of the future.

OVERALL STATEMENT ON THE GENERAL ENVIRONMENT

The global economy registered significant growth in 2010. Economies have generally recovered from the effects of the economic and financial crisis. The strongest economic growth rates were posted in the Asia / Pacific area, while economic recovery was relatively modest in North America and Western Europe. The postal industry also benefited from the improved macroeconomic environment. The FP Group is well positioned with its strategy to exploit the growth opportunities presented by development in the Asia / Pacific area and by continuing liberalisation of postal markets in Europe.

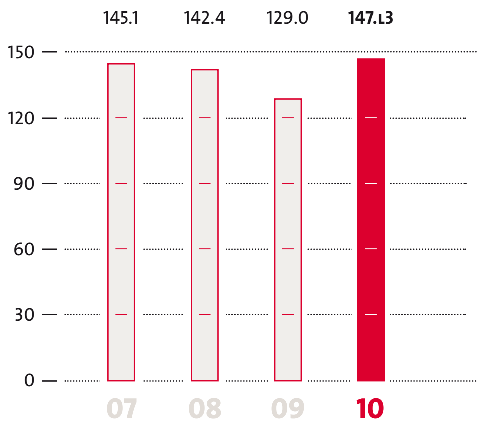
[1] Universal Postal Union, postal statistics and other assumptions

NET ASSETS, FINANCIAL AND EARNINGS POSITION

Earnings position

REVENUE

In financial year 2010, the FP Group generated total revenue of EUR 147.3 million, against EUR 129.0 million in the previous year. Revenue increased in Germany to EUR 76.9 million (previous year: EUR 60.5 million), while international revenue moved up from the previous year's figure of EUR 63.1 million, to EUR 67.0 million.



Group and revenue development *

in EUR million

As well as the revenue effect at freesort and iab, the growth in sales mainly related to volume effects and changes in the product mix.

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

Besides the revenue effect at freesort and iab (see below) and the exchange rate effects of EUR 2.6 million, which did not occur in the previous year, changes in revenue predominantly related to volume effects and changes in the product mix.

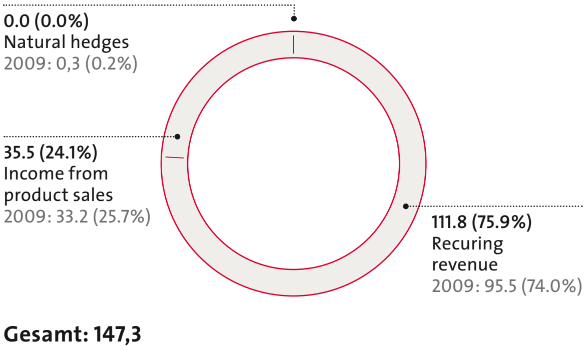
The improved economic situation was reflected in the rise in product sales: revenue came to EUR 35.5 million in 2010, after EUR 33.2 million the previous year.

At the same time, recurring revenue from the Services and Software business and from service agreements, leasing, teleporto and the sale of consumables for more than 254,000 franking machines worldwide, increased significantly in 2010 to EUR 111.8 million, compared to a figure of EUR 95.5 million for the previous year.

The rental business continued to show positive development. In 2010, revenue came to EUR 22.5 million here, compared to EUR 19.9 million the previous year. Comparatively, revenue in the Services and Consumables business dipped slightly in the past financial year.

Mail Services doubled its revenue to EUR 24.6 million. Reasons for this include changes to the reporting logic as part of the new regulations for sales tax and the acquisition of many new customers.

Since 1 July 2010, iab and freesort no longer recognise postal charges solely in the balance sheet with no effect in the consolidated statement of comprehensive income, but instead report the sale of discounted postal charges in revenue and the purchase of discounted postal charges in costs of materials. This was a necessary change in line with the sales tax reform as part of the liberalisation of postal markets. As a result of the reform in the sales tax law, freesort no longer provides its services ('Consolidation' and 'Consolidation Plus Franking Service') as a third party, but on its own account and this is fully reflected in revenue. Previously, freesort had purchased postal charges for customers as a third party and passed the postage discount given by Deutsche Post AG on to its customers. For services rendered, freesort incurred a service charge, which was recognised in revenue. Postal charges at iab demonstrate similar effects. Overall, a revenue effect of EUR 12.3 million is incurred here.



Revenue by product and service*

(in EUR million)

Recurring revenue of around 75% ensures the stability of the FP Group's business model.

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

Revenue by product and service

EUR millions	2010	2009
Recurring revenue	**111.8**	**95.5**
Leasing / Rental	22.5	19.9
Services / Customer Service	25.0	26.3
Consumables	20.7	21.2
Teleporto	12.1	11.9
Mail Services	24.6	11.8
Software	6.9	4.4
Income from product sales	**35.5**	**33.2**
Franking	25.9	24.0
Inserting	8.3	8.0
Other	1.2	1.2
Total	**147.3**	**128.7**
Recurring revenue	75.9%	74.2%
Non-recurring revenue	24.1%	25.8%
Natural hedges	0.0	0.3
Total	**147.3**	**129.0**

Revenue in accordance with IFRS without inter-segment revenue

EARNINGS DEVELOPMENT

EBITDA (earnings before interest, tax, depreciation and amortisation) improved to EUR 25.5 million over the course of the financial year, against EUR 20.6 million in the previous year.

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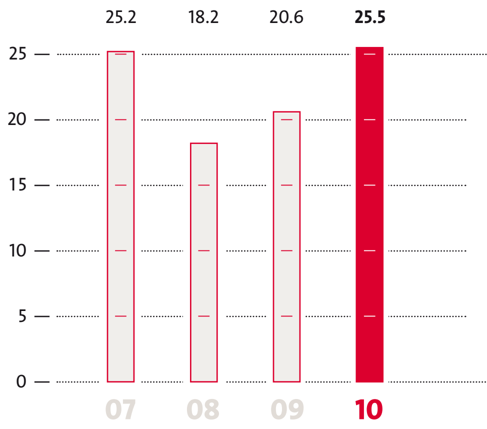
EBIT went up to EUR 7.5 million from EUR -15.7 million in the previous year, when a non-recurring impairment severely impacted the result. Consolidated net profit increased to EUR 2.7 million, whereas a loss of EUR 16.6 million was reported in the previous year.



EBITDA *

in EUR million

The increase in EBITDA for the third year in succession vindicates the strategy undertaken.

* 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 millions	2010	2009	Change in %
Revenue	**147.3**	**129.0**	**14.2**
Inventory changes	-0.1	-3.0	-96.7
Other capitalised own work	6.7	5.4	24.1
Overall performance	**154.0**	**131.4**	**17.2**
Other operating income	4.2	2.0	110.0
Cost of materials	48.5	32.5	49.2
Staff expenses	52.6	48.4	8.7
Depreciation and amortisation	18.1	36.2	-50.0
Other operating expenses	31.5	32.0	-1.6
Operating income before special income and expenditure	**7.5**	**-15.7**	**-147.8**
Net interest income / expense	-3.2	-3.5	-8.6
Other financial results	0.5	0.0	n/a
Net taxes	-2.1	2.5	-184.0
Consolidated net income	**2.7**	**-16.6**	**-116.3**
EBIT	**7.5**	**-15.7**	**-147.8**
EBITDA	**25.5**	**20.6**	**23.8**

Cost of materials

In financial year 2010, the cost of materials rose to EUR 48.5 million, compared with EUR 32.5 million in the previous year. This can be explained by the rise in the cost of services purchased to EUR 21.6 million, against EUR 9.3 million in the previous year. This rise is, in essence, due to the new reporting logic as part of the new regulations for sales tax, as the FP Group now recognises the purchase of discounted postal charges in cost of materials, effective from 1 July 2010.

Expenses for raw materials, consumables and supplies were driven up in 2010 to EUR 26.9 million, compared with EUR 23.2 million in 2009, as a result of increasing hardware sales and inventory changes.

Staff expenses

In financial year 2010, staff expenses rose to EUR 52.6 million, compared with EUR 48.4 million in the previous year. This rise is primarily attributable to an increase in employee numbers (namely in Sweden), increased sales activities and negative exchange rate effects of EUR 0.6 million. The restructuring expenses for this area amounted to EUR 1.3 million, compared to EUR 0.7 million the previous year. The cost savings from the site continuation agreement (see ***DISCLOSURES IN ACCORDANCE WITH SECTION 315 PARAGRAPH 4 NO. 8 HGB*** →) continued to remain at EUR 2.5 million.

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Other operating expenses

Other operating expenses fell to EUR 31.5 million, compared with EUR 32.0 million in the previous year. The structure of other operating expenses is explained in more detail in the notes to the consolidated financial statements. The one-off expenses as part of the restructuring, included in this item, dropped to EUR 0.0 in 2010, compared with EUR 0.7 million in the same period for the previous year.

EBITDA

In 2010, the FP Group increased EBITDA significantly. EBITDA improved to EUR 25.5 million, against EUR 20.6 million in the previous year. Before restructuring expenses, EBITDA climbed to EUR 26.8 million. In 2010, the company established a EUR 1.3 million provision for the scheduled restructuring of production.

Depreciation, amortisation and impairment

In financial year 2010, depreciation, amortisation and impairment fell to EUR 18.1 million, compared with EUR 36.2 million in the previous year. 2009 saw a one-off impairment loss on goodwill for freesort GmbH of EUR 12.5 million. In addition, depreciation on customer lists measured when the Group was first founded declined by EUR 5.4 million.

Net interest income / expense

In 2010, net interest expense came to EUR -3.2 million, compared with an expense of EUR -3.5 million for the previous year. Interest income dipped to EUR 1.3 million from EUR 1.6 million the previous year on account of the reduced receivables portfolio from finance leases. This effect was counteracted by a substantial reduction in interest expenses to ***BNP*** → by EUR -0.6 million.

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Net financial income

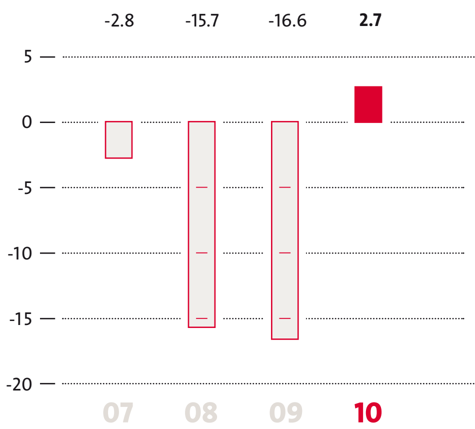
In the financial year 2010, the FP Group achieved a primarily currency-related financial result of EUR 0.5 million. In the previous year, the Group achieved a balanced financial result.

Net taxes

The tax result is made up of tax income of EUR 4.2 million and tax expenses of EUR 6.2 million, giving an overall total of EUR -2.1 million, whereas a gain of EUR 2.5 million was reported in the previous year. The positive net tax result in 2009 was primarily due to the negative pre-tax result, with losses resulting from the impairment of goodwill causing no tax effect. Furthermore, deferred tax assets from tax loss carryforwards amounting to EUR 1.1 million were recognised, whereas no deferred tax assets were established for the prior period due to the fact that utilisation was not envisaged. In 2010, net taxes largely corresponded to the expected tax expense (EUR 1.6 million), which is based on the pre-tax result and Group tax rate. The principal remaining difference is the result of tax effects from non-deductible expenses and tax-free income amounting to EUR 0.7 million (previous year: EUR 0.6 million).

Consolidated net income

Positive business performance led to significant improvement in income in 2010. Although the FP Group generated consolidated net income before non-controlling interests of EUR -16.6 million in 2009, it returned to profit in 2010. The Group recorded a EUR 2.7 million profit. Earnings per share rose to EUR 0.23, in comparison with EUR -1.12 for 2009.



Consolidated net profit *

in EUR million

For the first time in over five years, the FP Group generated consolidated net profit.

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

Course of business by segments

The company is divided into four segments, namely Production, Sales Germany, Sales International and central functions. The segmentation corresponds to the FP Group's internal reporting and also takes account of the company's development into a complete service provider.

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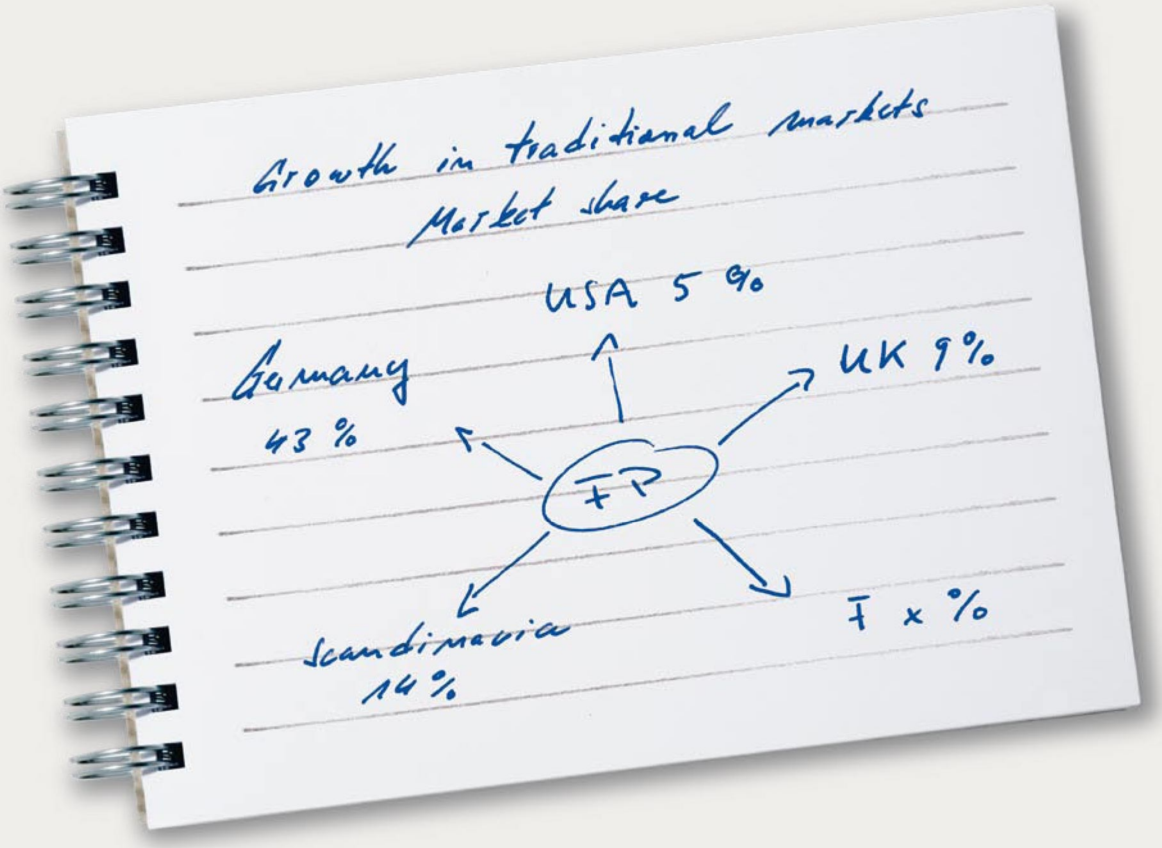
Since the segments report in accordance with the local financial reporting framework, both the adjusting entries in accordance with ***IFRS*** → and the Group consolidation entries are included in the reconciliation with the consolidated financial statements. The Group consolidation entries comprise 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 amounts reported in this section correspond to the section on revenue with external third parties in the segment report.



TRADITIONAL MARKETS

The FP Group has grown from being a manufacturer of franking machines to a Multi-Channel-Provider for mail communication. Our core products continue to be franking and inserting machines, which is why we are expanding this line of business in the new markets.

GROWTH IN TRADITIONAL MARKETS*

Our company's core activities involve the manufacture and distribution of franking and inserting machines designed for small to medium volumes of mail. With a total of around 254,000 installed franking machines, we are the world's third-largest provider. Our company is the market leader in both Germany and Austria with a market share of 43% to 48% respectively.

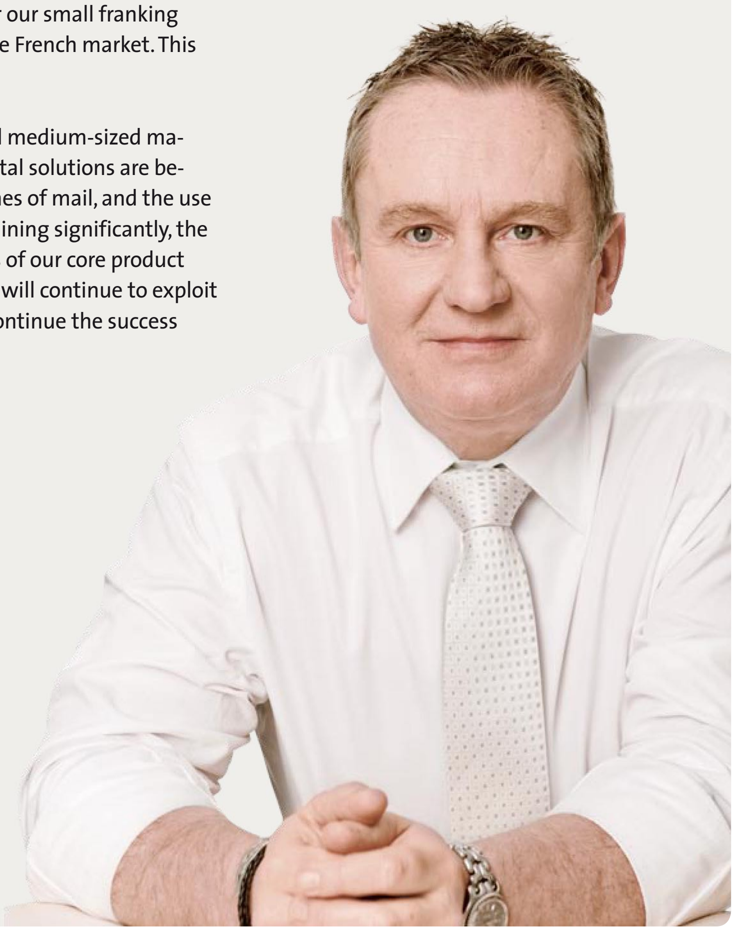
Our "installed base" comprises around 2.7 million franking machines installed at customer sites worldwide, with the biggest markets being the USA, France, Germany and Great Britain. In the USA, Germany and Great Britain, the FP Group is already present with its own subsidiaries and superbly positioned.

We made the decision at the end of 2010 to enter the French market which, with around 250,000 installed franking machines, is the biggest market in Europe. This year, we expect to receive the go-ahead for our small franking system, mymail, which we initially plan to launch on the French market. This will allow us to systematically expand our business.

Thanks to our focus on the segment covering small and medium-sized machines, we are well positioned for the future. While digital solutions are becoming increasingly prevalent for handling large volumes of mail, and the use of traditional franking machines in this segment is declining significantly, the market for smaller volumes of mail – which is the focus of our core product range – remains extremely stable. In the future too, we will continue to exploit growth opportunities in new markets so that we can continue the success story of our franking and inserting machines.

"Our franking systems are award-winning products and offer the very highest level of quality "made in Germany". Customers all over the world value our many years of experience and outstanding service."

Phil Myers, Vice President International Sales

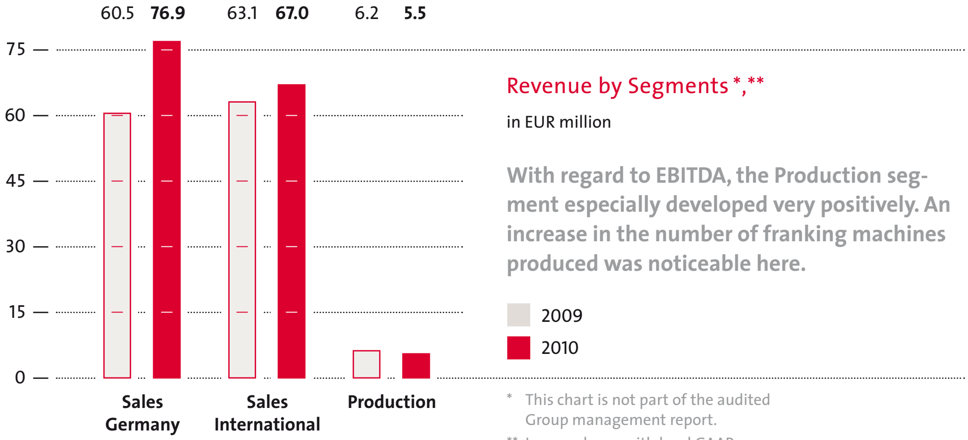


*The information provided in this box is not part of the audited Group management report.

Revenue by Segments *,**

in EUR million

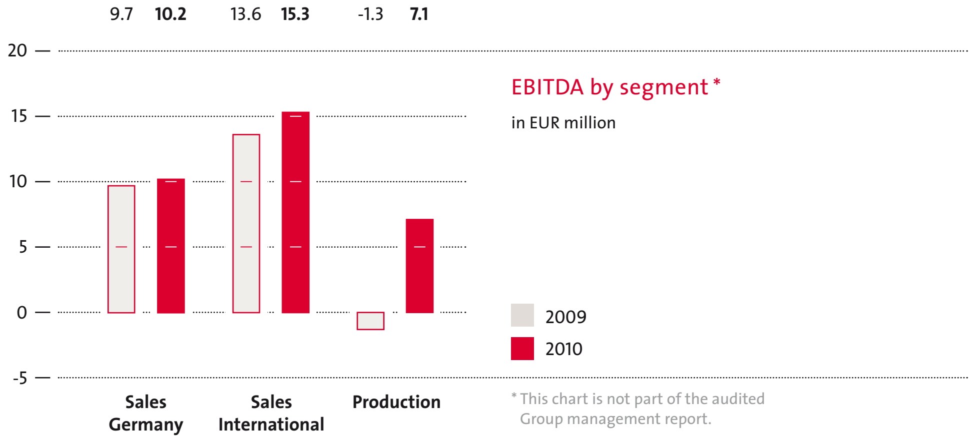
With regard to EBITDA, the Production segment especially developed very positively. An increase in the number of franking machines produced was noticeable here.



* This chart is not part of the audited Group management report.
** In accordance with local GAAP

EBITDA by segment *

in EUR million



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

SALES GERMANY

The FP Group achieved overall revenue of EUR 76.9 million with third parties in its German domestic market, compared with EUR 60.5 million in 2009. The FP Group benefited from two particular developments in the German market. In addition to the recovering economy, a change in the reporting logic as part of the new regulations for sales tax on postal services in Germany as of 1 July 2010 resulted in a positive revenue effect. In the Services segment, revenue generated by the consolidation specialist freesort thus increased to EUR 24.6 million, compared with EUR 11.8 million in 2009. Of this amount, the positive effect accounted for EUR 9.7 million. Overall, business levels exceeded original expectations. Mail processing at freesort expanded from 170 million in the previous year to 189 million.

In Software Solutions, revenue also improved to EUR 6.9 million, compared with EUR 4.4 million in 2009 as a result of the new regulations for the reporting logic. The company benefited primarily from the revenue effect of EUR 2.6 million as a result of the new regulations for the reporting logic.

Francotyp-Postalia Vertrieb und Service (VSG), which is responsible for franking and inserting, achieved a revenue of EUR 45.4 million after EUR 44.3 the previous year. By contrast, in terms of new business, VSG, like the foreign subsidiaries, benefited from companies' increased willingness to invest.

The FP Group increased its EBITDA result to EUR 10.2 million in Germany in 2010, versus EUR 9.7 million in 2009. Changes in the discount structure at Deutsche Post had positive effects for freesort.

The company also underlined its market leadership in Germany with a market share of 42.9% in franking machine business. The company's participation in major trade fairs such as the ***CEBIT*** in Hanover and the ***POST EXPO*** in Copenhagen, 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 exhibited both its franking and inserting machines and its innovative software solutions and postal services there.

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SALES INTERNATIONAL

In its International Sales segment, in which all activities by the foreign subsidiaries are combined, the FP Group generated revenue of EUR 67.0 million with third parties in 2010, compared with EUR 63.1 million in the same period in the previous year. The rise in sales revenue was primarily attributable to global economic recovery and an increased willingness to invest on behalf of companies.

Compared to the previous year, the rate changes introduced by US-based postal companies had a negative impact on revenue of USD 1.5 million. This negative impact was offset by the establishment of the Swedish subsidiary (EUR +1.9 million), a substantial increase in revenue in Austria (EUR +1.2 million) driven primarily by the introduction of ***2D BARCODE TECHNOLOGY*** and currency effects in the amount of EUR 2.6 million.

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In addition to revenue gains of EUR 3.9 million, the FP Group also improved the EBITDA result in the International Sales segment by EUR 1.7 million to EUR 15.3 million.

PRODUCTION

The FP Group combines its production activities in Germany and Singapore in the Production segment. In 2010, revenue came to EUR 5.5 million after EUR 6.2 million in the same period for the previous year. As a result of transferring the FP Group's Swedish dealer business to the newly established Swedish subsidiary, respective revenue from April 2010 is presented in sales international.

The FP Group sees opportunities for growth in its Asian business. 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 in order to exploit the available growth opportunities.

While EBITDA of EUR -1.3 million was reported in Production in 2009, the company achieved EBITDA of EUR 7.1 million in 2010. The increase in the numbers of franking machines produced from around 11,900 units to 18,300 units had a positive impact on the Production segment.

Summary of results per segment

	Revenue [1]			**EBITDA**		
EUR millions	**2010**	2009	Change	**2010**	2009	Change
Sales Germany	76.9	60.5	16.4	10.2	9.7	0.5
Sales International	67.0	63.1	3.9	15.3	13.6	1.7
Production	5.5	6.2	-0.7	7.1	-1.3	8.4
FP Group [2]	147.3	129.0	18.3	25.5	20.6	4.9

[1] Sales revenue with external third parties

[2] The segment "Central" 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, types of covenants, existing maturity profile and financing costs. The longer-term liquidity forecast is based on operating planning. As a rule, a significant part of the FP Group's liquidity comes from the segment's operating businesses and the cash flows 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 2010, the figure was an improved 162%. In the previous year, the ratio was 268%.

FINANCING ANALYSIS

In the past financial year, the FP Group increased 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 44.3 million as of 31 December 2010, compared with EUR 51.8 million the previous year. Possible effects from changing interest rates and credit conditions are recorded in the ***NOTES*** → to the consolidated financial statements in the section "Hedging policy and risk management". On the other hand, cash and cash equivalents rose to EUR 31.4 million, compared with EUR 29.6 million as of 31 December 2009.

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Debt predominantly includes borrowing at EUR 44.3 million (previous year: EUR 51.8 million) and liabilities from finance leases at EUR 2.7 million (previous year: EUR 3.4 million). Cash and cash equivalents include treasury shares of EUR 1.8 million (previous year: EUR 1.8 million) and securities of EUR 0.7 million (previous year: EUR 0.7 million) and excludes ***POSTAGE CREDIT BALANCES*** → managed by the FP Group of EUR 18.6 million (previous year: EUR 17.9 million).

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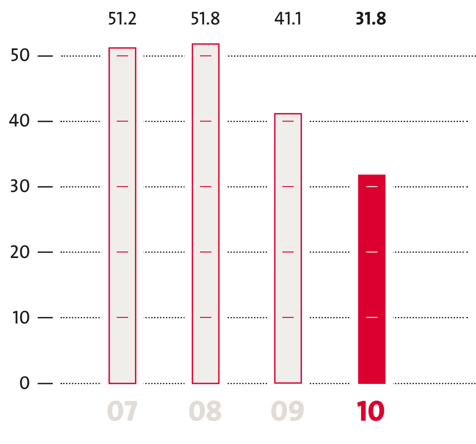

Changes in net debt*

in EUR million

Reducing third-party liabilities is a declared objective of the company. Net debt was reduced by a further 22% in 2011.

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

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

Changes in net debt

EUR millions	**31.12.2010**	31.12.2009
Liabilities	47.0	55.2
Cash and cash equivalents	-15.3	-14.2
Net debt	31.8	41.0
Shareholders' equity	19.6	15.3
Net indebtedness	162%	268%

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 loan amount, part of which was drawn in US dollars, was attributable to financing the acquisition.

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Events after th balance sheet date p. 140

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 16.0 million, which the FP Group used to redeem a shareholder loan. It was further agreed that acquisitions could also be financed under the framework agreement in the future. After the flotation, the FP Group used EUR 5.0 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 2010, repayments of EUR 7.9 million were made. More detailed information can be found in the ***NOTES*** → to the consolidated financial statements in the section and in the ***RISK REPORT*** → . Further information on the extension of the loan agreement can also be found in ***EVENTS AFTER THE BALANCE SHEET DATE*** → .

INVESTMENT ANALYSIS

The FP Group is pursuing a focused investment strategy and concentrating particularly on investments that will facilitate the company's ongoing development into a complete service provider for mail communication. Investments picked up in 2010 to EUR 13.1 million, compared with EUR 7.4 million in the previous year. Capitalised development costs increased to EUR 3.5 million in 2010, compared with EUR 2.8 million in the previous year, as the FP Group stepped up development of the Phoenix project to create a new and innovative family of franking machines. The development project MailOne (a software solution aimed primarily at the US market) was completed in 2010.

Other intangible assets also saw greater investment. Investment here amounted to EUR 1.0 million in 2010, compared to EUR 0.6 million in the previous year. There was also a rise in investment in property, plant and equipment (excluding leased products) in the past financial year – to EUR 2.1 million, following EUR 1.3 million in 2009. Investment in leased products also went up to EUR 3.0 million due to successful sales, compared with EUR 2.7 million in the previous year. The takeover of Ricoh's franking machine business in Sweden led to an increase in investment in enterprise values to EUR 3.5 million, following EUR 0.0 the previous year. This acquisition enabled FP to gain access to a key sales market.

Information on material investment obligations is provided in the ***NOTES*** → to the consolidated financial statements in section IV, note 10.

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Investments

EUR million	2010	2009
Capitalised development costs	3.5	2.8
Investment in other intangible assets	1.0	0.6
Investment in property, plant and equipment (excluding leased products)	2.1	1.3
Investment in leased products	3.0	2.7
Investment in enterprise values	3.5	0.0
Total investment	**13.1**	**7.4**

LIQUIDITY ANALYSIS

In the financial year 2010, cash flow from operating activities improved to EUR 22.2 million, compared with EUR 17.5 million in the previous year. Improved operating performance was a key factor here with EBITDA up by EUR 4.9 million. ***NET WORKING CAPITAL*** → , i.e. inventory plus trade receivables less trade payables, improved to EUR 19.5 million in 2010 from EUR 20.1 million in 2009.

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The cash outflow from investing activities came to EUR 12.7 million in the 2010 financial year, compared with EUR 7.7 million the previous year. Changes are reported in section 2.3.3 ***INVESTMENT ANALYSIS*** → .

Investment analysis p. 62

As a result, free cash flow, the sum of cash inflows from operating activities and cash outflows from investing activities, totalled EUR 9.4 million, compared with EUR 9.8 million in the same period in the previous year. This occurred despite the fact that the company increased its investment activities and also made an acquisition in Sweden.

Cash flow from financing activities amounted to EUR -8.6 million in 2010, after EUR -4.4 million in the previous year. This is due to cash outflows for the repayment of finance leases, the obligatory repayment of bank debt and the obligatory unscheduled repayment of bank loans in the amount of EUR 4.1 million (no obligatory unscheduled repayment was made in the previous year).

Cash and cash equivalents shown are produced from the balance sheet items "cash and cash equivalents" as well as "securities" less "teleporto funds".

In connection with the syndicated loan, there is an operating line of credit of EUR 2.5 million, which has not been utilised yet.

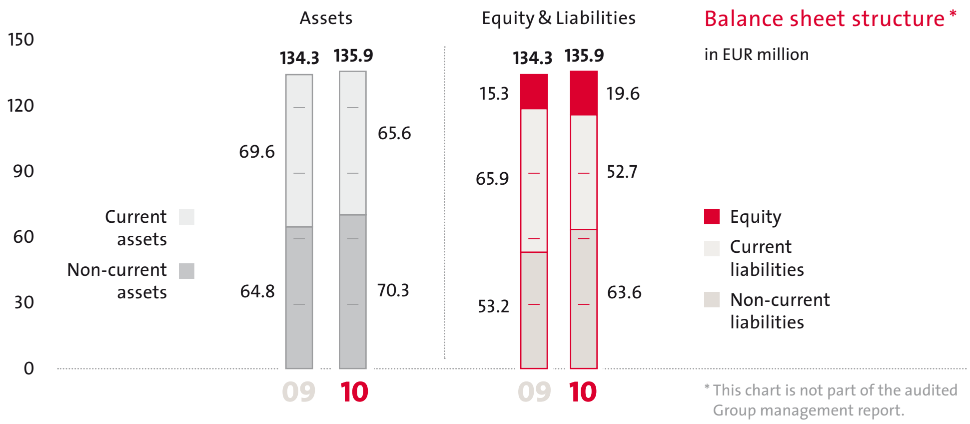
Liquidity analysis

EUR millions	**1.1.–31.12.10**	1.1.–31.12.09
1. Cash flow from operating activities		
Cash flow from operating activities	22.2	17.5
2. Cash flow from investing activities		
Cash flow from investing activities	-12.7	-7.7
3. Cash flow from financing activities		
Cash flow from financing activities	-8.6	-4.4
Cash and cash equivalents		
Change in cash and cash equivalents	0.8	5.4
Change in cash and cash equivalents due to currency translation	0.3	0.0
Cash and cash equivalents at beginning of period	12.4	7.0
Cash and cash equivalents at end of period	**13.4**	**12.4**

Asset situation and asset structure analysis

The balance sheet as of 31 December 2010 is characterised by a reduction in non-current assets and liabilities, and by an increase in current assets and liabilities and shareholders' equity.

Compared with 31 December 2009, total assets rose by EUR 1.6 million to EUR 135.9 million. The proportion of non-current assets in total assets shrank from 51.8% to 48.3%. As of 31 December 2010, the ratio of current assets to current liabilities was 110.5%, compared with 121.8% a year ago.



Balance sheet structure *

in EUR million

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

NON-CURRENT AND CURRENT ASSETS

Within non-current assets, intangible assets decreased marginally from EUR 32.7 million to EUR 31.3 million as of 31 December 2010. Important items included are goodwill at EUR 8.5 million, client lists at EUR 5.1 million (previous year: EUR 3.9 million) and development costs for internally generated intangible assets, in addition to development projects in progress at EUR 12.7 million (previous year: EUR 12.4 million). EUR 4.4 million from customer lists was attributable to customer relationships acquired in Sweden in 2010. Amortisation on intangible assets, recognised when the Group was established in 2005 and freesort and iab acquired, increased with the addition of Swedish customer lists, so that an overall decline in intangible assets was observed.

Property, plant and equipment declined from EUR 19.7 million the previous year to EUR 18.4 million as of 31 December 2010. Assets under finance leases decreased from EUR 4.4 million to EUR 4.2 million. There was a slight decline in leased products from EUR 10.3 million to EUR 9.7 million.

Deferred tax assets increased slightly from EUR 12.8 million to EUR 12.9 million.

Among current assets, inventory declined from EUR 11.0 million to EUR 10.9 million. Trade receivables rose from EUR 13.9 million in the previous year to EUR 14.9 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 increased from EUR 29.6 million to EUR 31.4 million. Other current assets went up from EUR 9.6 million in 2009 to EUR 12.4 million in 2010, mainly as a result of greater sales tax prepayments and subsidies not yet received.

SHAREHOLDERS' EQUITY

Shareholders' equity rose to EUR 19.6 million as of 31 December 2010, compared with EUR 15.3 million at the end of 2009, because of the consolidated net profit and the effect of foreign currency translation on other comprehensive income.

As of 31 December 2010, Francotyp-Postalia Holding AG's share capital was EUR 14.7 million, divided into 14,700,000 non-par value bearer shares. No shares have been issued with special rights. At the end of 2010, 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)*** → .

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NON-CURRENT AND CURRENT LIABILITIES

As of 31 December 2010, current liabilities increased to EUR 63.6 million, compared with EUR 53.1 million a year previously. Of this amount, financial liabilities soared to EUR 10.7 million from EUR 3.9 million in the previous year. In conjunction with the repayment of an existing ***SYNDICATED LOAN*** → , a reduction in borrowing of around EUR 5 million is planned. This additional payment will result in a shift between non-current and current financial liabilities. Trade payables rose to EUR 6.4 million, against EUR 4.8 million as at 31 December 2009. Provisions inched up slightly from EUR 8.5 million to EUR 8.8 million. The provisions are explained in the ***NOTES*** → to the consolidated financial statements in section IV, note 20. Other current liabilities went up from EUR 35.0 million to EUR 36.9 million; of this increase, EUR 0.7 million was attributable to greater liabilities from teleporto.

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Non-current liabilities went from EUR 65.9 million to EUR 52.7 million in the past financial year, which is largely due to the sharp reduction in financial liabilities, from EUR 51.3 million to EUR 36.3 million. The sharp reduction can be explained by an obligatory scheduled repayment of EUR 4.1 million in 2010, and a shift from non-current to current financial liabilities (see aforementioned comment on current financial liabilities). Non-current provisions increased particularly for restructuring measures, for which payments will be made in the first quarter of 2012. The ratio of net liabilities to equity (***GEARING*** →) improved, because of these changes, to 162% at year-end 2010, compared with 268% a year earlier.

Significant events affecting the course of business

In the 2010 financial year, the FP Group increased its results significantly. In essence, this development was a result of successful restructuring which has taken place over the last two years, a sharp decline in depreciation, amortisation and impairment losses and strict cost management.

The earnings position of freesort has improved significantly under the new sales tax regulations for postal services.

In light of the improving economic situation and stable orders, the FP Group has largely lifted reduced working hours at its main site in Birkenwerder. Reduced working hours will only remain in effect in the Service segment.

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Even after discontinuing reduced working hours, the company continued its efforts to safeguard the Birkenwerder site in the long term. This includes the new direction for Production. Further information can be found in ***EVENTS AFTER THE BALANCE SHEET DATE*** →.

Comparison between actual and forecast course of business

When the FP Group presented its quarterly figures on 28 May 2010, it made its first quantitative forecast for 2010 as a whole. Planning figures had indicated revenue of between EUR 130 and 135 million and EBITDA of between EUR 22 million and EUR 24 million. In 2009, the company achieved revenue of EUR 29.0 million and a comparable EBITDA before restructuring of EUR 22.0 million.

When it presented the nine-month figures on 18 November 2010, the company revised its forecast upwards. On account of the revenue effect and positive business performance in the third quarter of the year, the company now expected to close 2010 with revenues between EUR 140 million and EUR 145 million and an EBITDA of between EUR 24 and 26 million before restructuring expenses. The company reported a provision in the amount of EUR 1.3 million in the third quarter of 2010, due to planned restructuring in the Production segment.

The FP Group exceeded its forecast. In 2010, revenue rose to EUR 147.3 million and EBITDA increased to EUR 25.5 million. EBITDA before restructuring expenses even rose to EUR 26.8 million and was slightly above the forecast range of between EUR 24 million and EUR 26 million.

Overall statement on the course of business

In the past financial year, the company increased its earnings power. With revenue of EUR 147.3 million, the company increased its EBITDA result to EUR 25.5 million, from EUR 20.6 million in 2009.

The company's targeted focus on strengthening its financial and earnings power is reflected in its healthy free cash flow – the sum of cash inflows from operating activities and cash outflows from investing activities. Despite increased investment activities, free cash flow totalled EUR 9.4 million in 2010 at roughly the same level as the previous year (EUR 9.8 million).

The FP Group is on the right track. The strategy of further consolidating the Group's financial and earnings power has paid off overall.

EVENTS AFTER THE BALANCE SHEET DATE

In January 2011, the Supervisory Board of Francotyp-Postalia Holding AG extended the existing Management Board contract with Chief Sales Officer Andreas Drechsler until 22 February 2015. Mr Drechsler has been Chief Sales Officer for the FP Group's global operating business since 2009. Together with his colleague Hans Szymanski, he is the driving force behind the strategic development of the traditional franking machine manufacturer into a complete service provider for mail communication.

Against the company's expectations, negotiations between Francotyp-Postalia GmbH and Francotyp-Postalia Vertrieb und Service GmbH and the Works Council on the subject of maintaining production at the site in Birkenwerder, which had begun in 2010, were not successfully concluded in 2011. After more than 20 meetings with employee representatives, no agreement was reached. After the Works Council had failed to address any of the measures suggested by the company and refused to accept the offer of an employment guarantee on behalf of 320 workers, the employer representatives decided on 5 January 2011 to rescind the offer and terminate the negotiations, leaving the matter unresolved.

On 18 February 2011, the FP Group announced that it would be establishing a new production line in Wittenberge, Brandenburg for production of the new Phoenix franking system. The company held numerous talks in 2010 on the subject of the required restructuring of production at Birkenwerder. After the negotiations came to no avail and were terminated, a list of various new production locations was subjected to a selection process. On 10 March, the company acquired a production plant in Wittenberge.

The discontinuation of production at the Birkenwerder site is scheduled for the end of the first quarter of 2012 at the latest. The necessary measures that will be carried out relate solely to the Production segment; the company's registered offices will remain in Birkenwerder. According to current estimates, as part of the complete relocation of production activities from Birkenwerder to Wittenberge, an additional EUR 0.7 million in provisions for redundancy programmes has been recognised, in addition to the provisions for restructuring as per 31 December 2010 already reported. In addition, provisions for the anticipated vacancy of the production plant in Birkenwerder from the time at which relocation is complete to the point at which the rental contract ends need to be established. This is currently estimated to be EUR 1.5 million.

The company has also decided on a programme of measures for restructuring its subsidiary in the Netherlands. Employees in the Service segment will be principally affected by the planned measures. Expected costs have been estimated at EUR 0.4 million.

GROUP FINANCING

On 21 February 2011, the FP Group announced that it had concluded an early extension of Group financing for a further 3 to 5 years. The financing agreements were signed with a banking consortium headed by Commerzbank. The current financing agreement, originally due to run until the end of November 2011, with a current standing balance of EUR 38.9 million and USD 6.9 million was repaid prematurely and reduced by EUR 5 million through a special payment.

The total volume of the new syndicated loan is split into EUR 30.1 million and USD 12.0 million. The loan comes with partially improved conditions compared to the previous loan agreement, and takes account of the needs of operating businesses and offers a greater level of flexibility.

ACQUISITION OF A MAJORITY SHAREHOLDING

On 3 March 2011, the FP Group acquired a 51% stake in Mentana-Claimsoft AG and signed a corresponding purchase agreement with two major shareholders of the unlisted company. This acquisition aims to secure the Group's entry into the market of fully electronic mail communication. The Mentana-Claimsoft Group specialises in electronic signatures and offers an extensive range of products for securing electronic documents and legally binding communication. It is a member of the De-Mail project. De-Mail is a communication tool, which should enable the legally binding and confidential exchange of electronic documents and electronic letter over the internet.

The purchase price for the shareholding is made up of a fixed part and a performance-related part to be paid in 2015 and according to current estimates, amounts to a total of around EUR 1 million to EUR 2 million.

RISK AND OPPORTUNITY REPORT

Risk and opportunity management system

Entrepreneurial activity involves opportunities and risks. To be permanently successful in the market in the long term, the FP Group must be familiar with and manage the risks inherent in its ongoing business. 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 risk and opportunity management system for this purpose, which is embedded in the Group's value-orientated management and existing organisational structures.

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 in 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 and risks are then developed from these with the specific segments in mind.

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A monitoring system in accordance with Section 91 (2) of the Stock Corporation Act (***AKTG***) → is in place for the (early) identification of risks which could jeopardise the continued existence of the FP Group.

Once a year, all legal, business, operating and financial risks to the FP Group are inventoried. All recorded risks are evaluated based on the amount of potential losses and the likelihood that the risks will materialise and whether they represent a threat to the company as a going concern. The risks which represent a threat to the company as a going concern are recorded separately and are subject to further monitoring.

Market risks

MACROECONOMIC RISKS

Material risks for the FP Group stem from general economic trends and exchange rate risks.

As the FP Group is exposed, to a certain extent, to its customers' cyclical investment behaviour, its business development is influenced by macroeconomic trends. However, the company's history, spanning over more than 85 years, has always demonstrated that economic cycles can be managed. Moreover, some 76% of FP Group revenue consists of recurring income from service agreements, leasing, the sale of consumables, as well as mail services and software solutions. Recurring income is much less affected by economic swings than new business. Overall, from today's viewpoint, no risks are discernible from macroeconomic development that would represent a threat to the company as a going concern.

The FP Group is exposed to currency risks because revenues are to some degree generated in different currencies, as opposed to the resulting costs. The company generates around one third of its total revenue in the USA, Canada and Great Britain. Some of the FP Group subsidiaries report in foreign currencies. The euro / US dollar exchange rate is of particular significance to the FP Group result. A rise in the value of the euro, for example, negatively impacts revenue reported in euro and subsequently, the cash flow. The FP Group offsets ***CURRENCY RISKS*** → by hedging activities in the financial markets.

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SECTOR-SPECIFIC RISKS

Changes in market structure
Legislators are opening up the European letter market to competition. This has resulted in 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 in national postal markets in the future.

The German postal market has been fully liberalised since 1 January 2008. The German Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railways (Federal Network Agency / Bundesnetzagentur) has now issued several hundred licences to various providers of postal services. It cannot be ruled out that new providers will extend their services, gain market share and deliver their post 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 the legal amendment to the sales tax regulations for postal services. After several attempts, the Bundestag and Bundesrat voted to change the law on sales tax in March 2010. Deutsche Post AG, which remains exempt from sales tax in the private customer sector, is now legally required to pay sales tax in the business customer sector. The new regulations entered into force on 1 July 2010. This development could also take place in other European and international postal markets, in which the FP Group operates. This could have significant adverse effects on the company's business and on its net asset, financial and earnings position, for example the attractiveness of its business model to customers who are not eligible for sales tax reductions declines significantly.

In this context, current developments at private service providers need to be observed 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.

Changes in user behaviour

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 opportunity as the FP Group participates in liberalisation and technological progress via its subsidiaries, freesort and iab. Through solutions such as consolidation, outsourcing and hybrid mail, the FP Group has created the conditions allowing it to benefit from changes in the postal markets in the future and from changes in user behaviour. The introduction of new, innovative families of franking machines also creates the opportunity to generate positive effects through greater customer benefit.

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Furthermore, market observations show that large franking machines from ***C SEGMENT*** → are in decline. They are commonly being replaced in the shift towards digital solutions. What has also been observed is a downgrading towards smaller machines from the ***A SEGMENT*** →. This presents an opportunity for the FP Group, which operates in the A segment.

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The Group is witnessing increasing numbers of competitors in the area of ***CENTRALISED COMMUNICATIONS*** →, where individual daily mail is collected centrally. This is an important business for iab GmbH. The FP Group is countering this risk by increasingly dovetailing the two segments, "Franking and Inserting" and "Software Solutions and Services". The Group is bundling its potential as a service provider for the entire mail communication chain.

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 effects on the company's business and on its net asset, financial and earnings position. At present, no risks that could represent a threat to the company as a going concern 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 essence, strategic company risks comprise misjudgements when deciding on investments and possible ***M & A ACTIVITIES*** →. Risks can also arise when expectations, such as those relating to investments, are not met. The FP Group regularly subjects the goodwill from freesort and iab capitalised in the consolidated balance sheet freesort to an impairment test. Although the necessity of a write-down would have no effect on EBITDA, it would affect equity. Under certain circumstances, the commitment in India or France may not lead to the desired result.

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The forthcoming relocation of production from Birkenwerder to Wittenberge in 2011 / 2012 carries risks that production expertise could be lost and the relocation might not go according to plan and / or to schedule. These risks will be minimised by ongoing reporting at start-up of new production and the careful selection and training of new employees. In addition, regular monitoring of the development of the new production line will reduce potential risks arising from overrunning the schedules. Furthermore, the company monitors the status of the production process on an ongoing basis in order to minimise the overall risks of the relocation.

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 represent a threat to the company as a going concern.

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 ongoing development of equipment and products. In view of these precautionary measures, the company considers the potential for production risks to be moderate.

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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 employing professional project management. The company considers information security risks 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 performance-related remuneration and flexible working conditions suited to the interests of the employees. Important positions are regularly assessed in terms of forward-looking succession planning, and suitable candidates are prepared for these responsibilities. In this respect, the written documentation of knowledge is advantageous. Overall, personnel risks are considered to be low.

FINANCIAL RISKS

The risks regarding financial instruments are shown in the notes to the consolidated financial statements. In the course of its business, the FP Group is exposed to certain financial risks, including those of currency fluctuations, interest rate changes, liquidity bottlenecks and defaulting debtors. The Group's risk management system addresses the unpredictability of the financial markets and is intended 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. 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. The risks of financial instruments are shown in more detail in the ***NOTES*** → to the consolidated financial statements.

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

CURRENCY RISK

The FP Group is exposed to currency risks because of its international focus. Its subsidiaries in the UK, Sweden, Singapore, Canada and the USA are located outside the eurozone. The use of derivative financial instruments is intended 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. There are also hedging transactions for converting US dollars to euro in 2011. The company assesses possible risks in this area as controllable. Further information can be found in events after the balance sheet date.

INTEREST RATE RISK

The risk of changes in market interest rates results primarily from non-current liabilities with a floating rate of interest. The structure of the interest margins for the new Group loan agreement is fixed until the end of 2013.

On 18 June 2007, the company concluded an ***INTEREST RATE SWAP*** → in US dollars for a nominal amount of USD 18.1 million, with a duration to 30 November 2011. The reference amount is reduced over the term at the amount of the scheduled repayments in accordance with the framework loan 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.

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As of 30 June 2006, euro amounts were also hedged with an ***INTEREST RATE CAP*** → (term: five years; maturity: 30 June 2011). The reference amount as at 31 December 2010 was EUR 2,039,000 with a maximum rate of 3.50% p.a. and a basic interest rate equal to the 6-month ***EURIBOR*** →. There is no direct interest rate risk for the term of the hedging transaction.

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A further interest cap was concluded as on 30 December 2009 in the form of a maximum interest rate agreement expiring on 30 November 2011. The reference amount is EUR 5 million with a ***CAP RATE*** → of 3.5% p.a. and a basic interest rate equal to the three-month EURIBOR. As at 31 December 2010, the market value of the cap was under EUR 1,000.

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Overall, the risks from changes in interest rates are considered to be low.

LIQUIDITY RISK

The Group deals with liquidity risk by means of a liquidity forecast with a fixed planning horizon for the whole Group and 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. 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 2010. As things stand at present, it is assumed that this financial ratio will also continue to be complied with. 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, although this can lead to higher financing expenses. Overall, the FP Group considers the liquidity risk to be manageable.

In February 2011, the company decided on an early extension of Group financing for a further three to five years. Further information can be found in ***EVENTS AFTER THE BALANCE SHEET DATE*** →.

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The FP Group is receiving grants to promote development projects to cover the eligible costs as equity financing. The grants are subject to several conditions that, according to current information, have been met. However, it is possible that a not insignificant part of the grants will be revoked or reclaimed in future in view of the ongoing relocation of production from Birkenwerder to Wittenberge. The management is not currently expecting this to be the case.

DEFAULT RISK

Financial problems may occur with our contractual partners which 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, the FP Group requires collateral and credit scores for all the contractual relationships on which original financial instruments are based in order to minimise the default risk. In addition, references are obtained or historic data from the prior business relationship used.

The identifiable default risks of trade 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. Topics such as environmental protection and sustainability are becoming ever more important for the FP Group. The company considers the overall environmental risks to be low.

LEGAL AND TAX RISKS

Amendments to legislation could damage the international competitiveness of the Group and its subsidiaries. The company considers any potential problems arising from this to be moderate. There are also transfer price and general tax risks from possible audits by the tax authorities for periods since 2002, which could impact upon the net asset, financial or earnings position.

With regard to the planned reorganisation and relocation of the production site, the possibility of legal disputes with affected employees cannot be ruled out.

The company has been involved in four legal disputes in which action was taken against it. Two of these legal disputes relate or related to claims that either do not involve cash or only do so indirectly, while the other two actions relate or related to claims for payment by the plaintiffs, in which the company has however asserted counterclaims. The company continues to be involved in two legal disputes with its previous chairman of the Management Board, Dr. Sluma.

Proceedings with Dr Sluma
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.

a) Suit for wrongful dismissal filed by Dr Sluma (Neuruppin Regional Court, 6 O 26 / 09, Brandenburg Higher Regional Court 6 U 114 / 10).

   In March 2009, Dr Sluma filed a suit to have the revocation of his appointment to the Management Board declared void and to repeal the termination of his service agreement. These proceedings were instituted at the Neuruppin regional court under file reference 6 O 26 / 09. Over the course of the proceedings with various hearings, the court indicated in a resolution announced on 14 April 2010 that it considered Dr Sluma's cause of action to be unfounded. The court dismissed the suit in its ruling of 5 November 2010. Dr Sluma lodged an appeal against the ruling of the first instance. The proceedings will now be continued at the Brandenburg higher regional court under file reference 6 U 114 / 10. The date for the first oral proceedings has been set by the higher regional court for 27 September 2011.

b) Suit for compensation filed by Dr Sluma (Neuruppin Regional Court, 6 O 27 / 09, Brandenburg Higher Regional Court 6 U 115 / 10).

Also in March 2009, Dr Sluma sued for payment of remuneration in arrears dating back to the extraordinary termination of his service agreement. These proceedings were instituted at the Neuruppin regional court under file reference 6 O 27 / 09. Dr Sluma has sued for remuneration allegedly in arrears for the period from mid-February 2009 to October 2009 inclusively for a combined amount of approximately EUR 292,000, as well as the bonus of EUR 120,000 allegedly due to him for 2008. In these proceedings, there were four dates for hearings (16 June 2009, 5 August 2009, 10 February 2010 and 22 September 2010). In a ruling issued on 14 April 2010, the court noted that it considered the termination of the employment contract effective, with the result that claims for remuneration for the time elapsed since termination could not be upheld, but at best in reference to a bonus acquired before termination, provided that these did not expire as a result of claims for damages filed for compensation. The suit for regular remuneration since termination of the employment contract was dismissed in a partial judgement on 5 November 2010. The decision on the bonus claim for 2008 together with claims for compensation for damages remains subject to a final judgement. Dr Sluma lodged an appeal against the ruling of the first instance. The proceedings will now be continued at the Brandenburg higher regional court under file reference 6 U 115 / 10. The date for the first oral proceedings has been set by the higher regional court for 27 September 2011.

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 has a code of conduct, which is applicable across the Group, and offers appropriate training sessions for employees in the relevant segments. 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 on the FP Group. Overall, the risks are controllable; as things currently stand, the Group's continued existence as a going concern 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 and to react quickly. There is no evident concentration of risk.

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 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 and the accounting process, as well as the audit and its independence.

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, Francotyp-Postalia 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.

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 so far 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 the 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 and the manager of the Finance and Accounts department.

By employing specialist staff, providing specific, regular training and observing 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.

All annual financial statements relating to companies included in Group consolidation are checked by an auditor.

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

FORECAST

Focus of the Group in the next two financial years

PLANNED CHANGES TO OPERATING POLICY

The markets in which the FP Group operates will change further in the years to come, as the liberalisation of postal markets marches onwards and the ***DIGITALISATION*** → of processes continues. The company is therefore constantly moving forwards with its strategic alignment as a complete service provider for mail communication. In this respect, the FP Group is increasingly dovetailing its Franking and Inserting segments with its Software Solutions and Services segments to ensure that customers can obtain products and services from one source.

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At the beginning of 2011, the FP Group placed its Group financing for the coming year on a secure footing. Further information on this can be found in ***EVENTS AFTER THE BALANCE SHEET DATE*** → . The company is not planning any further changes to the financing structure within the next two years, nor are any significant changes to the legal structure intended.

Events after the balance sheet date p. 68

FUTURE SALES MARKETS

To exploit additional growth potential, the FP Group will be entering the French market in 2011. The company also intends to expand its Asian business over the next two years with the aim of participating in the anticipated growth in the region. The Group sees good opportunities for growth in the Indian market in particular. The company has also laid solid foundations in other markets for driving the global expansion of its technology forwards.

The internationalisation of the company's software business is also opening up new sales markets. The company initially focused on the German market, completely liberalised since 2008, and will strengthen its international business over the next two years. Following entry into the UK and Belgium last year, the FP Group is now concentrating on other countries such as the USA, Canada and the Netherlands.

FUTURE PRODUCTS AND SERVICES

Within the next two years, the FP Group will launch its new Phoenix franking system, as well as new software solutions such as the fully electronic letter. From 2011, statutory requirements such as De-Mail provide additional incentives to extend existing product ranges and services.

Future development of the segments

SALES GERMANY

In Germany, the FP Group is the market leader in franking and inserting machine solutions. Here, the target is at least to maintain market share at around 43% and, if possible, to expand it.

The company sees good opportunities in the domestic market in the Services and Software Solutions segments. The FP Group expects that the law on the regulation of De-Mail services intended to take effect in summer 2011 will offer good opportunities for growth.

SALES INTERNATIONAL

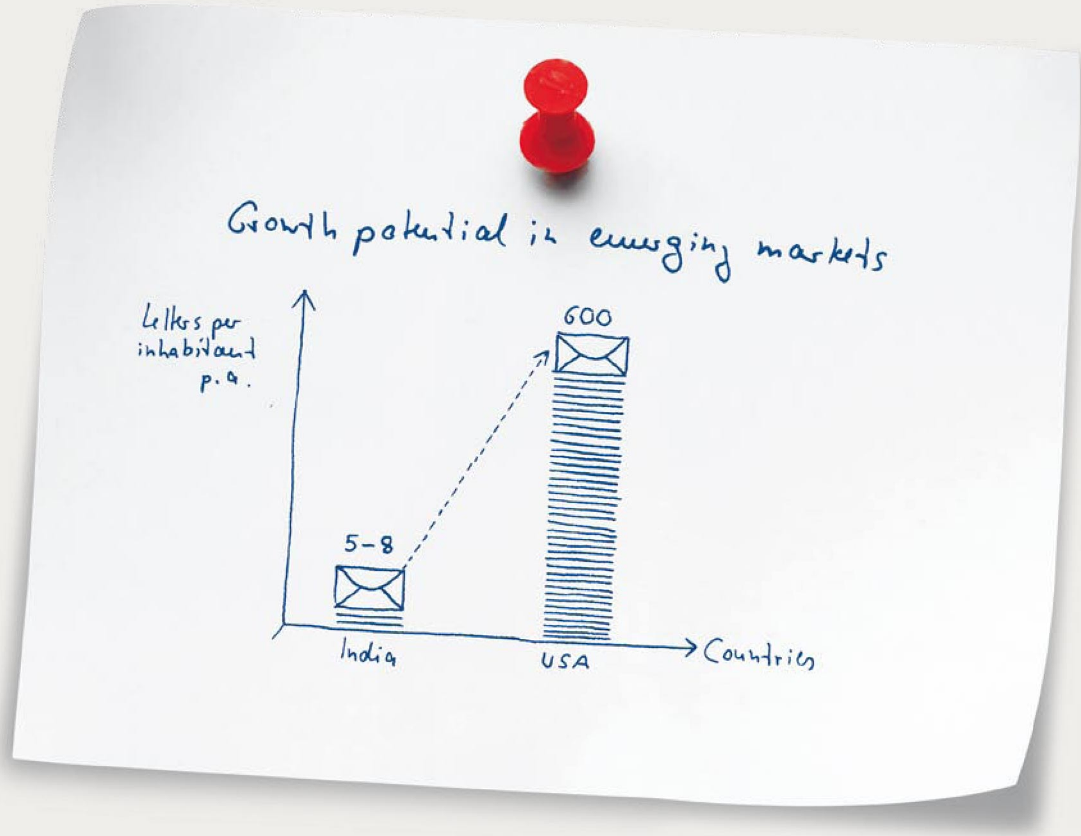
Apart from the UK, the USA is a major market for the FP Group in terms of franking and inserting machines with regarding to increasing its market share and realising new growth potential. While the use of franking machines is well established in traditional western markets, it is still in its infancy in many emerging countries. The FP Group received approval for its ultimail franking machine in India in 2010. With regard to sales, the company is working with an established local firm. The FP Group is aiming for a market share of roughly 10% in India within the next two years.

PRODUCTION

Production's development is materially dependent on that of the above-mentioned segments.

With the introduction of the new Phoenix product line, the company is planning a new direction for Production. Over the coming months, the FP Group will therefore be establishing a new production line in Wittenberge, Brandenburg for the new Phoenix franking system. After the unsuccessful end to negotiations over maintaining production in Birkenwerder, the company decided upon Wittenberge as a new location. In the years to come, the company will employ up to 50 people there.

The discontinuation of production at the Birkenwerder site is scheduled for the end of the first quarter of 2012 at the latest. Production is scheduled to end in Singapore as soon as 2011. The company manufactured preliminary products here and undertook pre-assembly work. The entire production line will be moved to Wittenberge in the future. The segment will benefit from the effects of the restructuring process.



EMERGING MARKETS

Asia is a growth market offering huge potential for the distribution of franking machines and innovative mail communication solutions. This is why we are continuously expanding our presence in Asia by collaborating with new partners and customers.

GROWTH POTENTIAL IN EMERGING MARKETS*

In industrialised nations such as the USA, each person sends more than 600 letters a year; in countries such as China or Malaysia, this figure is somewhere between 17 and 47 letters per person. The difference is staggering.

We have to leverage this potential for our growth. In 2009, therefore, we established a fully owned sales subsidiary in Singapore in a bid to strengthen our market position in the Asia-Pacific region. We have seen the first signs of success in Australia, for example, where last year we successfully increased our market share.

At the beginning of 2010, the company entered the Indian market for franking machines. India is an extremely promising future market. There too, with the certification of our franking machines, we have laid the groundwork to enable us to benefit from the expected growth over the coming years and, in turn, drive the global expansion of both our technology and our company.

"The emerging nations in Asia are important markets for the future. Our group has positioned itself in these highly promising markets early on to ensure that we can participate in their growth."

Andreas Drechsler, Member of the Management Board of the Francotyp-Postalia Holding AG

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

Economic conditions and Group development in the next two financial years

FUTURE MACROECONOMIC SITUATION

The global economy is continuing to grow. According to the International Monetary Fund (IMF), the worldwide economy is expected to expand by 4.4% in 2011. For 2012, the IMF anticipates a growth rate of 4.5%.

For Germany, the IMF is predicting growth of 2.2% in the current financial year and 2.0% in 2012. According to the IMF, the eurozone economy is expected to increase by only 1.5% in the same period. Growth is expected to come to 1.7% in 2012. In the USA, the FP Group's most important foreign market, growth rates of 3.0% and 2.7% are expected in 2011 and 2012 respectively.

Therefore all of FP Group's key markets in industrialised nations are continuing to experience an upturn at the beginning of the year, which means that companies can be expected to be more inclined to invest.

The emerging economies are likely to grow much more dynamically in 2011 and 2012. The IMF estimates their growth at 6.5% for both years. Economic experts expect an increase in gross domestic product for India of 8.4% in 2011 and 8.0% in 2012. Growth rates as high as 9.6% and 9.5% are forecast for China.

As a result, the economic significance of emerging countries, particularly in Asia, continues to grow. With its early entry into 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 third EU Postal Services Directive prescribes the complete opening of the market in the majority of EU member states in 2011. Nine new member states, as well as Greece and Luxembourg, are able to postpone this until 2013. The liberalisation process in the EU should then be complete. The increasing liberalisation of postal markets will continue worldwide as well over the next few years.

The German market has already been completely liberalised since the beginning of 2008, but there are still obstacles to overcome. Last year, the abolition of the VAT exemption on Deutsche Post's services and a revision of the postal minimum wage improved conditions for alternative providers. This year, there is an opportunity for the competition in the form of a tender for the German federal authorities' mail services. According to information from the Federal Network Agency, this could give positive momentum to competition in the German postal market.

Current economic developments are affecting 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 remains high. This means that businesses are expected to also be more willing to employ cost-saving solutions for mail communication and to collaborate with professional service providers like the FP Group in this field.

Overall, the company expects the market for mail communication to transform further over the next two years. According to information from the Federal Network Agency, new services such as De-Mail have the potential to bring a new growth and competition dynamic to the postal market and to tear up old structures. With the introduction of electronic solutions, the FP Group has created good conditions for exploiting its expertise in physical and electronic communication.

FUTURE GROUP DEVELOPMENT

Over the next two years, the FP Group is likely to benefit from the positive development of overall and sector-specific economic conditions and therefore expects revenue to increase. Since the company will at the same time maintain its cost discipline, EBITDA before restructuring costs is also likely to improve again. By contrast, the expiry of the site continuation agreement will lead to a negative year-on-year impact on EBITDA of EUR 1.5 million to EUR 2.0 million in 2011. Production restructuring is also planned for the current financial year. Manufacturing will in future be concentrated at the new Wittenberge site, while production at company headquarters in Birkenwerder and in Singapore will be shut down. The company last year recognised provisions of EUR 1.3 million for the associated costs. Whether and to what extent further costs will be incurred cannot be accurately forecast at the beginning of 2011. Current estimates show an increase of approximately EUR 0.7 million in requirements for provisions for redundancy programmes alongside provisions for the anticipated vacancy of the production plant in Birkenwerder from the time at which relocation is complete to the point at which the rental contract ends. At the current estimate, this amount will be EUR 1.5 million. However, the FP Group expects that the planned course of business will enable it to reinforce its operating earnings and financial power in 2011 as well.

Overall statement on future business development

The strong position in the traditional franking machine market and the opportunities for growth in the two newest business areas offer very good conditions for further growth and continuing consolidation of the FP Group's operating financial and earnings power. The company forecasts revenue of EUR 160 million to EUR 165 million for 2011, along with EBITDA of between EUR 25 million and EUR 27 million before restructuring costs, with an effect on income from the expiry of the ***SITE CONTINUATION AGREEMENT*** → already taken into account.

Future Group development see above ↗

As well as the VAT legislation applicable in Germany since 1 July 2010, the FP Group is still likely to benefit from the ongoing transformation into a complete service provider for mail communication. In the medium and long term, the company sees great potential in the field of digital communication. The FP Group is one of the trailblazers in this area and already offers corresponding software solutions. The company expects stable development in the traditional markets for the Franking and Inserting segments and positive growth momentum in the emerging economies.

Assuming that the global economy continues to recover, the anticipated positive trend in revenues and EBITDA for 2011 is expected to continue into 2012. The Software and Services segments in particular should contribute to the growth of the FP Group.

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 regulations in common use at 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 2010, the share capital of Francotyp-Postalia Holding AG was 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 2010, holdings of treasury shares stood at 370,444. That corresponds to a 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 that 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)

As of 31 December 2010, Amiral Gestion, based in Paris, France, holds 11.30% in the share capital of Francotyp-Postalia Holding AG. This equates to 1,660,679 shares.

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)

In accordance with Number 6 paragraph 2 of the Articles of Association of Francotyp-Postalia Holding AG, the Supervisory Board is responsible for determining the number of Management Board members, appointing them and revoking their appointment. In accordance with 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 of Management Board members.

Number 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 Number 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. No shares making use of authorised or contingent capital have hitherto been issued.

Contingent capital for exclusive fulfilment of subscription rights
On 1 July 2010, the Annual General Meeting passed a resolution to increase the company's share capital contingently by up to EUR 1,045,000.00 by issuing up to 1,045,000 new bearer shares. The contingent capital increase serves exclusively to fulfil subscription rights guaranteed until 30 June 2015 on account of the conditions formulated in the resolution of the Annual General Meeting passed on the same day (see *NOTES* →). The contingent capital increase is only implemented to the extent that the bearers of the issued subscription rights utilise their right to subscribe to shares in the company and the company does not guarantee any treasury shares to fulfil the subscription rights. Shares are issued from contingent capital according to the following conditions decided upon by the Annual General Meeting. "The exercise price of a subscription right corresponds to the average market price (closing price) of the bearer unit share in the company in electronic Xetra trading (or a comparable successor system) at Deutsche Börse AG in Frankfurt am Main on the last 90 calendar days before the subscription right is guaranteed. However, the minimum exercise price is the proportion of share capital in the company attributable to the individual unit share (currently EUR 1.00) (Section 9 paragraph. 1 AktG)."

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The new unit shares contribute to profit from the beginning of the financial year for which no resolution has yet been made on the use of the retained profit at the time of issue of the subscription rights.

Authorisation to buy and sell treasury shares
At the ordinary Annual General Meeting of Francotyp-Postalia Holding AG on 1 July 2010, the Management Board was authorised, with the approval of the Supervisory Board, to acquire treasury shares up to 10% of the share capital existing at the time of this resolution. Together with other treasury shares held by the company or allocated to it in accordance with sections 71d and 71e of the Stock Corporation Act, the shares acquired in line with this authorisation may at no point account for more than 10% of the respective share capital. The authorisation can be utilised once or multiple times, in whole or in part. The authorisation is valid until 30 June 2015.

Under the new authorisation, the purchase of treasury shares can take place either 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. There are no concrete plans to make use of this authorisation.
- 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 in Frankfurt am Main. Orientating 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 can benefit from an additional room for manoeuvre to be able to exploit favourable stock exchange conditions at short notice. There are no concrete plans to make use of this authorisation.
- to offer individual members of the Management Board treasury shares instead of the cash remuneration owed by the company. The background to this authorisation stems from the Supervisory Board's deliberations on paying Management Board salary components already or soon due not in cash but in shares in the company. The advantage of such a procedure would lie not only in preserving the company's liquidity reserves but also in creating a further incentive for the Management Board to make special efforts to increase the value of the company and thus to foster sustainable price development in the interests of the shareholders and the company. Value-related dilution of the existing shareholdings is counteracted by the fact that the price, which is based on the determination of the number of treasury shares to be transferred, may not be significantly below the price for a share on the date on which the offer was submitted, as determined by the opening auction in electronic Xetra trading (or a comparable successor system) at Deutsche Börse AG in Frankfurt am Main (without ancillary purchase costs).

- to use treasury shares to service subscription rights correctly issued to the company and exercised under the 2010 stock option plan. The advantage of servicing subscription rights under the 2010 stock option plan with treasury shares lies with the fact that the company does not have to issue new shares under utilisation of contingent capital and consequently can avoid the associated dilution effect for existing shareholders.

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. This package of measures includes a guarantee of employees' jobs for a total period of 24 months.

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 2010.

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.

Corporate Governance code p. 16

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.

Total remuneration of the Management Board and Supervisory Board
Management Board remuneration is set at a reasonable level by the Supervisory Board on the basis of performance assessments of the persons concerned. 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.

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

The direct remuneration paid to Management Board members totalled EUR 772,000, of which EUR 472,000 comprised the fixed annual salaries including pension contributions and EUR 26,000 represented payment in kind. The bonuses cited are provisions for the financial year 2010. Bonuses of EUR 108,000 for Mr Szymanski and EUR 108,000 for Mr Drechsler were paid to the Management Board in the 2010 financial year. Provisions of EUR 76,000 per Board member were recognised in the 2009 financial year for this purpose. 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 individual insurance contributions.

Glossary p. 152

The Annual General Meeting of Francotyp-Postalia Holding AG resolved on 1 July 2010 to issue pre-emption rights to members of the management of affiliated companies within the meaning of section 15 ***AKTG*** → and executives of the FP Group and to authorise the bearers to subscribe to a maximum of 1,045,000 shares against payment of the exercise price (stock option plan). From this stock option plan, 180,000 each – a total of 360,000 stock options – were allocated to the Management Board as per the resolution of the Annual General Meeting. For further details, refer to the ***NOTES*** → .

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The remuneration paid to the Management Board is as follows:

EUR thousand	Fixed remuneration	Payments in kind and contributions	Bonuses [1]	Provisions for bonuses	Stock options (staff expenses)	**Total remuneration**
Hans Szymanski	244 (2009: 260)	11 (2009: 26)	32 (2009: 0)	96 (2009:76)	9 (2009: 0)	**392 (2009: 362)**
Andreas Drechsler	228 (2009: 179)	15 (2009: 15)	32 (2009: 0)	96 (2009: 76)	9 (2009: 0)	**380 (2009: 270)**
Dr Heinz-Dieter Sluma (until February 2009)	0 (2009: 47)	0 (2009: 6)	0 (2009: 0)	0 (2009: 0)	0 (2009: 0)	**0 (2009: 53)**
Total remuneration for the financial year	**472 (2009: 486)**	**26 (2009: 47)**	**64 (2009: 0)**	**192 (2009: 152)**	**18 (2009: 0)**	**772 (2009: 685)**

[1] Bonuses for previous years which were not covered by provisions as of 31 December 2009.

Fixed remuneration includes pension contributions of EUR 76,000 (2009: EUR 71,000) for Mr Szymanski, EUR 76,000 (2009: EUR 60,000) for Mr Drechsler and EUR 0.0 for Dr Sluma (2009: EUR 2,000). As in the previous year, only minor amounts have been provided for pension commitments to active Management Board members (2010: EUR 1,000; 2009: EUR 1,000).

A total of EUR 1,298,000 (previous year: EUR 1,279,000) is provided for pension commitments to former members of the Francotyp-Postalia Holding AG Management Board and former managing directors (and their dependents) of the German company Francotyp-Postalia GmbH (for former Board members of Francotyp-Postalia Holding AG: 31 December 2010: EUR 480,000; 31 December 2009: EUR 457,000). EUR 77,000 was added to provisions in the 2010 reporting year.

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 the 2009 financial year.

The deputy chairman of the Supervisory Board, Mr Christoph Weise, has waived the remuneration to which he is entitled for 2008, 2009 and 2010. The fixed remuneration for the Supervisory Board for the 2010 financial year was thus EUR 75,000 (previous year: EUR 75,000).

EUR thousand	**Total**
Prof. Michael Hoffmann (Chairman)	45
Christoph Weise (Deputy)	0
Dr Claus Gerckens	30

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 legal persons who have a close relationship with the above-mentioned persons. All reported transactions are published via EquityStory AG and on the FP-website.

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

Shareholders	Number of shares	%
Christoph Weise	115,000	0.78
Hans Szymanski	110,000	0.75
Andreas Drechsler	10,000	0.10

Birkenwerder, 7 April 2011

Francotyp-Postalia Holding AG

Hans Szymanski
(CEO & CFO)

Andreas Drechsler
(CSO)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2010 FINANCIAL YEAR

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2010

in EUR thousand	Notes	**1 Jan. – 31 Dec. 2010**	1 Jan. – 31 Dec. 2009
Revenues	1	147,315	129,024
Reduction in work in progress and finished goods		-85	-3,034
		147,230	**125,990**
Other capitalised own work	2	6,682	5,415
Other income	3	4,154	2,044
Cost of materials	4		
a) Cost of raw materials, consumables and supplies		26,895	23,202
b) Cost of services purchased		21,584	9,282
		48,479	**32,484**
Staff expenses	5		
a) Wages and salaries		44,698	40,572
b) Social security contributions		7,445	6,828
c) Pensions and other benefits		442	999
		52,585	**48,399**
Depreciation, amortisation and impairment losses	10	18,077	36,243
Other expenses	6	31,472	32,010
Net interest income / expenses	7		
a) Interest and similar income		1,279	1,573
b) Interest and similar expenses		4,494	5,025
		-3,215	**-3,452**
Other financial results	7		
a) Other financial income		1,832	1,449
b) Other financial expenses		1,312	1,414
		520	**35**
Net taxes	8		
a) Tax income		4,181	5,576
b) Tax expenses		6,249	3,056
		-2,068	**2,511**
Consolidated net income		**2,690**	**-16,593**
Other comprehensive income			
Translation of financial statements of foreign entities		1,585	621
of which taxes		-300	-374
of which reformatted in the consolidated net income		-598	0
Cash flow hedges		-65	232
of which taxes		-12	-15
of which reformatted in the consolidated net income		121	0
Other comprehensive income after taxes		**1,520**	**853**
Comprehensive income		**4,210**	**-15,740**
Consolidated net income for the year		2,690	-16,593
– of which attributable to the shareholders of FP Group		3,340	-16,024
– of which attributable to non-controlling interests		-650	-569
Comprehensive income		4,210	-15,740
– of which attributable to shareholders of FP Group		4,860	-15,171
– of which attributable to non-controlling interests		-650	-569
Earnings per share (basic and diluted): (EUR)	9	**0.23**	**-1.12**

CONSOLIDATED BALANCE SHEET OF 31 DECEMBER 2010

ASSETS

in EUR thousand	Notes	**31 Dec. 2010**	31 Dec. 2009
Non-Current Assets			
Intangible assets	10		
Intangible assets including customer lists		16,465	19,104
Goodwill		8,494	8,494
Development projects in progress		6,369	5,069
		31,328	**32,667**
Property, plant and equipment	10		
Land, land rights and buildings		160	34
Technical equipment and machinery		1,321	1,473
Other equipment, operating and office equipment		2,972	3,485
Leased products		9,673	10,316
Advance payments and assets under construction		109	0
Assets under finance leases		4,175	4,406
		18,410	**19,714**
Other assets			
Associated companies	23	69	155
Other equity investments	25	163	163
Finance lease receivables	11, 25	2,408	3,748
Other non-current assets		318	295
		2,958	**4,361**
Deferred tax assets		**12,894**	**12,815**
		65,590	**69,557**
Current Assets			
Inventory	12		
Raw materials, consumables and supplies		4,304	4,733
Work in progress		1,130	1,392
Finished products and merchandise		5,509	4,907
		10,943	**11,032**
Trade receivables	13, 25	**14,895**	**13,883**
Other assets			
Finance lease receivables	11,25	2,010	2,085
Income tax assets		1,071	617
Derivative financial instruments	25	128	9
Other current assets	15, 25	9,226	6,874
		12,435	**9,585**
Securities	14, 25	**672**	**670**
Cash and cash equivalents	16, 25	**31,377**	**29,587**
		70,322	**64,757**
		135,912	**134,314**

EQUITY AND LIABILITIES

in EUR thousand	Notes	**31. Dec. 2010**	31. Dec. 2009
Equity			
Equity attributable to shareholders of the parent company			
Subscribed capital	17	14,700	14,700
Capital reserves	17	45,708	45,708
Stock option reserve	17	89	0
Treasury shares		-1,829	-1,829
Loss carried forward		-43,200	-27,176
Consolidated net income after minority interests		3,340	-16,024
Other comprehensive income		-654	-2,174
		18,154	**13,205**
Non-controlling interests	17	**1,431**	**2,081**
		19,585	**15,286**
Non-current liabilities			
Provisions for pensions and similar obligations	18	12,088	12,265
Other provisions	20	2,196	1,152
Financial liabilities	21, 25	36,292	51,256
Other liabilities	21, 25	19	41
Deferred tax liabilities	19	2,095	1,165
		52,690	**65,879**
Current liabilities			
Tax liabilities	19	810	881
Provisions	20	8,791	8,479
Financial liabilities	21, 25	10,724	3,935
Trade payables	21, 25	6,365	4,829
Other liabilities	21, 25	36,947	35,025
		63,637	**53,149**
		135,912	**134,314**

CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2010

in EUR thousand	Notes	**1 Jan. – 31 Dec. 2010**	1 Jan. – 31 Dec. 2009[1]
Cash flow from operating activities			
Consolidated net income		2,690	-16,593
Income tax result recognised in profit or loss	8	2,068	-2,511
Net interest income recognised in profit or loss	7	3,215	3,452
Depreciation and amortisation of non-current assets	9	18,077	36,243
Decrease (-) / increase (+) in provisions	18, 19, 23	545	-3,248
Losses on the disposal of non-current assets		300	515
Changes in inventory, trade receivables and other assets not attributable to investing or financing activities	12, 13, 15	-1,348	9,749
Increase (+) / decrease (-) in trade payables and other liabilities* not attributable to investment or financing activities	21	2,499	-3,804
Other non-cash expenses and income		145	-712
Government assistance not yet received		-1,193	-70
Interest received	7	1,279	1,573
Interest paid	7	-3,577	-4,091
Income tax paid	8	-2,537	-2,984
Cash flow from operating activities		**22,163**	**17,519**
Cash flow from investing activities			
Cash paid for internally generated intangible assets	8	-3,451	-2,820
Proceeds from the disposal of non-current assets	9	356	78
Cash paid for investments in intangible assets	9	-1,011	-600
Cash paid for investments in property, plant and equipment		-5,100	-4,001
Cash paid for financial investments		-23	0
Cash paid for company acquistions	I.V.	-3,500	-400
Cash flow from investing activities		**-12,729**	**-7,743**
Cash flow from financing activities			
Cash paid to repay bank loans	21	-7,900	-3,570
Cash paid to repay finance leases	21	-742	-837
Cash flow from financing activities		**-8,642**	**-4,407**
Cash and cash equivalents[2]			
Change in cash and cash equivalents	V.	792	5,369
Change in cash and cash equivalents due to currency translation		254	10
Cash and cash equivalents at beginning of period	V.	12,377	6,998
Cash and cash equivalents at end of period	V.	**13,423**	**12,377**

[1] adjusted

[2] The postage credit balances by the FP Group (EUR 18,626 thousand, previous year EUR 17,880 thousand) have been deducted from cash and cash equivalent and other liabilities. Cash and cash equivalent include current securities in the amount of EUR 672 thousand, previous year 670 thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2010

in EUR thousand	Subscribed capital	Capital reserves	Stock option reserves	Treasury shares	Net income / loss	Other comprehensive income	Equity attributable to FP Group	Non-controlling interests	Total
Balance at 1 January 2009	**14,700**	**45,708**	**0**	**-1,829**	**-27,176**	**-3,027**	**28,376**	**2,650**	**31,026**
Consolidated net income 1 January to 31 December 2009	**0**	**0**	**0**	**0**	**-16,024**	**0**	**-16,024**	**-569**	**-16,593**
Translation of financial statements of foreign entities	0	0	0	0	0	621	621	0	621
Cash flow hedges	0	0	0	0	0	232	232	0	232
Other comprehensive income	**0**	**0**	**0**	**0**	**0**	**853**	**853**	**0**	**853**
Comprehensive income	**0**	**0**	**0**	**0**	**-16,024**	**853**	**-15,171**	**-569**	**-15,740**
Balance at 31 December 2009	**14,700**	**45,708**	**0**	**-1,829**	**-43,200**	**-2,174**	**13,205**	**2,081**	**15,286**
Balance at 1 January 2010	**14,700**	**45,708**	**0**	**-1,829**	**-43,200**	**-2,174**	**13,205**	**2,081**	**15,286**
Consolidated net income 1 January to 31 December 2010	**0**	**0**	**0**	**0**	**3,340**	**0**	**3,340**	**-650**	**2,690**
Translation of financial statements of foreign entities	0	0	0	0	0	1,585	1,585	0	1,585
Cash flow hedges	0	0	0	0	0	-65	-65	0	-65
Other comprehensive income	**0**	**0**	**0**	**0**	**0**	**1,520**	**1,520**	**0**	**1,520**
Comprehensive income	**0**	**0**	**0**	**0**	**3,340**	**1,520**	**4,860**	**-650**	**4,210**
Capital increase from stock options	0	0	89	0	0	0	89	0	89
Balance at 31 December 2010 (Notes 16)	**14,700**	**45,708**	**89**	**-1,829**	**-39,860**	**-654**	**18,154**	**1,431**	**19,585**

Changes in equity are explained under notes (17).

NOTES

I. GENERAL PRINCIPLES

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 of FP Holding for the financial year ending on 31 December 2010 include FP Holding and its subsidiaries (also referred to hereafter as the "FP Group").

Francotyp-Postalia ("FP") 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. Through freesort and iab, the Francotyp-Postalia Group also offers its customers in Germany sorting and consolidation services and hybrid mail products.

The Management Board of Francotyp-Postalia Holding AG approved the consolidated financial statements for forwarding to the Supervisory Board on 7 April 2011. The responsibility of the Supervisory Board is to examine the consolidated financial statements and declare whether it adopts them.

DECLARATION OF COMPLIANCE

FP Holding has prepared its consolidated financial statements as at 31 December 2010 in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU 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 the parent company for the Group, under which Francotyp-Postalia Group companies are consolidated. For all Group companies (with one immaterial exception), the financial year is the calendar year.

In accordance with Section 315a (1) HGB, the consolidated financial statements and the Group management report of FP Holding as of 31 December 2010 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 euros. For greater clarity and to facilitate comparison, all amounts are presented in thousands of euros (EUR thousand) 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.

The consolidated statement of recognised income and expense is drawn up using the nature of expense method.

CONSISTENCY OF ACCOUNTING METHODS AND ADJUSTMENTS TO THE PREVIOUS YEAR'S NOTES

The accounting methods applied have not changed since the previous year.

These notes to the 2010 consolidated financial statements contain adjustments to the previous year's information, which have been pointed out. The adjustments involve the correction of errors, whereby the errors were not considered to be material.

APPLICATION OF NEW AND REVISED IFRS REGULATIONS

In principle, the FP Group applies new and revised IFRS regulations only from the point at which they become mandatory. The FP Group comments below on specific new or revised IFRS regulations.

IFRS 3
The version of IFRS 3 published by the IASB in January 2008 became European law in June 2009. This version of IFRS 3 is to be applied at the latest from the beginning of the first financial year commencing after 30 June 2009. Among other points, the revised regulations stipulate the following:

- Incidental costs of acquisition in connection with a business combination are not to be included in the acquisition costs of the business combination, but are to be treated as current expenses.
- Net assets attributable to minority shareholders can be recognised either at fair value or at the carrying amount.

- Adjustments to the acquisition costs of a business combination depending on future events, which lead to the recognition of a liability at the time of acquisition, have no impact on goodwill recognised on the balance sheet in subsequent measurement.

Where it was actually relevant, the new version of IFRS 3 was applied in the 2010 financial year.

IAS 27

The version of IAS 27 published by the IASB in January 2008 became European law in June 2009. This version of IAS 27 is to be applied at the latest from the beginning of the first financial year commencing after 30 June 2009. Among other points, the revised regulations stipulate the following:

- In accordance with IAS 27.30, the following now applies: "Changes to the stake that the parent company holds in a subsidiary that do not lead to loss of control are accounted for as equity transactions (i.e. as transactions with owners acting in their capacity as owners)."
- In the event of the loss of control over a subsidiary by the parent company, the parent company must, in accordance with IAS 27.34, derecognise the assets and liabilities of the subsidiary at their carrying amount (at the time that control is lost) and must now recognise all shares that the parent company continues to hold in the former subsidiary at their fair value (at the time that control is lost) and recognise any resulting differences in income.

Where it was actually relevant, the new version of IAS 27 was applied in the 2010 financial year.

IAS 24

Changes to IAS 24 took effect at EU legal level in July 2010. According to the EU regulation concerned, these changes are to be applied at the latest from the beginning of the first financial year commencing after 31 December 2010. There are additions to the information on state-controlled entities and the definition of related parties. The new version of IAS 24 was not used for the 2010 financial year. No significant effects from the new regulations on the way in which the FP Group's financial situation is reported in the consolidated financial statements in future reporting periods have been identified.

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 benefits are derived from the activities of these companies (subsidiaries). Subsidiaries are included in the consolidated financial statements from the time FP Holding gains the power of control.

The following transactions in the 2010 financial year are to be listed here for the consolidated companies:

Involvement in Sweden

In February 2010, Francotyp-Postalia GmbH acquired all shares in Aktiebolag Grundstenen 122257, Stockholm / Sweden – a company with virtually no assets. Immediately after the acquisition, this company was renamed "Francotyp-Postalia Sverige AB". On 31 March 2010, this new subsidiary acquired all shares in Franco Frankerings Intressenter AB (formerly Carl Lamm Personal AB), Stockholm / Sweden, from Ricoh Sverige AB, Stockholm / Sweden. The reason for both acquisitions was the FP Group's involvement in the Swedish market. In connection with this, immediately before the acquisition of the shares in Franco Frankerings Intressenter AB, Ricoh Sverige AB had transferred its existing customer relationships in the franking business in Sweden to Franco Frankerings Intressenter AB, together with further assets and liabilities.

The identifiable assets and liabilities of Franco Frankerings Intressenter AB as at the time of acquisition are immaterial, apart from the identifiable customer relationships. Net assets (excluding customer relationships) as at the time of acquisition amounted to EUR 10 thousand. The customer relationships have been assigned a fair value (at the time of acquisition) of EUR 4,751 thousand (carrying amount immediately before the business combination: EUR 0.0 thousand); deferred tax liabilities of EUR 1,250 thousand were taken into account. The carrying amounts of the identifiable assets and liabilities at the time of acquisition otherwise corresponded to their fair values.

Write-downs of EUR 740 thousand on identifiable customer relationships were recognised for the 2010 reporting period.

The equity investments acquired during the reporting period lead in both cases to immediate control by Francotyp-Postalia GmbH or by Francotyp-Postalia Sverige AB. In both cases, all voting rights were acquired. Both new companies were included in the group of consolidated companies of the FP Group for the first time on 31 March 2010.

The acquisition of the shares resulted in a gain of EUR 13 thousand as defined by IFRS 3.34; this is reported in the statement of recognised income and expense under the item 'Other income'.

The purchase price for the shares in Franco Frankerings Intressenter AB amounted to EUR 3,500 thousand (= fair value of the entire consideration transferred that was identified at the time of acquisition) and, in accordance with the contract, was payable in full in cash by 1 July 2010. The purchase price was paid in full by 30 June 2010.

No cash was taken over as part of the acquisition of either Francotyp-Postalia Sverige AB or Franco Frankerings Intressenter AB, which means that the business combination entailed a cash outflow of EUR 3,500 thousand.

The consolidated financial statements for 2010 take into account revenue of EUR 1,869 thousand and a loss for the period of EUR 6 thousand for the acquired companies (financial statements level II), EUR 740 thousand from write-downs on identifiable customer relationships and deferred tax income of EUR 195 thousand attributable to this.

As the information is unavailable, it is not possible to comment on how high the revenue and consolidated net income of the FP Group would have been for the 2010 financial year if the two companies above had been included in the consolidated financial statements of the FP Group from 1 January 2010. Nevertheless, it can be assumed that the contribution to revenue and consolidated net income for the period from 1 January 2010 to 31 March 2010 is not material to the consolidated financial statements for 2010.

FP Systems India Private Limited
In September 2010, the FP Group set up FP Systems India Private Limited, headquartered in Mumbai, India. All shares in this new subsidiary are held by the FP Group. The company has not yet begun operating; the company is not material to the 2010 consolidated financial statements. FP Systems India Private Limited is included in the 2010 consolidated financial statements at cost.

Frankierversand UG (haftungsbeschränkt)
By means of a notarised contract signed in October 2010, Frankierversand UG (haftungsbeschränkt), headquartered in Maintal, Germany, was created. Since the company was founded, all shares have been held by Francotyp-Postalia GmbH. The company that has been created is of no material importance to the 2010 consolidated financial statements and for this reason has not been fully consolidated.

In addition to FP Holding, the 2010 consolidated financial statements of the FP Group include eleven (previous year: ten; the previous year's figure has been adjusted) subsidiaries in Germany and eleven (previous year: eight; the previous year's figure has been adjusted) foreign subsidiaries (see the list below).

A stake of 49% is also held in FP Data Center Inc., Japan. This is shown at acquisition cost in the consolidated financial statements for 2010 (as in the previous year). 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 (as in the previous year). The key financial data for FP Data Center Inc., Japan, are as follows as at 31 December 2010: assets: EUR 1,067 thousand (previous year: EUR 914 thousand), liabilities: EUR 343 thousand (previous year: EUR 347 thousand), revenue: EUR 237 thousand (previous year: EUR 220 thousand) and consolidated net income: EUR 82 thousand (previous year: EUR 105 thousand).

List of shareholdings in accordance with Section 313 HGB

31 Dec. 2010 No.	Name and headquarters of company	Stake in %
1	Francotyp-Postalia Holding AG, Birkenwerder, Germany	
2	Francotyp-Postalia GmbH, Birkenwerder, Germany ("FP GmbH")	100.00
3	freesort GmbH, Langenfeld, Germany ("freesort")	100.00
4	internet access GmbH lilibit Berlin Gesellschaft für Kommunikation und Digitaltechnik, Berlin, Germany ("iab")	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	Francotyp-Postalia 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 Unterstützungseinrichtung GmbH, Birkenwerder, Germany	100.00
12	Frankierversand UG (haftungsbeschränkt), Maintal, Germany	100.00
13	Francotyp-Postalia N.V., Zaventem, Belgium	99.97
14	Francotyp-Postalia GmbH, Vienna, Austria	100.00
15	Ruys Handelsvereniging B.V., The Hague, Netherlands ("Ruys B.V.")	100.00
16	Italiana Audion s. r. l, Milan, Italy	100.00
17	Francotyp-Postalia Ltd, Dartford, UK ("FP Ltd")	100.00
18	Francotyp-Postalia Inc., Lisle, Illinois, USA ("FP Inc.")	100.00
19	Francotyp-Postalia Canada Inc., Markham, Canada	100.00
20	Francotyp-Postalia Asia Pte. Ltd, Singapore	100.00
21	Francotyp-Postalia Sverige AB, Stockholm, Sweden	100.00
22	Franco Frankerings Intressenter AB, Stockholm, Sweden	100.00
23	FP Systems India Private Limited, Mumbai, India (99.99% held by no. 2; 0.01% held by no. 1)	100.00
24	FP Data Center Inc., Osaka, Japan	49.00

PRINCIPLES OF CONSOLIDATION

Equity is consolidated in accordance with the principles of IFRS 3 (2008). All unrealised gains and losses of the company acquired are realised on initial consolidation and all identifiable intangible assets are recognised separately. All assets and liabilities are therefore remeasured at fair value. The acquisition cost of the equity investments is then set off against pro rata equity as restated. Amounts in excess of this are capitalised as goodwill. Incidental costs of acquisition in connection with business combinations are recognised in expenses.

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 the euro (EUR).

Transactions in foreign currencies in the financial statements of FP Holding and subsidiaries in Germany 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 subentities and prepare their financial statements in local currency. These financial statements are translated in accordance with IAS 21. When the consolidated financial statements are prepared, assets and liabilities are translated into euros at the exchange rate on the reporting date. The equity of subsidiaries that do not prepare their financial statements in euros is translated at the historic rate. The effects of currency translation on equity are recognised in other comprehensive income. The items in the consolidated statement of recognised income and expenses are translated at weighted average rates for the year. Currency translation differences resulting from different translation rates for items on the balance sheet and items in the consolidated statement of recognised income and expenses are reported under other comprehensive income.

Translation differences resulting from monetary items that represent net investments in foreign operations are recognised in other comprehensive income at Group level in accordance with IAS 21.15 in conjunction with IAS 21.32. If the respective net investment is sold at a later date, the equity amounts concerned are reported under the net profit for the period.

Currencies have been translated at the following rates:

	Rate on the reporting date		Average rate	
1 EURO =	**31 Dec. 2010**	31 Dec. 2009	**2010**	2009
US dollar (USD)	1.3386	1.4333	1.3265	1.3946
British pound (GBP)	0.8618	0.9000	0.8582	0.8917
Canadian dollar (CAD)	1.3360	1.5041	1.3661	1.5871
Singapore dollar (SGD)	1.7165	2.0144	1.808	2.0252
Swedish krona (SEK)	8.980	10.3165	9.4084 *	10.52304 *

* This is the average rate for the period from 1 April 2010 to 31 December 2010 or 1 April 2009 to 31 December 2009.

ACCOUNTING PRINCIPLES

When drawing up the consolidated financial statements for 2010, 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.

Grants are recognised in accordance with IAS 20.17 if the underlying conditions for provision of the grant are fulfilled and there is reasonable assurance that the grant will be provided. Grants are generally reported under other income. Grants relating to assets are recognised with a reduction in the carrying amount. If grants for assets generated internally are involved, the grants reduce own work capitalised and the carrying amount to the same extent.

Interest income is recognised if it is likely that the economic benefit from the transaction will accrue to the company and if the amount of income can reliably be determined. **Interest expense** is recognised on an accrual basis, taking into account any transaction costs and discounts.

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 carried out at least once a year, 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 have also been, and continue to be, 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 at 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 income 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 (residual value method), 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. Tax benefits linked to amortisation from a notional individual acquisition of client lists have been taken into account in the calculations.

Development costs for internally generated intangible assets are capitalised at cost, as long as producing these products is likely to bring the FP Group an economic benefit, their production is technically feasible, the costs can be reliably determined, the type of benefit can be proven, the technical and financial resources required to complete the asset are available and the intention is to complete the asset. 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 the period of production as part of the costs. The amount of borrowing costs that can be capitalised are 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 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, provided that qualifying assets exist. 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 of intangible assets and of 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 previous years cease to apply, the loss is reversed; this does not apply to goodwill.

Equity investments are carried at amortised cost. The same applies to the **associate** FP Data Center Inc., for reasons of immateriality.

Inventory is valued at the lower of cost and net realisable value on the balance sheet date. Simplified measurement methods were used in the form of average price measurements.

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, as there are no qualifying assets. Net realisable value is the estimated selling price in the ordinary course of business, less the necessary completion costs and sale costs.

Impairement of inventory is recognised for merchandise and for raw materials, consumables and supplies under cost of materials and for finished goods and work in progress under inventory changes.

Borrowing costs that can be directly attributed to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of this asset. At Francotyp-Postalia, the capitalisation of borrowing costs is significant only in the capitalisation of development costs (capitalised development costs involve assets for which a considerable period of time is required in order to put them into their intended condition for use or sale).

Financial assets are divided into the following categories:

- Financial assets at fair value through profit and loss,
- Loans and receivables,
- Financial assets available for sale and
- Cash.

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 (at the FP Group, these include only shares in a fund held for trading, which reinvests income and invests principally in fixed-income securities, money market instruments and demand deposits). Derivatives are also classified as held for trading. Gains or losses from financial assets held for trading are recognised in income.

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 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; please also refer to our comments in section IV, note 13. A separate allowance account is used for these allowances; amounts recognised in this account are derecognised as soon as it is clear that there has been a definite loss of value of the loan or the receivable. 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 that 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 or losses are recognised directly in equity. If such a financial asset is derecognised or impaired, the amounts previously recognised directly in equity are reported in the profit or loss for the respective period. During examination of whether impairment needs to be recognised on the balance sheet, appropriate objective indications are taken into account. Indications of this kind include, for example, the economic environment, legal situation, duration and extent of loss of value etc. 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 first accounted for at the settlement date. Derivatives are entered in the accounts in accordance with the trading date (date of purchase or sale).

Cash and cash equivalents include all liquid funds, i.e. cash in hand, cheques and bank balances. Bank balances are partially pledged in connection with postage funds under management.

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 previous IPO of FP Holding have been accounted for in accordance with IAS 32.35 as a deduction from capital reserves.

The **stock option reserve** shows amounts recognised from the 2010 stock option plan under staff expenses. This is determined by the fair value of the stock options that can likely be exercised, which is allocated to different periods.

If the Group acquires **treasury shares**, these are deducted directly from shareholders' equity. The purchase, sale, issue and cancellation of treasury shares do not affect the consolidated net income.

Provisions for pensions and similar obligations 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 consolidated net 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 2010 financial year, an interest rate of 5.20% was used for the calculations (previous year: 5.37%). The retirement age stipulated by the German act to alter the retirement age was used in calculations.

Contributions made as part of defined contribution plans are expenses for the period in which the benefits in question are provided.

Provisions and **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 exist, 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 s. r. l., Milan, Italy, 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 measures 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 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.

Financial liabilities are divided into the following categories:

- Financial liabilities measured at amortised cost;
- Financial liabilities at fair value through profit and loss.

Financial liabilities measured at amortised cost are measured at fair value when first recognised, taking into account the transaction costs directly associated with taking up the loan. Loans are not designated as at fair value through profit or loss. After first-time recognition, interest-bearing loans are measured at amortised cost.

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. Liabilities from derivatives transactions are also shown under financial liabilities measured at fair value through profit and loss. Gains or losses from financial liabilities held for trading are recognised in profit and loss.

Liabilities under finance leases are recognised at the present value of the leasing instalments.

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 accounted for using the balance sheet-related liability method in accordance with IAS 12, based on the tax rates that are expected to apply at the time of realisation. According to this, deferred taxes must in principle be recognised for all temporary differences between the tax base of assets and liabilities and the figures on the consolidated balance sheet.

Deferred tax receivables are recognised in the amount that it is likely that positive taxable income will be available, against which the temporary difference can be applied. Deferred tax assets have been recognised for usable tax loss carryforwards if it is likely that it will be possible to realise them in future. Where taxes are owed to the same authority and the maturities are the same, deferred tax assets are offset against deferred tax liabilities.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply in the period in which an asset is to be realised or a liability fulfilled. This is based on the tax rates and tax legislation in force on the reporting date. Future changes in tax rates are to be taken into account on the reporting date if material conditions for validity have been fulfilled in a legislative procedure.

Deferred taxes relating to amounts entered directly into equity are also recognised directly in equity.

Accounting for leases in which Francotyp-Postalia is the lessor
IAS 17 defines a lease as an agreement in which the lessor transfers the right to use an asset for a specific period to the lessee in exchange for payment or a series of payments.

The types of contracts for the leasing of franking machines as the lessor are treated as **finance leases** at German FP companies. In accordance with IAS 17, property, plant and equipment leased out on the basis of leases is not capitalised under property, plant and equipment if the requirements for a finance lease have been fulfilled. It is reported under finance lease receivables. The requirements concerned are fulfilled if the material opportunities and risks arising from use are on the lessee's side. In the case of a finance lease, a receivable is then capitalised in the amount of the present value of the minimum lease payments at the time that the contract is concluded. The leasing instalments received are divided into a repayment and an interest component. The repayment component is recognised in equity and reduces the receivables portfolio. The interest component is recognised in income.

The finance leases of German FP companies relate to franking and inserting machines leased to customers. These are standardised contracts that include only full pay-outs. Both new and used machines are leased under finance leases.

The leasing of franking and inserting machines by other FP companies is classified as **operating leases**, as economic ownership is retained with these types of contracts. The leased assets are therefore reported under non-current assets in property, plant and equipment.

Accounting for leases in which Francotyp-Postalia is the lessee
The franking and inserting machines used by iab and freesort are assigned to the companies that use them with regard to economic ownership. Both of these companies fulfil the requirements for lessees under finance leases. The leased assets are reported as assets in **finance leases** under non-current assets; corresponding non-current liabilities are recognised.

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, the FP Group is exposed to certain financial risks, including in particular those of currency fluctuations, interest rate changes, liquidity risks 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 significant concentration of risk is discernible with regard to financial instruments.

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. Foreign currency risks
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. Derivative financial instruments are used to limit these risks.

Exchange rate fluctuations can lead to undesirable and unforeseen volatilities in earnings and cash flows. Every 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 in the reporting period.

The operating units are prohibited from borrowing and / 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 in Birkenwerder.

In the reporting year, income from translation differences of EUR 1,709 thousand (previous year: EUR 1,442 thousand) and expenses of EUR 1,199 thousand (previous year: EUR 1,412 thousand) were recognised in net financial income.

Foreign currency risks from anticipated future cash inflows in US dollars are hedged by using them to repay a loan borrowed in April 2005, which is also denominated in US dollars.

As of 28 May 2010, four participating forward contracts were concluded under the following conditions (for contracts that are still ongoing, the market values are also stated below):

	Contract 1	Contract 2	Contract 3	Contract 4
Hedging amount	USD 1,000,000	USD 2,000,000	USD 2,000,000	USD 1,000,000
Hedging rate (EUR / USD)	1.2585	1.2625	1.2660	1.2670
Maturity date	29 Oct. 2010	23 Dec. 2010	28 Feb. 2011	31 Mar. 2011
Market value	./.	./.	EUR 85,197.89	EUR 42,794.02

All changes in the market values of the above contracts are reflected in the consolidated net income.

The net risks for the financial assets and liabilities in foreign currencies are as follows:

	2010	2009
Secured bank loan in USD thousand	-6,604	-10,195
Participating forward contracts in EUR thousand	128	./.
Net risk in USD thousand	-6,604	-10,195
Net risk in EUR thousand	128	./.

The table below shows the sensitivity of the consolidated net income before taxes and the consolidated equity depending on possible changes to the exchange rates of relevance to the FP Group (USD) – ceteris paribus.

EUR thousand	Development of the foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2010	+5%	-342	-342
	-5%	378	378
2009	+5%	-339	-339
	-5%	374	374

The 2010 consolidated financial statements include companies that do not belong to the eurozone. As the reporting currency of the FP Group is the euro, the financial statements of the subsidiaries concerned are translated into euros when the consolidated financial statements are drawn up. Translation effects that arise when the value of net asset items translated into euros changes owing to exchange rate fluctuations are recognised directly in equity.

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

EUR thousand	**2010**	2009
Net amount at start of the reporting period	-2,216	-2,837
Translation differences in the reporting period	1,585	621
Net amount at 31 December	**-631**	**-2,216**

2. Interest risks

The risk of fluctuations in market interest rates to which the FP Group is exposed results primarily from non-current liabilities with a floating rate of interest. The finance division of the Group manages interest risks with the aim of optimising the Group's net interest income and minimising the overall interest rate risk. The financing requirements of companies in the FP Group are covered through internal loans and internal clearing accounts.

On 18 June 2007, an interest rate swap was negotiated in US dollars for a nominal amount of USD 18,146 thousand, maturing on 30 November 2011. The reference amount is reduced over the term at the amount of the scheduled repayments in accordance with the framework loan agreement. Under this interest rate swap, the Group swaps floating 6-month LIBOR interest against a fixed interest rate of 4.29% p.a. The market value of this instrument is EUR -212 thousand (previous year: EUR -407 thousand). The swap is settled semi-annually.

As of 30 June 2006, euro amounts were also hedged with an interest rate cap (term: five years; maturity: 30 June 2011). The reference amount as at 31 December 2010 was EUR 2,039 thousand with a maximum rate of 3.50% p.a. and a basic interest rate equal to the 6-month EURIBOR. There is no direct interest rate risk for the term of the hedging transaction.

A further interest cap was concluded as of 30 December 2009 in the form of a maximum interest 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 the three-month EURIBOR. As at 31 December 2010, the market value of the cap was under EUR 1 thousand.

The fair values of existing interest rate derivative transactions can be seen in the table below:

	31 Dec. 2010		31 Dec. 2009	
EUR thousand	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate swap				
Fair value	0	212	0	407
Caps				
Fair value	0	0	9	0

All changes in the fair values are reflected in the consolidated net income.

A sensitivity analysis for the fixed-interest financial assets and financial liabilities (leasing receivables and leasing liabilities) is not carried out, as the assets and liabilities concerned are not accounted for at fair value through profit and loss.

Floating rate financial liabilities exist solely in the form of liabilities to banks. The table below shows the sensitivity of the consolidated net income before taxes in respect of a potential change in interest rates considered to be generally reasonable. All other variables remain constant in each case. There is no impact on consolidated equity.

	Change in percentage points	Effect on consolidated net income before taxes
2010	+1%	-280
	-1%	+280
2009	+1%	-262
	-1%	+262

3. Default risks

The carrying amount of financial assets represents the maximum default risk in the event that counterparties do not 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 (such as looking at payment history) are used to avoid defaults. Recognisable default risks of receivables and general credit risks are taken into account through appropriate specific and general write-downs. The maturity structure of trade receivables is shown in section IV, note 13 of these notes. The overdue receivables can also be seen from this maturity structure.

For the other financial assets (such as cash, financial instruments available for sale and certain derivative financial instruments), the maximum credit risk in the event of default by the counterparty corresponds to the carrying amount reported. Maturity structures are not reported for the other financial assets, as there are no corresponding overdue assets on which write-downs have not been carried out.

Please also refer to the information provided in section IV, note 25 of these notes.

4. Liquidity risks

The Group's liquidity risks lie in the possibility that it may no longer be possible to meet financial obligations (such as the repayment of financial liabilities, the payment of suppliers or the fulfilment of obligations under finance leases). The FP Group limits these risks through working capital and cash management. Liquidity risks continue to be countered with a liquidity forecast for the entire Group and a line of credit amounting to EUR 2,500 thousand, which had not been utilised as at the reporting date. The liquidity forecast does not assume that this line of credit will be used in the future, either.

In addition to the above instruments for safeguarding liquidity, the FP Group tracks financing opportunities as they arise on the markets at all times. The central aim is to secure the Group's financial flexibility and to limit financing risks.

Financial liabilities mainly relate to loans to finance the purchase price of the FP Group. Since the company's IPO, the acquisition loans and credit lines for acquisition and capex have been combined into one facility.

In February 2011, the FP Group obtained follow-up financing to secure liquidity further. A syndicated loan agreement dated 21 February 2011 for EUR 30,149,665 and USD 12,000,000 was concluded between Francotyp-Postalia Holding AG as the borrower and a banking consortium as the lender. The loan consists of loan A 1 (amortising loan of up to EUR 6,000,000), loan A 2 (amortising loan of USD 12,000,000), loan A 3 (maturity loan of EUR 2,832,332.89) and loan B (loan of up to EUR 21,317,332.11 on a revolving basis). According to the loan agreement, loans A 1, A 2 and A 3 are to be used to refund the existing syndicated loan; loan B will initially be used to refund the existing syndicated loan and then for the financing of general working capital. The liabilities associated with the follow-up financing are reported as non-current in line with IAS 1.73, as a binding declaration of intent had been obtained from the financing banks before the reporting date for Francotyp-Postalia Holding AG of 31 December 2010. The FP Group thus expected even before the reporting date that the other obligations becoming due during the 2011 financial year would be extended.

For the maturities of derivative liabilities, please refer to our comments on interest rate risks in section I, Hedging policy and risk management.

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 inventory and trade receivables). The Group takes these assets into account in the effective management of its total liquidity risk.

The following table shows the cash flows resulting from the syndicated loan agreement, including estimated interest payments and payments from related derivative financial instruments.

		Contractually agreed cash flows		
in EUR million	**Carrying amount as at 31 Dec. 2010**	2011	2012	2013
Loans	44.0	-11.4	-6.3	-30.8
Forwards	0.1	0.1	0.0	0.0
Swaps	-0.2	-0.2	0.0	0.0
		-11.5	**-6.3**	**-30.8**

		Contractually agreed cash flows	
in EUR million	**Carrying amount as at 31 Dec. 2009**	2010	2011
Loans	51.4	-10.5	-45.4
Swaps	0.4	-0.3	-0.1
		-10.8	**-45.5**

The contractually agreed cash flows from finance leases can also be seen in note 20, differentiated according to their remaining term.

With the other financial liabilities (see note 25), the carrying amount shown largely corresponds to the cash outflow in the following year in each case.

5. Accounting for derivative financial instruments
Derivative financial instruments are used only outside hedge accounting as defined by IFRS. They are recognised at fair value in income.

CAPITAL CONTROL

The capital structure is decisive for capital control at the Group. The indicator for the capital structure is net indebtedness. This is calculated from the ratio of net debts to equity.

The selected debt includes in particular borrowing (EUR 44,327 thousand; previous year: EUR 51,767 thousand) and liabilities from finance leases (EUR 2,689 thousand; previous year: EUR 3,424 thousand). Funds as defined in this context include treasury shares (EUR 1,829 thousand; previous year: EUR 1,829 thousand) and securities (EUR 672 thousand; previous year: EUR 670 thousand) and excludes postage credit balances managed by the FP Group (EUR 18,626 thousand; previous year: EUR 17,880 thousand).

Net indebtedness is monitored on an ongoing basis. This is as follows:

EUR thousand	**31 Dec. 2010**	31 Dec. 2009
Liabilities	47,016	55,191
Funds	-15,251	-14,206
Net debt	**31,765**	**40,985**
Shareholders' equity	19,585	15,286
Net indebtedness	**162%**	**268%**

The aim of capital control is to ensure the highest possible credit rating. It is also to be ensured that the Group remains a going concern.

In the 2010 reporting year, no changes were recorded in targets, guidelines and procedures for capital control.

We would like to make you aware at this point of the new Group financing obtained at the beginning of 2011; please also refer to our comments under the point "Significant events after the balance sheet date" in section V.

In accordance with the loan agreement concluded with banks, which was still in place as at 31 December 2010, the FP Group must maintain a certain financial ratio (covenant), calculated from the ratio of net debt to EBITDA. As per the definitions of the loan agreement, these two values can be adjusted slightly in relation to certain items. At the end of 2008, this financial ratio was adjusted to the current circumstances of the FP Group after negotiations with the banks involved. A further reduction of the financial ratio from the ratio as on 31 December 2009 was agreed. This reduction was carried out in steps at the end of the first quarter and the end of the second quarter of the 2010 financial year. There were no further adjustments in 2010. There are no agreements regarding any further adjustments to the covenant.

The financial ratio that was decisive as at 31 December 2010 has been complied with. If the financial ratio had not been complied with, the banking consortium would have had a contractual right to call in the loan.

FINANCIAL MANAGEMENT INDICATORS

The Group manages its finances by way of its ratios, revenues, 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 inventory 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, adjusted EBITDA before restructuring costs is normally used. Restructuring expenses of EUR 1.3 million (previous year: EUR 1.4 million) resulted in an adjusted EBITDA of EUR 26.8 million (previous year: EUR 22.0 million).

Net working capital for the FP Group declined in 2010 by 3.1% year-on-year from EUR 20,086 thousand to EUR 19,473 thousand.

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 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 that is 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 expenses 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 amount capitalised, management makes assumptions as to the amounts of cash flow 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 2010 at the amount of EUR 6,293 thousand (previous year: EUR 7,340 thousand) and EUR 6,369 thousand (previous year: EUR 5,069 thousand) for development projects in progress.

Remeasurement of intangible assets when showing business combinations
Estimates are necessary for the remeasurement of intangible assets when presenting business combinations in accordance with IFRS 3 (2008). As part of purchase price allocations, intangible assets are to be identified at the companies acquired and reported at their fair value; they are to be separated from any (negative) goodwill. Various estimates need to be made when determining fair values.

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 at the reporting date was EUR 8,494 thousand (previous year: EUR 8,494 thousand).

Property, plant and equipment
Estimates and discretion are used when determining whether there is any impairment on property, plant and equipment and when measuring the amount of any impairment.

Impairment 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 previous years cease to apply, the loss is reversed.

Impairment of EUR 337 thousand (previous year: EUR 0.0 thousand) was recognised on property, plant and equipment in the reporting year.

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 2010, the carrying amount of the deferred tax assets on utilised tax loss carryforwards amounted to EUR 9,026 thousand (previous year: EUR 10,056 thousand).

In 2009, Francotyp-Postalia commissioned a study of international Group transfer prices. As the first result of this study, the transfer prices for 2009 have been adjusted. Price lists that have been revised accordingly have been applied for the 2010 financial year.

Company audits relating to income taxes for the years from 2005 to 2008 were organised for several German FP Group companies in 2010. The audits were commenced in the 2010 reporting year and have not yet been concluded. The formal findings of the audits are not yet available. The audits also relate to the transfer prices recognised in the auditing period for transactions with foreign FP Group companies.

It is possible that tax assessments for the years from 2005 to 2008 that are not yet effective may be adjusted by the fiscal administration with regard to transfer prices. One significant consequence of adjusted transfer prices would be the transfer of profits from abroad to Germany. In connection with arbitration or settlement proceedings, however, there may be corresponding adjustments (tax benefits) abroad. The impairment of deferred taxes on loss carryforwards capitalised in this respect is based on this assumption and taking into account differences in income tax rates between the countries concerned. Existing tax loss carryforwards could be used for a significant portion of profits taxable in Germany. According to provisional estimates that have remained unchanged (compared with 31 December 2009), the tax burden from minimum taxation in Germany is expected to be approximately EUR 358 thousand.

According to the current plans, tax loss carryforwards, where they relate to interest, will have been fully utilised by 2013; other loss carryforwards will have been utilised by 2014. In particular, the planned utilisation of the loss carryforwards assumes that the forthcoming restructuring measures will be completed successfully and that the Phoenix product line will be successfully placed on the market.

Trade receivables and other receivables
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.

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 12,088 thousand as of 31 December 2010 (previous year: EUR 12,265 thousand).

Provisions
The determination of provisions for onerous contracts, warranty provisions 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 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 out-flow 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. Depending on the outcome of proceedings, FP Holding can obtain income or incur expenses as a result of provisions that were previously too high or too low.

In the 2010 financial year, income from the reversal of provisions was recorded in particular in connection with the conclusion of the legal disputes with mSE-GmbH Management-Solutions Lübeck and PointOut GmbH during the reporting year (amount: EUR 293 thousand).

A provision is recognised for restructuring measures 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 represent amounts caused solely by the restructuring and not in connection with the company's ongoing business activities.

In the 2010 reporting year, provisions for restructuring measures of EUR 1,310 thousand (previous year: EUR 483 thousand) were added (carrying amount as at 31 December 2010: EUR 1,315 thousand; carrying amount as at 31 December 2009: EUR 486 thousand). The provisions for restructuring measures relate to severance payments. The amount of severance payments that will actually be paid in future depends on the outcome of negotiations with employee representatives that have not yet been concluded, which means that there is a risk that the amount of the severance payments to be paid may change. Most of the cash outflows are expected to take place in the first quarter of 2012.

DISCRETION OF MANAGEMENT

The preparation of the consolidated financial statements depends to a certain extent on the discretion of management; this leeway has an impact on the recognition, measurement and reporting of assets and liabilities on the balance sheet and on income and expenses for the reporting period. The main cases where discretion is used in the accounts of the FP Group result from the leasing of assets and the accounting treatment of grants.

Depending on to whom the economic ownership of a **leased** asset is to be assigned, a distinction is made between finance leases and operating leases. 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 associated with ownership of the leased asset lie with the lessor or the lessee.

Leases are 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. In some cases, there is room for considerable discretion in the assessment.

As of 31 December 2010, assets in finance leases with carrying amounts of EUR 4,175 thousand (previous year: EUR 4,406 thousand), finance leases receivables of EUR 4,418 thousand (previous year: EUR 5,833 thousand), and finance leases liabilities of EUR 2,689 thousand (previous year: EUR 3,424 thousand) were reported.

As of the balance sheet date, there are still operating lease liabilities of EUR 11,123 thousand (previous year: EUR 13,808 thousand). Further contractual obligations amounting to EUR 369 thousand (previous year: EUR 170 thousand) were entered into in connection with operating leases.

Discretionary measurements that may have a significant impact on the consolidated financial statements exist in the accounting treatment of **grants** with regard to the estimated probability of benefits that will be gained or lost in future. Please also refer to our comments under note 2, section III.

II. SEGMENT REPORTING

Segment reporting takes place in line with the provisions of IFRS 8. According to this, 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.

Francotyp-Postalia is divided into four segments, namely **Production, Sales Germany, Sales International** and **Central Functions**. 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 relate to business relationships between the segments. As the figures in the level I financial statements are added up to form total segment results, total segment amounts also include intrasegment figures and intragroup profits. Consolidation takes place 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 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. In the reporting year, there were 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". 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 own subsidiaries in the key markets. The subsidiary in Singapore was allocated to the Production segment on account of the production facilities located there in the 2010 reporting year.

The **Central Functions** segment includes Francotyp-Postalia Holding AG (level I financial statements), FP InovoLabs GmbH (level I financial statements) and the intermediate holding company Francotyp-Postalia International AG (level I financial statements), which holds the stakes in the UK, Dutch and Italian subsidiaries. Revenue was generated in the reporting year from services for other Group companies.

The above segments are both reporting segments and operating segments.

Transactions between the segments are generally concluded at usual market terms.

EBITDA corresponds to the operating profit before interest, tax, depreciation on property, plant and equipment and amortisation on intangible assets – before profit transfer or loss absorption. Segment assets are calculated from the total assets on the balance sheet, i.e. from the sum of the balance sheet totals of the level I financial statements. The segment liabilities are calculated from the balance sheet totals less 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.

Information on products and services and on the geographical regions can be found in the explanatory notes on revenue in section III, note 1. Francotyp-Postalia is not dependent on key customers as defined by IFRS 8.34.

SEGMENT INFORMATION

2010	A	B	C	D		
EUR thousand	Production	Sales Germany	Sales International	Central functions	Reconciliation to Group	Total
Revenue	59,842	80,410	67,259	2,333	-62,528	147,315
– with external third parties	5,505	76,938	67,007	0	-2,134	147,315
– intersegment revenue	54,337	3,472	252	2,333	-60,394	0
EBITDA	**7,133**	**10,191**	**15,278**	**-1,038**	**-6,034**	**25,530**
Depreciation, amortisation and impairment	3,078	3,815	7,805	29	3,349	18,077
Net interest income / expenses	-4,334	721	141	248	8	-3,215
– of which interest expenses	6,071	1,055	778	1,019	-4,429	4,494
– of which interest income	1,737	1,776	919	1,266	-4,419	1,279
Net taxes	-86	-92	-2,835	-434	1,379	-2,068
Provisions for restructuring	1,028	287	0	0	0	1,315
Reversal of impairment on portfolio basis	0	0	1,344	0	0	1,344
Income from the reversal of provisions	126	246	11	393	0	776
Other financial results	11,472	208	29	13,016	-24,205	520
Net income / loss	-247	227	4,801	10,671	-12,762	2,690
Segment assets	118,989	64,539	80,571	82,392	-210,579	135,912
Total investment	791	1,444	7,577	21	4,500	14,332
Segment liabilities	118,191	57,619	59,139	23,876	-142,497	116,326

2009	A	B	C	D		
EUR thousand	Production	Sales Germany	Sales International	Central functions	Reconciliation to Group	Total
Revenue	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 revenue	37,336	3,236	228	851	-41,651	0
EBITDA	**-1,262**	**9,728**	**13,556**	**-2,178**	**713**	**20,557**
Depreciation, amortisation and impairment	3,099	3,745	7,256	17,857	4,286	36,243
Net interest income / expenses	-4,589	40	153	547	397	-3,452
– of which interest expenses	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
Provisions for restructuring	0	0	0	0	0	0
Reversal of impairment on portfolio basis	0	9	0	0	0	9
Income from the reversal of provisions	208	95	309	51	0	663
Other financial results	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
Total investment	783	1,471	4,658	69	440	7,421
Segment liabilities	109,878	45,492	51,545	14,669	-102,556	119,028

Depreciation and amortisation includes impairment losses of EUR 493 thousand in the reconciliation column (previous year: EUR 12,500 thousand). In the reporting year, impairment related to the Production segment; in the previous year, it had related to the Sales Germany segment.

RECONCILIATION IN EUR THOUSAND

Revenue	1 Jan. – 31 Dec.	
	2010	2009
Revenue of segments A–C	207,510	170,584
Revenue of "Central Functions" segment	2,333	851
Effects of finance lease adjustment	-2,134	-1,162
Other IFRS adjustments	0	402
	207,709	**5**
Less intersegment revenue	60,394	41,651
Revenue according to financial statements	**147,315**	**129,025**

EBITDA	1 Jan. – 31 Dec.	
	2010	2009
EBITDA of segments A–C	32,602	22,022
EBITDA of "Central Functions" segment	-1,038	-2,178
	31,564	**19,844**
Effects at consolidation level	-6,215	-379
Measurement effects of reconciliation (IFRS)	181	1,092
Consolidated EBITDA	**25,530**	**20,557**
Depreciation, amortisation and impairment losses	-18,077	-36,243
Net interest income / expenses	-3,215	-3,452
Other financial results	520	34
Consolidated net profit before taxes	4,758	-19,104
Net taxes	-2,068	2,511
Consolidated net income	**2,690**	**-16,593**

Depreciation and amortisation	1 Jan. – 31 Dec.	
	2010	2009
Depreciation and amortisation in segments A–C	14,700	14,100
Depreciation and amortisation in "Central Functions" segment	29	17,857
Effects of IFRS development costs remeasurement	3,198	3,031
Effects of IFRS leasing remeasurement	-1,459	-1,438
Effects of customer list amortisation	3,902	8,559
Effects of amortisation of internally generated software	1,968	1,968
Effects of adjustment of other intangible assets	-1,876	-443
Other effects of IFRS remeasurement	14	-84
	20,476	**43,550**
Effects at consolidation level	-2,399	-7,307
Depreciation and amortisation according to financial statements	**18,077**	**36,243**

Assets	**31 Dec. 2010**	31 Dec. 2009
Assets of segments A–C	264,099	234,638
Assets of "Central Functions" segment	82,392	62,489
Capitalisation of development costs under IFRS	12,660	12,406
Effects of goodwill remeasurement	4,413	3,578
Effects of customer list amortisation	-3,902	-8,559
Effects of amortisation of internally generated software	-1,968	-1,968
Other IFRS reconciliation	5,447	6,330
	363,141	**308,914**
Effects at consolidation level (incl. elimination of intragroup balances)	-227,229	-174,600
Assets according to financial statements	**135,912**	**134,314**

Liabilities	31 Dec. 2010	31 Dec. 2009
Liabilities of segments A–C	234,950	206,915
Liabilities of "Central Functions" segment	23,876	14,669
Effects of pension provisions adjustment	2,917	3,116
Effects of adjustment in other provisions	-1,292	-1,406
Other IFRS reconciliation	2,527	916
	262,978	**224,210**
Effects at consolidation level (incl. elimination of intragroup balances)	-146,652	-105,182
Liabilities according to financial statements	**116,326**	**119,028**

Total investment	31 Dec. 2010	31 Dec. 2009
Capital expenditure in segments A–C	9,812	6,912
Capital expenditure in "Central Functions" segment	21	69
Effects of IFRS remeasurement	3,024	1,733
	12,857	**8,714**
Effects at consolidation level	1,475	-1,293
Investments according to financial statements	**14,332**	**7,421**

Assets by region	31 Dec. 2010	31 Dec. 2009
Germany	256,007	221,182
USA and Canada	34,891	33,178
Europe (except Germany)	45,680	38,342
Other regions	9,913	4,424
	346,491	**297,126**
Effects of IFRS remeasurement	22,520	22,314
Effects of customer list amortisation	-3,902	-8,559
Effects of amortisation of internally generated software	-1,968	-1,968
Effects at consolidation level (incl. elimination of intragroup balances)	-227,229	-174,599
Assets according to financial statements	**135,912**	**134,314**

The goodwill of EUR 8,494 thousand (previous year: EUR 8,494 thousand) shown on the consolidated balance sheet is assigned solely to the Sales Germany segment.

The assets are distributed across the different regions as follows:

in EUR thousand	31 Dec. 2010	31 Dec. 2009
Germany	256,007	221,182
USA and Canada	34,891	33,178
Europe (except Germany)	45,680	38,342
Other regions	9,913	4,424
	346,491	**297,126**
Effects of IFRS remeasurement	22,520	22,314
Effects at consolidation level	-233,099	-185,126
Total	**135,912**	**134,314**

We also make use of opportunities for simplification in accordance with IFRS 8.33.

The information is based on figures from the level I financial statements (in accordance with the respective local accounting principles) of the companies included in the consolidated financial statements.

For a breakdown of revenues, please refer to note 1 in section III.

Francotyp-Postalia obtains revenue from transactions with a very broad customer base. The share in revenue of each external customer or each group of companies that is to be regarded as a single external customer is below 10% of the revenue of Francotyp-Postalia.

III. NOTES TO THE CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

(1) REVENUE

The revenues of the FP Group can be broken down as follows:

EUR thousand	2010	2009
Franking	25,947	23,985
Inserting	8,340	7,981
Other	1,184	1,246
Income from product sales	**35,471**	**33,212**
Leasing / Rental	22,532	19,914
Teleporto	12,054	11,882
Services / Customer Service	25,039	26,319
Consumables	20,713	21,189
Mail services	24,585	11,823
Software	6,921	4,383
Recurring revenue	**111,844**	**95,510**
Exchange rate effect of USD loan	0	302
Total	**147,315**	**129,024**

If we add the revenue from sales of consumables to income from product sales, the FP Group generated income of EUR 56,184 thousand (previous year: EUR 54,401 thousand) from sales of goods in 2010. Revenue of EUR 91,131 thousand (previous year: EUR 74,321 thousand) was achieved from the sale of services; the previous year's figure has been adjusted.

Revenue breaks down as follows across the different regions (the regional allocation of revenue is based on the customer's headquarters):

EUR thousand	2010	2009
Germany	74,803	59,390
USA and Canada	34,762	33,565
Europe (except Germany)	36,275	35,102
Other	1,475	967
Total	**147,315**	**129,024**

(2) OWN WORK CAPITALISED

EUR thousand	2010	2009
Capitalised development costs	3,451	2,820
Rental machines	3,010	2,559
Mechanical equipment	55	0
Other	166	36
Total	**6,682**	**5,415**

Capitalised development costs have been reduced by grants for research and development projects in the amount of EUR 1,383 thousand (previous year: EUR 224 thousand). The grants were provided to promote development projects to cover the eligible costs as equity financing. The grants are linked to certain conditions – such as the use of the development results at the plant in Brandenburg – which are being fulfilled, as far as we are currently aware. However, it is possible that a not insignificant portion of the grants may be cancelled or recalled in the future, in view of the planned transfer of production from Birkenwerder to Wittenberge. Management does not currently anticipate that this will happen.

(3) OTHER INCOME

EUR thousand	2010	2009
Cost subsidies and grants	1,823	815
Write-downs of receivables / payment received on receivables previously written off	993	263
Royalties	272	264
Income from change of sales representatives	233	0
Postage discounts	213	257
Commission income	115	147
Book profits on the sale of non-current assets	174	78
Miscellaneous income	331	220
Total	**4,154**	**2,044**

The grants line item also includes grants for the employment of severely disabled people in the amount of EUR 421 thousand (previous year: EUR 538 thousand).

Income from the reversal of provisions in the amount of EUR 776 thousand (previous year: EUR 649 thousand) has been offset against the respective expense items.

(4) COST OF MATERIALS

EUR thousand	**2010**	2009
Cost of raw materials, consumables and supplies	26,895	23,202
Cost of services purchased	21,584	9,282
Total	**48,479**	**32,484**

(5) STAFF EXPENSES

EUR thousand	**2010**	2009
Wages and salaries	44,698	40,572
Social security contributions	7,445	6,828
Expenses for pensions and other benefits	442	999
Total	**52,585**	**48,399**

Pensions and other benefits include expenses of EUR 149 thousand (previous year: EUR 62 thousand) from additions to pension provisions. Total pension expenses for defined benefit pension commitments are as follows:

EUR thousand	**2010**	2009
Ongoing benefit expenses for staff services in the reporting period	149	62
Interest expense (net financial income)	556	619
Total	**705**	**681**

For defined contribution plans, EUR 3,136 thousand (previous year: EUR 3,326 thousand) in expenses were recognised in the 2010 reporting year. Expenses for defined contribution plans include contributions to statutory pension funds. A multi-employer plan is also in place at our Dutch subsidiary. This plan would be classified as a defined benefit plan in accordance with the criteria of IAS 19. As the pension fund concerned is unable to provide adequate information about the pension obligations and plan assets in respect of our Dutch subsidiary, the plan is treated as a defined contribution plan in accordance with IAS 19. The fund showed a slight surplus at the end of 2010.

(6) OTHER EXPENSES

EUR thousand	**2010**	2009
Leasing / Rental payments	6,667	6,225
Commission	4,178	4,443
Charges, fees, consultancy	3,213	2,786
Repairs and maintenance	2,752	2,642
Packaging and freight	2,093	1,896
Travel	2,073	1,698
Marketing	1,887	2,171
Communications and postage	1,482	1,588
Receivables measurement	893	1,824
Staff-related costs	773	591
External IT services	553	609
Trademarks and licences	504	761
Office material	448	540
Other	3,956	4,236
Total	**31,472**	**32,010**

In the 2010 reporting year, the largest items in other expenses were contributions to trade associations at EUR 565 thousand (previous year: EUR 539 thousand), transaction costs at EUR 478 thousand (previous year: EUR 421 thousand), expenses on the disposal of non-current assets at EUR 317 thousand (previous year: EUR 349 thousand), insurance expenses at EUR 366 thousand (previous year: EUR 379 thousand), external security and cleaning costs at EUR 363 thousand (previous year: EUR 350 thousand) and hospitality costs at EUR 224 thousand (previous year: EUR 351 thousand).

(7) NET FINANCIAL INCOME / EXPENSE

EUR thousand	2010	2009
Other interest and similar income	1,279	1,573
of which from finance leases	1,032	1,223
of which from bank balances	221	319
of which from third parties	26	31
Interest and similar expenses	4,494	5,025
of which from bank borrowing	2,740	3,608
of which interest from additions to pension obligations	556	619
of which from finance leases	330	437
Other	868	361
Net interest income / expense	**-3,215**	**-3,452**
Other financial income	**1,831**	**1,449**
Other financial expenses	**1,312**	**1,414**
Total	**-2,696**	**-3,417**

As in the previous year, the other financial income and other financial expenses result mainly from foreign currency translation.

Interest expenses include payments from derivatives of EUR 299 thousand (previous year: EUR 203 thousand).

(8) TAXES

Net taxes are as follows:

EUR thousand	2010	2009
Actual tax expense	2,464	2,477
of which prior-period	94	-137
Deferred tax income	-396	-4,988
Tax expense (previous year: tax income)	**2,068**	**-2,511**

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 tax rates in Germany were between 28.08% and 30.18% (previous year: 28.08% to 30.18%). Country-specific tax rates of between 17.0% and 38.52% were calculated for the foreign companies (previous year: 17.0% to 38.14%).

Of the deferred tax income, EUR 1,426 thousand (previous year: EUR 2,903 thousand) was attributable to the change in temporary differences and EUR -1,029 thousand (previous year: EUR 2,085 thousand) to the capitalisation of deferred taxes for loss carryforwards. The change in deferred taxes recognised in equity totalled EUR -1,248 thousand (previous year: EUR 529 thousand) in 2010.

The carrying amount of the deferred tax assets on unused tax loss carryforwards that were taken into account amounted to EUR 9,026 thousand (previous year: EUR 10,056 thousand) as at the reporting date. The capitalised deferred taxes for loss carryforwards are based on the expectation that the loss carryforwards can be offset against future taxable profits. The underlying plans were based on a maximum period of five years. Deferred tax assets of EUR 11,648 thousand (previous year: EUR 10,790 thousand) were recognised by companies that incurred losses in the current period or prior periods.

With regard to the uncertainty in estimates associated with the capitalisation of deferred taxes for loss carryforwards, please refer to our comments in section I, "Management estimates and discretion."

No deferred taxes were capitalised for loss carryforwards at the amount of EUR 447 thousand (previous year: EUR 1,266 thousand). Non-capitalised deferred taxes on loss carryforwards resulted in income of EUR 140 thousand in the 2010 reporting year (previous year: EUR 1,142 thousand).

Goodwill remained unchanged during the year, resulting in no reconciliation effect (previous year: EUR 3,510 thousand).

Current expense from income taxes of EUR 2,067 thousand (previous year: income of EUR 2,511 thousand) was offset by forecast income tax expense of EUR 1,617 thousand (previous year: income of EUR 5,375 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 thousand	2010	2009
Consolidated net income before income taxes	**5,409**	**-18,535**
Expected tax expense (29.9%; previous year: 29.0%)	1,617	-5,375
Tax effect of non-deductible expenses and tax-free income	748	553
Impairment of goodwill	0	3,510
Change to non-entry of deferred tax assets	-140	-1,142
Other deviations	-158	-57
Actual tax expense	**2,067**	**-2,511**
Tax burden in %	**38.2**	**13.5**

(9) 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 income attributable to shareholders in FP Holding. The number of shares was therefore adjusted for the treasury shares acquired in line with IAS 33.20. The stock option programme is also to be taken into account when calculating the average number of shares outstanding in 2010.

The weighted average number of shares for the 2010 financial year was therefore 14,329,556 (previous year: 14,329,556) (basic and diluted).

With positive consolidated net income (attributable to shareholders of FP Holding) of EUR 3,340 thousand (previous year: negative consolidated net income (attributable to shareholders of FP Holding) of EUR -16,024 thousand), earnings per share were EUR 0.23 (previous year: EUR -1.12) (basic and diluted).

As at 31 December 2010, the 2010 stock option programme did not have any dilutive effect on the earnings per share.

IV. NOTES TO THE CONSOLIDATED BALANCE SHEET

(10) 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 Annex 1 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.

The **intangible assets** with carrying amounts of EUR 31,328 thousand (previous year: EUR 32,667 thousand) include acquired intangible assets of EUR 10,172 thousand (previous year: EUR 11,764 thousand) and development costs for internally generated intangible assets of EUR 6,293 thousand (previous year: EUR 7,340 thousand).

Development projects in progress with carrying amounts of EUR 6,369 thousand (previous year: EUR 5,069 thousand) are also reported separately under intangible assets.

As part of remeasurement when the Group was created in April 2005, a purchase price allocation was carried out, 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 2006). The respective customer relationships were developed from contractual arrangements and were not recognised immediately before the merger. Among the acquired intangible assets, EUR 4,429 thousand relates to customer relationships acquired in Sweden during the reporting year; in connection with this, please refer to our comments on consolidated companies in section I.

As at 31 December 2010, all customer lists still had a carrying amount of EUR 5,129 thousand (previous year: EUR 3,862 thousand). Amortisation of these customer lists amounted to EUR 3,902 thousand in the 2010 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 of 31 December 2010, this software was still carried at EUR 103 thousand (previous year: EUR 223 thousand) and EUR 1,574 thousand (previous year: EUR 3,422 thousand) respectively. The software was written down by EUR 1,968 thousand in 2010 (previous year: EUR 1,968 thousand).

Research and development costs of EUR 7,900 thousand were incurred in 2010 (previous year: EUR 8,919 thousand; this figure has been adjusted), of which EUR 3,451 thousand (previous year: EUR 2,820 thousand) was capitalised and EUR 4,449 thousand (previous year: EUR 6,099 thousand; this figure has been adjusted) was recognised as an expense. Borrowing costs of EUR 102 thousand (previous year: EUR 22 thousand) were capitalised in the reporting period. The average financing cost rate applied was 4.06% (previous year: 4.84%).

Goodwill of EUR 8,494 thousand was unchanged compared with the previous year. As in the previous year, EUR 5,851 thousand related to the cash-generating unit freesort and EUR 2,643 thousand to the cash-generating unit iab. The cumulative impairment losses for the goodwill reported amount to EUR 12,500 thousand for freesort and to EUR 1,275 thousand for iab (each unchanged compared with the previous year).

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 flows. The basis for this was cash flow forecasts based on the financial plans of management. The values used for these assumptions are based on external analyses of the postal market and management experience. Financial planning consists of the profit planning, 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. The cost of capital before taxes was then calculated iteratively.

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

Impairment testing of the goodwill related to **freesort** 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 was EUR 1,649 thousand above the carrying amount (in the previous year, there had been an impairment loss). If only 89.4% of planned EBIT were generated, the recoverable amount would be equal to the carrying amount of the assets.

A WACC after taxes of 15.1% (previous year: 15.9%) was used to determine the fair value less costs to sell of freesort. The corresponding rate before taxes was 19.6% (previous year: 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% (previous year: 2.0%).

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 and show an upward trend. 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; it was assumed that the margins would show an upward trend.
- Discount rate: assumptions as to the individual components of WACC and the long-term growth rate.

Overall, the underlying plans were slightly more optimistic than in the previous year, owing to freesort's pleasing business performance in the reporting year.

Sensitivity testing of the main calculation parameters provides the following information (ceteris paribus):

Discount rate in %	15.1	17.1
Impairment in EUR million	-	0.6
Fluctuation in planned EBIT in %	100	85
Impairment in EUR million	-	0.7
Growth rate in %	2.0	-1.0
Impairment in EUR million	-	0.5

31 Dec. 2009:

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

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 3,413 thousand (previous year: EUR 1,310 thousand) higher than the carrying amount. If only 74.9% (previous year: 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 12.6% (previous year: 13.3%) was used to determine the fair value less costs to sell. The corresponding rate before taxes was 16.6% (previous year: 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 using a growth rate of 1.5% (previous year: 1.5%).

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 and show an upward trend.
- Gross profit margin: the gross profit margin applied is based on current realisable values and management experience; it was assumed that the margins would show an upward trend.
- Discount rate: assumptions as to the individual components of WACC and the long-term growth rate.

Overall, the underlying plans were more cautious than in the previous year, as the plans for 2010 were not completely fulfilled.

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

Discount rate in %	12.6	16.6
Impairment in EUR million	-	0.6
Fluctuation in planned EBIT in %	100	70
Impairment in EUR million	-	0.7
Growth rate in %	1.5	-5.0
Impairment in EUR million	-	0.2

31 Dec. 2009:

Discount rate in %	11.3	13.3	15.3
Impairment in EUR million	-	-	0.3
Fluctuation in planned EBIT in %	115	100	85
Impairment in EUR million	-	-	0.4
Growth rate in %	3.0	1.5	0.0
Impairment in 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 9,673 thousand (previous year: EUR 10,316 thousand) and finance lease assets (for which the FP Group is the lessee) with carrying amounts of EUR 4,175 thousand (previous year: EUR 4,406 thousand). freesort in particular finances its equipment, especially sorting machines, by way of finance leases.

Impairment on property, plant and equipment in the amount of EUR 244 thousand (previous year: EUR 0.0 thousand) was recognised in the reporting year in connection with the planned restructuring and the transfer of the production site in Birkenwerder. The residual carrying amount of the property, plant and equipment concerned before impairment was EUR 330 thousand.

No reversals of impairment losses were carried out either on intangible assets or on property, plant and equipment in the 2010 reporting year.

As at 31 December 2010, contracts worth EUR 1,189 thousand had been concluded for the supply of tools for the new Phoenix machine type.

The cost of property, plant and equipment in the reporting period included own work capitalised of EUR 3,231 thousand (previous year: EUR 2,595 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, as in the previous year.

The amounts shown in the consolidated statement of recognised income and expense under the item "Depreciation, amortisation and impairment" in the 2010 reporting year included impairment of EUR 493 thousand (previous year: EUR 12,500 thousand). EUR 109 thousand (previous year: EUR 0.0 thousand) of this sum related to other non-current assets.

Please refer to our comments on collateral under note 22 of this section.

(11) FINANCE LEASE RECEIVABLES

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

31 Dec. 2010 EUR thousand	**Total**	**Remaining terms**		
		up to 1 year	1–5 years	over 5 years
Future lease payments	5,253	2,647	2,606	0
Interest portion	835	637	198	0
Finance lease receivables	**4,418**	**2,010**	**2,408**	**0**

As at the reporting date, there were no unguaranteed residual values accruing to the benefit of the lessor. In accordance with IAS 17.7, the value of gross investments therefore corresponds to the future lease payments reported in the amount of EUR 5,253 thousand (previous year: EUR 5,833 thousand). After discounting the amount of EUR 835 thousand (previous year: EUR 1,269 thousand), this resulted in net investments of EUR 4,418 thousand (previous year: EUR 5,833 thousand), which correspond to the unearned finance income as the difference between gross and net investments. As at the reporting date, there were no allowances for uncollectible minimum lease payments receivable and contingent rents recognised as income in the 2010 reporting period (previous year: ditto).

31 Dec. 2009 EUR thousand	**Total**	**Remaining terms**		
		up to 1 year	1–5 years	over 5 years
Future lease 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**

Future minimum lease payments under non-cancellable operating leases to be received by FP as the lessor of franking and inserting machines are as follows:

31 Dec. 2010 EUR thousand	**Total**	**Remaining terms**		
		up to 1 year	1–5 years	over 5 years
Future minimum lease payments from non-cancellable operating leases	41,963	22,857	18,915	191

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

(12) INVENTORY

EUR thousand	**31 Dec. 2010**	31 Dec. 2009
Raw materials, consumables and supplies	4,304	4,733
Work in progress	1,130	1,392
Finished products and goods	5,509	4,907
Total	**10,943**	**11,032**

Impairment on inventory amounts to EUR 3,946 thousand (previous year: EUR 4,785 thousand). The reduction in impairment of EUR 839 thousand (previous year: EUR 71 thousand) results mainly from scrapping carried out at Francotyp-Postalia GmbH in the financial year. The carrying amount of impaired inventory totals EUR 3,499 thousand (previous year: EUR 6,826 thousand).

(13) TRADE RECEIVABLES

Trade receivables break down as follows:

EUR thousand	**31 Dec. 2010**	31 Dec. 2009
Trade receivables – domestic	5,807	4,692
Trade receivables – foreign	9,088	9,191
Total trade receivables	**14,895**	**13,883**

As of 31 December 2010, trade receivables were reported at a nominal value of EUR 17,469 thousand (2009: EUR 17,700 thousand).

The allowance accounts take into account individual allowances and allowances on a portfolio basis. The individual allowances take into account specific identifiable risks in individual cases. Generalising procedures are applied when calculating allowances on a portfolio basis. The maturities of the receivables portfolios and any overdue receivables are also taken into account.

The allowance accounts developed as follows:

EUR thousand	
Balance at 1 January 2009	**1,724**
Additions through profit and loss (impairment losses)	3,388
Utilisation	1,105
Reversals	190
Balance at 31 Dec. 2009	**3,817**
Foreign currency effects	**213**
Balance at 1 Jan. 2010	**4,030**
Additions through profit and loss (impairment losses)	1,883
Utilisation	1,988
Reversals	1,351
Balance at 31 Dec. 2010	**2,574**

As of 31 December 2010 (and 31 December 2009), the maturity structure of trade receivables was as follows:

in EUR thousand	Nominal value total	Neither past due nor impaired	Trade receivables past due		
			0 to 60 days	61 to 120 days	over 121 days
31 Dec. 2010					
Gross carrying amount	17,469	8,418	5,622	1,263	2,167
Impairment	2,574	0	312	399	1,863
31 Dec. 2009					
Gross carrying amount	17,700	7,638	6,080	1,102	2,881
Impairment	3,817	0	1,889	293	1,635

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

(14) SECURITIES

Securities reported at a fair value of EUR 672 thousand (previous year: EUR 670 thousand) consist of shares held for trading in a fund which reinvests income and invests principally in fixed-income securities, money market instruments and demand deposits. The securities reported have no fixed maturity and no fixed interest rate.

As at the previous year's reporting date, securities are pledged in the amount of EUR 590 thousand owing to the hedging of postage fees of DPAG by a guarantee of Commerzbank.

(15) OTHER CURRENT ASSETS

EUR thousand	**31 Dec. 2010**	31 Dec. 2009
Deferred payments	2,116	2,822
Receivables from related parties	15	132
Reimbursement rights for other taxes	1,317	95
Other financial assets	5,778	3,825
Total	**9,226**	**6,874**

Of the reimbursement rights for other taxes, EUR 966 thousand (previous year: EUR 23 thousand) relates to freesort and involves advance payments of sales tax.

The previous year's figure for other financial assets has been adjusted.

Of the other financial assets, EUR 1,295 thousand (previous year: EUR 306 thousand) relates to Francotyp-Postalia GmbH. As at 31 December 2010, this involved mainly financial assistance (the same as at 31 December 2009). Of the other assets, EUR 2,676 thousand (previous year: EUR 2,638 thousand) relates to freesort; as at 31 December 2010, EUR 2,349 thousand (previous year: EUR 2,260 thousand) related to creditors with debit balances.

(16) CASH

EUR thousand	**31 Dec. 2010**	31 Dec. 2009
Bank balances	31,017	29,387
Cheques and cash in hand	360	200
Total	**31,377**	**29,587**

There are restrictions on disposal on EUR 18,626 thousand of total bank balances (previous year: EUR 17,880 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.

(17) SHAREHOLDERS' EQUITY

The development of equity is shown in the statement of changes in equity.

Components of consolidated 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 expenses 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 14,700,000 no-par value bearer shares with a pro rata entitlement to participate in the company's profits. Each share grants one vote at the company's Annual General Meeting and entitles the holder of the share to a dividend. The share capital is fully paid up.

IPO / capital reserves
On 30 November 2006, all the shares in FP Holding 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 added to 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.

Capital approval of EUR 6.0 million
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 preemption 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.

Share buy-back programme
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 at 31 December 2010, treasury shares corresponded to 2.52% (previous year: 2.52%) of the share capital, with a market value of EUR 672 thousand* (previous year: EUR 600 thousand) as at the reporting date. The following statement of reconciliation shows the development in the number of shares outstanding. The number of shares remains unchanged compared with the previous year:

EUR thousand	Number of shares outstanding
Number of shares	14,700,000
Buy-back of treasury shares	-370,444
Balance at 31 December 2010 (as at 31 December 2009)	**14,329,556**

2010 resolutions
The Annual General Meeting on 1 July 2010 approved the passing of a resolution on authorisation to acquire and use treasury shares. The following is quoted from point 6 of the agenda of the Annual General Meeting of Francotyp-Postalia Holding AG held in Berlin on 1 July 2010 with minor and announced modifications:

(Source: http://www.francotyp.com/uploads/media/100518_Einladung_HV_2010.pdf; viewed on 31 March 2011)

"a) The company is authorised to acquire treasury shares representing up to 10% of the share capital as at 1 July 2010, with the approval of the Supervisory Board. At no time may the shares acquired in accordance with this authorisation, together with other treasury shares held by the company or attributed to it in accordance with Sections 71d and 71e of the German Stock Corporation Act, represent more than 10% of the share capital.

The authorisation can be used in whole or in part and on one or several occasions. The authorisation is valid until 30 June 2015.

b) The shares can be purchased via the stock market or [...] through a public purchase offer, as the Management Board [...] chooses. [...]

c) The Management Board or – in the case mentioned under ee): the Supervisory Board – is authorised to use the treasury shares acquired on the basis of the authorisations under a) and b) or an authorisation granted previously, as follows, in addition to a sale via the stock market or an offer to all shareholders:

(aa) The treasury shares can be withdrawn from circulation with the approval of the Supervisory Board, without the withdrawal or its implementation requiring a further resolution by the Annual General Meeting. Withdrawal will lead to a capital reduction. Withdrawal can also take place in a simplified procedure without a capital reduction by adjusting the proportionate amount of the share capital for the other shares in accordance with Section 8 paragraph 3 Aktiengesetz (Stock Corporation Act – AktG). In this case, the Management Board is authorised to amend the number of shares stated in the Articles of Association accordingly.

* Erratum: The correct number is EUR 1.2 million

(bb) With the approval of the Supervisory Board, treasury shares can be offered to third parties in exchange for payments in kind, particularly in connection with business combinations or the acquisition of companies or stakes in companies, and can be transferred to these third parties, provided that the acquisition of the company or the stake is in the interests of the company and the consideration to be paid for the treasury shares is not inappropriately low.

(cc) The treasury shares can, with the approval of the Supervisory Board, be issued in exchange for cash contributions, in order to introduce the company's shares onto a foreign stock exchange on which the shares have not been listed for trading until now.

(dd) The treasury shares can, with the approval of the Supervisory Board, be sold to third parties in exchange for a cash payment, if the price at which the shares are sold is not significantly lower than the share price calculated on the date of sale by the opening auction in electronic trading on the Xetra system (or a comparable successor system) of Deutsche Börse AG in Frankfurt am Main (excluding incidental costs of acquisition). In total, the shares used on the basis of the authorisations under this dd) that have been issued in accordance with Section 186 paragraph 3 sentence 4 AktG (disapplying pre-emption rights in exchange for cash contributions near the stock market price) may not exceed 10% of the share capital at the time this resolution was passed and implemented. This limitation is to include shares that have been issued or sold during the last 12 months prior to utilisation of this authorisation with direct or corresponding application of this regulation.

(ee) The Supervisory Board can offer the treasury shares to individual members of the Management Board instead of the cash payment owed by the company. However, a prerequisite for this is that the price used to calculate the number of treasury shares to be transferred in place of payment is not significantly lower than the share price calculated on the date the offer is made, based on the opening auction in electronic trading on the Xetra system (or a comparable successor system) of Deutsche Börse AG in Frankfurt am Main (excluding incidental costs of acquisition).

(ff) The treasury shares can be used, with the approval of the Supervisory Board, to service pre-emption rights that have been issued and exercised under the company's 2010 stock option plan in accordance with the regulations. The stock option plan for 2010 is subject to the decision of the Annual General Meeting under agenda item 8.

d) The authorisations under c) can be used once or on several occasions, individually or together, in whole or in part.

e) Shareholders' pre-emption rights to treasury shares acquired are excluded to the extent that these shares are used in accordance with the authorisations listed under c) sub-items (bb) to (ff).

f) The authorisation under item c) sub-item (ff) only takes effect upon effective resolution of the 2010 stock option plan by the Annual General Meeting in accordance with agenda item 8."

The Annual General Meeting approved agenda item 8 by means of a resolution on 1 July 2010.

Contingent capital increase and stock option plan for 2010
1.1 of the Francotyp-Postalia Holding AG stock option plan for 2010 states: "The Annual General Meeting of Francotyp-Postalia Holding AG [...] resolved on 1 July 2010 (i) to contingently increase the share capital of the company in the amount of up to EUR 1,045,000.00 by issuing up to 1,045,000 no-par-value bearer shares [...] and (ii) to issue pre-emption rights to members of the Management Board of the company, members of management of affiliated companies within the meaning of Section 15 AktG [...] and executives of the FP Group [...] and to authorise the bearers to subscribe to a maximum of 1,045,000 shares against payment of the exercise price".

The stock option plan thus resolved is intended solely to settle equity instruments, primarily by using treasury shares and subordinately by way of a contingent capital increase.

According to 1.3 of the stock option plan, the purpose of the stock option plan is to "lastingly combine the interests of the management and executives with those of the shareholders in a long-term increase in enterprise value".

A total of 900,000 stock options were allocated as at 1 September 2010, with each option having a term of ten years from the date of allocation according to 2.3 of the stock option plan. The options are not securitised in accordance with 2.4 of the 2010 stock option plan. Additional payments were not to be made as part of the allocation of options in line with 5.5 of the 2010 stock option plan. Of the 900,000 stock options allocated, 180,000 each relate to the two members of the Management Board of Francotyp-Postalia Holding AG.

According to 2.2. of the 2010 stock option plan, each individual stock option grants the bearer the right to acquire one share in Francotyp-Postalia Holding AG. All the following requirements must be met to exercise the options:

a) Vesting period
Unless "expressly stated otherwise" in the terms and conditions as per 7.1 of the stock option plan, "the vesting period must have expired and the options cannot be exercised within a [defined] blocking period. [...] The vesting period for the options is four years." This is a service condition.

b) Performance target
7.2 of the stock option plan stipulates: "The performance target must be met. The performance target for the issued options is met if EBITDA as reported in the consolidated financial statements for the financial year in which the options were allocated exceeds EBITDA as reported in the 2009 consolidated financial statements for the last financial year before allocation by 10%. [...] If the performance target was not met, the options are forfeited." This performance target is a non-market-based performance condition.

c) Personal exercise requirements
7.3 of the stock option plan stipulates that the option bearer must be employed by either Francotyp-Postalia Holding AG or a German or foreign company of the FP Group at the time of exercise.

The fair value of a stock option has been calculated as EUR 1.37, while the fair value of all option rights has been calculated as EUR 1,067 thousand. They were measured using a Black-Scholes option pricing model as there is no public trading of options to Francotyp-Postalia shares with the same characteristics.

The measurement assumed the following:

- The price of a Francotyp-Postalia share on 1 September 2010 was EUR 2.55.
- Under the stock option plan, the exercise price of the stock options allocated as at 1 September 2010 is the average market price (closing rate) of no-par-value bearer shares in Francotyp-Postalia Holding AG in electronic Xetra trading at Deutsche Börse AG in Frankfurt am Main or a comparable successor system on the last 90 calendar days before 1 September 2010 in euros, or at least the amount of share capital attributable to one share. EUR 2.50 was calculated for the exercise price per share; this value exceeds the amount of share capital attributable to one share.
- It is estimated that the options will be exercised after five years on average (forecast average holding period). The forecast exercise date is therefore 31 August 2015.
- Expected volatility is 74.48%. This was determined by reference to the price volatility of Francotyp-Postalia shares in the period 30 November 2006 to 27 August 2010.
- The annual dividend yield was set at 2%. This yield estimate took into account past distributions by the FP Group.
- The matched-maturity, risk-free interest rate was set at 1.32%. This interest rate for the forecast option term of five years is based on yield curve data from 31 August 2010, whereby hypothetical zero bonds were derived from the flat yields on coupon bonds of the Federal Republic of Germany.

The following assumptions were made in calculating the number of exercisable stock options at the end of the blocking period:

- Annual employee fluctuation was estimated at 3.5%.
- The probability of an EBITDA increase of over 10% was estimated at 100%.
- According to calculations, the forecast number of options that can be exercised is 780,462.

When the options are exercised, an amount of EUR 2.50 per share is to be paid by the respective option bearer, with a defined limit for members of the Management Board of Francotyp-Postalia Holding AG. 9. of the stock option plan states:

"The Supervisory Board must allow for a maximum annual remuneration (cap) for the Management Board under the terms of section 4.2.3 of the Corporate Governance Code. The corresponding agreement takes place in an additional agreement to the service contract of the members of the Management Board before allocation of the options."

No stock option rights had been forfeited or lapsed as at 31 December 2010. 900,000 stock options are therefore outstanding at the end of the reporting year.

As at 31 December 2010, EUR 89 thousand – resulting from the stock option plan – had been recognised as staff costs with a counter entry directly in equity (stock option reserve).

Minority interests
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 1,431 thousand (previous year: EUR 2,081 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.

Net investments in foreign operations
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 547 thousand (previous year: EUR 96 thousand) resulting from the translation was recognised in other comprehensive income in line with IAS 21.32 f.

In the 2010 reporting year, FP GmbH refinanced Francotyp-Postalia Sverige AB to a large extent in connection with the acquisition of shares in Franco Frankerings Intressenter AB (formerly Carl Lamm Personal AB). As Francotyp-Postalia Sverige AB is not expected to repay the funds concerned to FP GmbH in the near future, the refinancing of Francotyp-Postalia Sverige AB by FP GmbH is regarded as a net investment in a (Swedish) operation. The net exchange rate difference after deferred taxes of EUR 222 thousand resulting from the translation was recognised in other comprehensive income in line with IAS 21.32 f.

Payment of a dividend

The payment of a dividend was not recorded in the 2010 reporting year. The Management Board will propose to the Annual General Meeting that no dividend be paid for the last financial year. The reason for this is that the Management Board needs the financial resources, particularly to continue with the realignment of the FP Group and to finance the forthcoming restructuring.

(18) 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.

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. Beneficiaries must have commenced employment before 1 January 1994. Obligations for funeral allowances towards surviving dependants 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.

Employees whose salaries are above the general pay scale are entitled to a retirement pension and survivor's pension for beneficiaries after death under the terms of the "Guidelines for the payment of a retirement pension to employees whose salaries are above the general pay scale" applicable to domestic companies, dating from January 1986. The retirement pension amount is determined on an individual basis. It is only granted when the beneficiary has completed at least ten years of service.

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.

The following actuarial assumptions are applied:

p.a.	**31 Dec. 2010**	31 Dec. 2009
Interest rate	5.20%	5.37%
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.

The present value of the defined benefit obligations developed as follows in 2010 and 2009:

EUR thousand	**2010**	2009
Present value of the defined benefit obligations on 1. January of the reporting period	11,034	10,226
Ongoing benefit expenses for staff services in the reporting period	149	61
Interest expense	556	618
Pension payments	-659	-642
Actuarial gains and losses	372	771
Present value of the defined benefit obligations on 31 December of the reporting period	**11,452**	**11,034**

The fair value of the plan assets developed as follows:

EUR thousand	**31 Dec. 2010**	31 Dec. 2009
Fair value of the plan assets on 1 January of the reporting period	0	0
Reclassification of financial assets as plan assets	223	0
Fair value of the plan assets on 31 December of the reporting period	**223**	**0**

The plan assets consist of reinsurance agreements.

The financing status in each case is as follows:

EUR thousand	**31 Dec. 2010**	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007	31 Dec. 2006
Fair value of plan assets	223	0	0	0	0
Present value of defined benefit obligations	11,452	11,034	10,226	11,007	12,591
Financing status	**-11,229**	**-11,034**	**-10,226**	**-11,007**	**-12,591**

For plans financed with plan assets, the financing status of EUR -126 thousand (previous year: EUR 0.0 thousand) corresponds to the balance of the fair value of the plan assets of EUR 223 thousand (previous year: EUR 0.0 thousand) and the present value of defined benefit obligations amounting to EUR 349 thousand (previous year: EUR 0.0 thousand). For plans that are not financed with plan assets, the financing status of EUR -11,103 thousand (previous year: EUR -11,034 thousand) corresponds to the present value of defined benefit obligations in the same amount (previous year: EUR -11,034 thousand) (this statement also applies to the 2009 financial year).

The financing status can be transferred as follows to the provisions for pensions and similar obligations:

EUR thousand	**2010**	2009
Financing status	11,229	11,034
Unrecorded actuarial gains and losses	859	1,231
Provisions for pensions and similar obligations on 31 December of the reporting period	**12,088**	**12,265**

As far as they can be calculated, the expected benefit and interest expenses are as follows:

EUR thousand	Relating to 2011	Relating to 2010
Benefit expenses	106	73
Interest expenses	544	575
Total	**650**	**648**

(19) TAX LIABILITIES AND DEFERRED TAX LIABILITIES

EUR thousand	**31 Dec. 2010**	31 Dec. 2009
Deferred income taxes	2,095	1,165
Actual income taxes	663	727
Other taxes	147	154
Deferred tax liabilities (non-current) and tax liabilities (current)	**2,905**	**2,046**

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

EUR thousand	Deferred tax assets 31 Dec. 2010	Deferred tax liabilities 31 Dec. 2010	Deferred tax assets 31 Dec. 2009	Deferred tax liabilities 31 Dec. 2009	Change in 2010	Change in deferred taxes recognised in equity in the reporting year	Change in deferred taxes recognised in income in the reporting year
Non-current assets	637	3,908	363	2,931	704	1,961	-1,258
Miscellaneous assets	3,084	226	3,413	1,474	-919	-148	-771
Provisions	2,950	1,295	3,154	1,137	362	-80	442
Liabilities	1,354	823	1,402	1,196	-325	-485	160
Tax losses carried forward	9,026	0	10,056	0	1,030	0	1,030
Total	**17,050**	**6,252**	**18,388**	**6,738**	**852**	**1,249**	**-397**
Offsetting	-4,156	-4,156	-5,573	-5,573	./.	./.	./.
Consolidated balance sheet amount	**12,894**	**2,095**	**12,815**	**1,165**	**./.**	**./.**	**./.**

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

EUR thousand	Balance at 1 Jan. 2010	Currency difference	Additions	Utilisation	Reversals	Balance at 31 Dec. 2010	of which non-current	of which current
Staff-related provisions	4,078	48	3,442	2,279	166	5,123	903	4,220
Sales tax risks	0	0	1,410	0	0	1,410	0	1,410
Losses on orders	541	0	3	248	293	3	0	3
Restructuring	486	0	1,310	444	37	1,315	1,239	76
Guarantees	468	0	612	468	0	612	0	612
Outstanding invoices	465	0	606	415	30	626	0	626
Compensation payments to sales representatives	445	33	309	478	0	309	0	309
Year-end closing costs	292	10	436	279	4	455	0	455
Litigation costs	151	0	240	108	12	271	0	271
Inventors' royalties	95	0	75	32	63	75	0	75
Miscellaneous provisions	2,610	179	555	2,401	155	788	54	734
(Other) provisions	**9,631**	**270**	**8,998**	**7,152**	**760**	**10,987**	**2,196**	**8,791**

All other provisions reported in the consolidated balance sheet under non-current liabilities have a remaining term of over one year.

Provisions for staff costs mainly consist of provisions for anniversary gratifications, obligations under phased early retirement agreements, holidays, bonuses and severance payments to staff.

The provisions for restructuring measures relate to severance payments. With regard to uncertainty in estimates, please refer to our comments under the point "Management estimates and discretion" in section I. Please also refer to our comments under the point "Significant events after the balance sheet date".

Guarantees essentially relate to products sold.

The provisions for sales tax risks relate to freesort.

Of the income from reversal of provisions, EUR 393 thousand (previous year: EUR 52 thousand) (of this figure, EUR 293 thousand related to the settled legal disputes with mSE-GmbH Management-Solutions Lübeck and PointOut GmbH in the 2010 reporting year), related to Francotyp-Postalia Holding AG, EUR 238 thousand (previous year: EUR 94 thousand) to Francotyp-Postalia Vertrieb und Service GmbH and EUR 126 thousand (previous year: EUR 208 thousand) to the German company Francotyp-Postalia GmbH.

(21) LIABILITIES

EUR thousand	31 Dec. 2010			31 Dec. 2009		
	Total	**Remaining term < 1 year**	**Remaining term > 1 year ≤ 5 years**	Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years
Liabilities to banks	44,327	9,774	34,553	51,767	3,044	48,723
Liabilities from finance leases	2,689	950	1,739	3,424	891	2,533
Financial liabilities	**47,016**	**10,724**	**36,292**	**55,191**	**3,935**	**51,256**
Trade payables						
to third parties	6,363	6,363	0	4,827	4,827	0
from advance payments received	2	2	0	2	2	0
Trade payables	**6,365**	**6,365**	**0**	**4,829**	**4,829**	**0**
Other liabilities						
from taxes	1,705	1,705	0	1,421	1,421	0
(of which from income taxes)	(0)	(0)	(0)	(24)	(24)	(0)
of which social security collateral	1	1	0	9	9	0
from teleporto	18,626	18,626	0	17,880	17,880	0
to employees	105	105	0	100	100	0
from derivatives	212	212	0	407	407	0
from deferred income	11,424	11,424	0	11,197	11,156	41
miscellaneous liabilities	4,893	4,874	19	4,052	4,052	0
Other liabilities	**36,966**	**36,947**	**19**	**35,066**	**35,025**	**41**
Total	**90,347**	**54,036**	**36,311**	**95,086**	**43,789**	**51,297**

There were no liabilities with a remaining term of more than five years as of the balance sheet date (previous year: EUR 0.0 thousand).

Liabilities to banks include liabilities to BNP Paribas S.A., Frankfurt am Main branch, and primarily consist of loans to finance the purchase price of the FP Group in 2005. As of 31 December 2010, the two tranches of the main loans agreement amounted to EUR 38,864 thousand (previous year: EUR 44,013 thousand) and USD 6,896 thousand (previous year: USD 10,646 thousand) respectively.

Depending on the loan tranches (in connection with the loan agreement in place on the balance sheet date of 31 December 2010), an interest rate is fixed that is linked to the EURIBOR or LIBOR and that is hedged through various derivative transactions (please refer to our comments on derivative transactions under “Hedging policy and risk management”, point 2. Interest rate risks, in section I.

A syndicated loan agreement dated 21 February 2011 for EUR 30,149,665 and USD 12,000,000 was concluded between Francotyp-Postalia Holding AG as the borrower and a banking consortium as the lender. The loan consists of loan A 1 (amortising loan of up to EUR 6,000,000), loan A 2 (amortising loan of USD 12,000,000), loan A 3 (maturity loan of EUR 2,832,332.89) and loan B (loan of up to EUR 21,317,332.11 on a revolving basis). According to the loan agreement, loans A 1, A 2 and A 3 are to be used to refund the existing syndicated loan; loan B will initially be used to refund the existing syndicated loan and then for the financing of general working capital.

From an economic viewpoint, the syndicated loan agreement concluded in February 2011 involves follow-up financing for the Group financing in place on the balance sheet date of 31 December 2010. The new Group financing is expected to result in mandatory repayments of EUR 4,801 thousand and repayment of EUR 4,901 thousand of the total loan volume in 2011; these amounts are shown accordingly in the above table as having a remaining term of under one year. The remaining financing through loans is regarded as having a term of over one year.

In addition to the existing loan on the balance sheet date of 31 December 2010, there is a long-term line of credit of EUR 2,500 thousand that had not been utilised on the balance sheet date.

The lease payments to be made in future can be attributed to the finance lease liabilities as follows:

EUR thousand	**Total**	**Remaining terms**		
31 Dec. 2010		up to 1 year	1–5 years	over 5 years
Future lease payments	2,996	1,177	1,819	0
Interest portion	307	227	80	0
Finance lease receivables	**2,689**	**950**	**1,739**	**0**

EUR thousand	**Total**	**Remaining terms**		
31 Dec. 2009		up to 1 year	1–5 years	over 5 years
Future lease payments	3,886	1,213	2,673	0
Interest portion	462	322	140	0
Finance lease receivables	**3,424**	**891**	**2,533**	**0**

The terms of leases are predominantly 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 were no subleases for leased assets. The carrying amount of leased assets amounted to EUR 4,175 thousand as of 31 December 2010 (previous year: EUR 4,406 thousand). Deposits of a total amount of EUR 85 thousand were paid in connection with leases (previous year: EUR 109 thousand).

(22) COLLATERAL

EUR thousand	**31 Dec. 2010**	31 Dec. 2009
Guarantee obligations	465	537
Total	**465**	**537**

Guarantee obligations include rental guarantees for office space at sales branches and guarantees for bank overdrafts and postage.

The following collateral has been provided by FP companies for the loan from BNP Paribas S.A., Frankfurt am Main branch:

- 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, UK, Francotyp-Postalia Canada Inc., Canada, by the respective parent company
- assignment of all receivables in respect of third parties of FP Holding AG, FP GmbH, Francotyp-Postalia International GmbH, Francotyp-Postalia 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 assets. The carrying amount of the assets assigned as security was EUR 46.1 million as at the balance sheet date (previous year: EUR 45.4 million; the figure has been adjusted). The carrying amounts break down as follows:

EUR thousand	2010	2009
Intangible assets	14,070	14,831
Property, plant and equipment	6,536	7,134
Shares in associated companies	163	163
Inventory	6,459	6,730
Receivables	6,851	6,923
Other assets	2,981	396
Bank balances	9,060	9,189

The collateral is used as first-rank security for all current, future, contingent and unconditional payment claims due to banks in respect of borrowers or guarantors from or in connection with financing agreements. The collateral for the syndicated loan agreement concluded in February 2011 will essentially correspond to the collateral provided so far. freesort GmbH will act as an additional guarantor and other existing guarantors will also put forward receivables, non-current and current assets and account balances as collateral. The collateral mentioned can be utilised if the FP companies do not make payments that are due under the syndicated loan agreement.

Collateral received amounts to EUR 971 thousand (previous year: EUR 1,000 thousand) and is available to the FP Group only on a short-term basis in the reporting year (as in the previous year).

(23) OTHER INFORMATION ON OPERATING LEASES

The nominal amounts of other financial obligations from operating leases were EUR 11,123 thousand as of 31 December 2010 (previous year: EUR 13,808 thousand) and have the following maturity structure:

EUR thousand	Total	31 Dec. 2010		
		up to 1 year	1 to 5 years	over 5 years
Obligations under rental and lease agreements	11,123	3,685	7,438	0

EUR thousand	Total	31 Dec. 2009		
		up to 1 year	1 to 5 years	over 5 years
Obligations under rental and lease agreements	13,808	4,065	9,743	0

(24) OTHER INFORMATION ON FINANCE LEASES

The nominal amounts of other financial obligations from finance leases were EUR 369 thousand as of 31 December 2010 (previous year: EUR 170 thousand) and have the following maturity structure:

EUR thousand	Total	31 Dec. 2010		
		up to 1 year	1 to 5 years	over 5 years
Obligations under rental and lease agreements	369	102	267	0

EUR thousand	Total	31 Dec. 2009		
		up to 1 year	1 to 5 years	over 5 years
Obligations under rental and lease agreements	170	35	135	0

(25) FINANCIAL INSTRUMENTS

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

EUR thousand	**Fair values 31 Dec. 2010**	Fair values 31 Dec. 2009	**Carrying amounts 31 Dec. 2010**	Carrying amounts 31 Dec. 2009
Financial assets available for sale				
Equity investments	Not available	Not available	163	163
Financial assets at fair value through profit and loss				
Securities	672	670	672	670
Derivative financial instruments that are assets	128	9	128	9
Loans and receivables				
Trade receivables	14,895	13,883	14,895	13,883
Other financial assets (previous year's figure has been adjusted)	6,111	4,251	6,111	4,251
Finance lease receivables	**5,302**	**6,756**	**4,418**	**5,833**
Cash	**31,377**	**29,587**	**31,377**	**29,587**
Financial liabilities measured at amortised cost				
Liabilities to banks	44,327	51,767	44,327	51,767
Trade payables	6,365	4,829	6,365	4,829
Other financial liabilities (previous year's figure has been adjusted)	23,342	21,807	23,342	21,807
Obligations under finance leases	**2,521**	**3,274**	**2,689**	**3,424**
Financial liabilities at fair value through profit and loss				
Derivative financial instruments that are liabilities	-212	-407	-212	-407

Unlike in the previous year, the equity investments do not include associated companies, as these are reported separately in the consolidated balance sheet.

Other financial assets are reported in the consolidated balance sheet under the item "Other assets".

Liabilities to banks and obligations under finance leases are reported in the consolidated balance sheet under the item "Financial liabilities". Other financial liabilities and derivative financial instruments that are liabilities are reported in the consolidated balance sheet under the item "Other liabilities".

Assets in the "financial assets available for sale" category are carried at cost as their fair value cannot be reliably determined.

The respective market price was used to determine the fair values of financial assets held for trading and derivative financial instruments.

The carrying amounts of assets and liabilities held at amortised cost generally match their fair value.

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 – 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)

2010 EUR thousand	**Level 1**	**Level 2**	**Level 3**
Securities	672	-	-
Derivatives that are assets	-	128	-
Derivatives that are liabilities	-	-212	-

2009 EUR thousand	Level 1	Level 2	Level 3
Securities	670	-	-
Derivatives that are assets	-	9	-
Derivatives that are liabilities	-	-407	-

As in the previous year, there are no net gains or net losses in the category "Financial assets available for sale".

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 for 2010 amounted to EUR 2 thousand (previous year: net gain of EUR 4 thousand). As in the previous year, the entire net gain is reflected in the consolidated net income. Impairment in this category amounted to EUR 0.0 thousand, as in the previous year.

The net gains or losses from the category "Loans and receivables" comprise impairment, reversals of impairment losses and foreign currency effects. Thus, the net gain for 2010 amounted to EUR 199 thousand (previous year: net loss of EUR 4,137 thousand; the figure has been adjusted). Please also refer to note 13, section IV.

The net gains and losses for the category of financial liabilities measured at amortised cost consist of foreign currency effects and gains on disposal. Thus, the net gain for 2010 amounted to EUR 334 thousand (previous year: net gain of 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.

(26) CONTINGENT LIABILITIES

With regard to contingency items, please refer to a letter that we placed, together with the Supervisory Board of Francotyp-Postalia Holding AG, on the internet in March 2011 at http://www.francotyp.com (the following quotes this letter word-for-word):

"In this letter, the Supervisory Board and Management Board would like to inform you briefly of existing or pending legal disputes that are not linked to normal operations.

In total, the company is involved in three legal disputes in which an action has been brought against it. All of these proceedings relate to the company's termination of its contract with the former CEO, Dr Sluma.

In detail, these are:

[...]

b) Action for compensation brought by Dr Sluma (Neuruppin Regional Court, 6 O 27 / 09, Brandenburg Higher Regional Court 6 U 115 / 10)

Also in March 2009, Dr Sluma sued for payment of remuneration in arrears dating back to the extraordinary termination of his service agreement. Proceedings were instituted at Neuruppin Regional Court under the file number 6 O 27 / 09. Dr Sluma has sued for the remuneration allegedly in arrears for the months from mid-February 2009 to October 2009 inclusive, amounting to approximately EUR 292,000.00 in total, and the bonus of EUR 120,000.00 to which he is allegedly entitled for 2008.

In these proceedings, four hearings have been held (16 June 2009, 5 August 2009, 10 February 2010 and 22 September 2010). The court had already indicated in a decision announced on 14 April 2010 that it considered the termination of the employment contract to be valid, which means that no entitlement to remuneration exists for the period after termination; at most, there may be entitlement to a bonus acquired prior to the termination, if this has not been cancelled out by claims for damages offset against it. On 5 November 2010, the action for ongoing remuneration since the termination of the employment contract was rejected through a so-called part judgement. The decision on the bonus entitlement for 2008, together with the offsetting of claims for damages, remains reserved for the final judgement.

Dr Sluma has appealed against the judgement in the court of first instance. The proceedings are now continuing at Brandenburg Higher Regional Court under the file number 6 U 115 / 10. The first hearing is scheduled for 27 September 2011 at the Higher Regional Court.

[...]"

In connection with the above action for compensation, there was a provision of EUR 50 thousand as at the reporting date (previous year: EUR 120 thousand) for the bonus for 2008; consequently, there was a contingent liability in the amount of EUR 70 thousand (previous year: EUR 0.0 thousand) for the bonus for 2008.

V. OTHER DISCLOSURES

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 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 thousand	**31 Dec. 2010**	31 Dec. 2009
Cash	31,377	29,587
Plus securities	672	670
Current liabilities from postage credit balances managed	-18,626	-17,880
Cash and cash equivalents	**13,423**	**12,377**

Cash outflows of EUR 3,500 thousand (previous year: EUR 400 thousand) were recorded in the 2010 financial year in connection with business combinations. For more information, please refer to section I, "Consolidated companies".

EMPLOYEES

The average number of employees is distributed across the different regions as follows:

	2010	2009
Germany	694	697
USA	111	107
UK	86	80
Netherlands	63	66
Canada	34	34
Belgium	25	18
Austria	21	19
Singapore	20	19
Italy	14	14
Sweden	13	0
Total	**1,080**	**1,054**

The average number of employees is distributed among the segments as follows:

	2010	2009
Production	261	269
Sales Germany	444	440
Sales International	366	338
Central functions	9	7
Total	**1,080**	**1,054**

MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board of FP Holding consisted of two persons in the 2010 reporting period (previous year: mainly two persons; for a very short period in 2009: one person).

In accordance with the Rules of Procedure for the Management Board of Francotyp-Postalia Holding AG of 25 August 2010, the responsibilities of the members of the Management Board are as follows:

Name	Date of appointment	Appointed until	Areas of responsibility
Hans Szymanski, Graduate in Economics	December 2008	December 2014	• Strategic business development • Production / logistics / purchasing • Information technology • Human resources and legal • Finance • Controlling • Accounting
Andreas Drechsler, Graduate in Business Studies	February 2009	February 2015	• (Strategic business development) • Marketing / product management • International service / quality management • Corporate auditing • Investor relations • Mailstream sales • Sales Germany • Sales International

Mr Szymanski has been the Chairman of the Management Board since 1 January 2011.

In the 2010 reporting year, Mr Szymanski's Management Board contract was extended until December 2014; the Management Board contract of Mr Drechsler was extended at the beginning of 2011 until February 2015.

The members of the Management Board were not represented on any supervisory boards required to be formed by law or any comparable domestic or foreign supervisory committees of commercial enterprises outside the FP Group in the 2010 financial year.

The following overview shows the members of the Supervisory Board of Francotyp-Postalia Holding AG with their activities outside the company and with other management board or supervisory board mandates or mandates with comparable German or foreign controlling bodies of commercial enterprises:

Name / Occupation	Other administrative or supervisory board mandates in similar German and foreign executive bodies
Prof. 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 holding	• Chairman of the supervisory board of inframation AG, Dortmund • Deputy chairman of the advisory board of KST-Motorenversuch GmbH & Co. KG, Bad Dürkheim
Christoph Weise (Deputy Chairman) Management consultant	Managing Director • QCR 1 GmbH
Dr Claus Gerckens • Partner and managing director of GVG Industrieverwaltungs GmbH, Augsburg • Managing director of Königsdorf Vermögensverwaltungs GmbH, Augsburg • Partner and managing director of Butenfeld Vermögensverwaltungs GmbH, Augsburg	• Member of the supervisory board of EUROKAI KGaA, Hamburg • Deputy chairman of the administrative board of Waltershof Peute Hafen Betriebs G.m.b.H., Hamburg • Deputy chairman of the administrative board of ISA Internationale Schule Augsburg gGmbH, Augsburg

SHAREHOLDER STRUCTURE

In the financial year 2010, Francotyp-Postalia Holding AG received a series of notifications from shareholders in accordance with Section 21 paragraph 1 Securities Trading Act (WpHG) and published these notifications in accordance with Section 26 paragraph 1 WpHG. The notifications are listed in tabular form in Annex 2 to these notes.

RELATED PARTY DISCLOSURES

Related parties of the FP Group as defined by IAS 24 are associated companies and persons and companies that can exercise significant influence over the financial and operating policy of the FP Group; related parties are also persons working in key positions at the reporting company (including close relatives in each case). Companies whose financial and operating policy is at least significantly influenced by the above related parties are also included in related parties of Francotyp-Postalia.

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.

In the reporting rear, related parties of the FP Group in the reporting year included, in addition to the members of the Management Board and the Supervisory Board (and their close relatives) of FP Holding (as in the previous year):

- the associated company FP Data Center Inc., Japan;
- the non-consolidated subsidiary Frankierversand UG (haftungsbeschränkt), Maintal;
- the non-consolidated subsidiary FP Systems India Private Limited, India;
- TMM Technology Marketing Management GmbH, Dortmund;
- GVG Industrieverwaltungs GmbH, Augsburg;
- CamTech GmbH, Berlin;
- Mr Roland Walter, partner and managing director of internet access GmbH lilibit Berlin Gesellschaft für Kommunikation und Digitaltechnik;
- and, up to 21 December 2010, Quadriga Capital Private Equity Fund II L.P., Quadriga Capital Limited and Stockwell Fund L.P.

Related party transactions only took place to a very limited extent. The transactions took place on arm's length terms.

A total of EUR 200 thousand (previous year: EUR 160 thousand) was paid as remuneration to related parties that can exercise significant influence over the financial and operating policy of the FP Group in 2010.

With regard to the total remuneration of the Management Board and Supervisory Board, please refer to the following point, "Total remuneration of the Management Board and Supervisory Board".

TOTAL REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The remuneration of members of the Management Board is set by the Supervisory Board at an appropriate level, based on performance assessments. Criteria for determining the suitability of the remuneration include the duties of the Management Board member in question, his personal performance and 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.

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.

The remuneration is as follows:

EUR thousand	Fixed salary	Payment in kind and allowances	Bonuses [1]	Bonuses (provision)	Stock options (staff expenses)	**Total remuneration**
Hans Szymanski	244 (2009: 260)	11 (2009: 26)	32 (2009: 0)	96 (2009: 76)	9 (2009: 0)	**392 (2009: 362)**
Andreas Drechsler	228 (2009: 179)	15 (2009: 15)	32 (2009: 0)	96 (2009: 76)	9 (2009: 0)	**380 (2009: 270)**
Dr Heinz-Dieter Sluma (until February 2009)	0 (2009: 47)	0 (2009: 6)	0 (2009: 0)	0 (2009: 0)	0 (2009: 0)	**0 (2009: 53)**
Total remuneration for the financial year	**472 (2009: 486)**	**26 (2009: 47)**	**64 (2009: 0)**	**192 (2009: 152)**	**18 (2009: 0)**	**772 (2009: 685)**

[1] Bonuses for previous years that were not covered by provisions as at 31 December 2009

The fixed salary includes allowances for pensions in the amount of EUR 76 thousand (2009: EUR 71 thousand) for Mr Szymanski, EUR 76 thousand (2009: EUR 60 thousand) for Mr Drechsler and EUR 0.0 thousand for Dr Sluma (2009: EUR 2 thousand).

The bonuses cited are provisions for the 2010 financial year. Bonuses of EUR 108 thousand for Mr Szymanski and EUR 108 thousand for Mr Drechsler were paid out in the 2010 financial year. Provisions of EUR 76 thousand for each member of the Management Board were made for this in the 2009 financial year. The payments in kind chiefly consist of the value of company car use as determined in compliance with the provisions of tax law and individual insurance contributions.

Only insignificant amounts were set aside for pension obligations towards active members of the Management Board, as in the previous year (2010: EUR 1 thousand; 2009: EUR 1 thousand).

For pension obligations towards former members of the Management Board of Francotyp-Postalia Holding AG and former managing directors (and their surviving dependants) of the German company Francotyp-Postalia GmbH, a total of EUR 1,298 thousand (previous year: EUR 1,279 thousand) was set aside (for former members of the Management Board of Francotyp-Postalia Holding AG: 31 December 2010: EUR 480 thousand; 31 December 2009: EUR 457 thousand). EUR 77 thousand was added to provisions in the 2010 reporting year.

Each Supervisory Board member has received, as well as cash expenses plus VAT for their 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 the 2009 financial year.

The Deputy Chairman of the Supervisory Board, Mr Christoph Weise, has waived the remuneration to which he is entitled for 2008, 2009 and 2010. The fixed remuneration for the Supervisory Board thus amounted to EUR 75 thousand (previous year: EUR 75 thousand) for the 2010 financial year.

AUDITING FEES RECOGNISED AS EXPENSES

Based on a recommendation of the Supervisory Board, the Annual General Meeting elected KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as the auditor for the 2010 financial year. The fees incurred as expenses for the services of the auditor and of its associated companies were as follows:

EUR thousand	**2010**	2009
Auditing services	273	191
Other assurance services	6	0
Tax consulting services	321	47
Other services	0	268
Total	**600**	**506**

Of the total expenses, EUR 44 thousand (previous year: EUR 44 thousand) relates to associated companies of KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin.

Of the expenses recognised in the 2010 reporting year, EUR 60 thousand (previous year: EUR 3 thousand) relates to previous years.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

A syndicated loan agreement dated 21 February 2011 for EUR 30,149,665 and USD 12,000,000 was concluded between Francotyp-Postalia Holding AG as the borrower and a banking consortium as the lender. The loan consists of loan A 1 (amortising loan of up to EUR 6,000,000), loan A 2 (amortising loan of USD 12,000,000), loan A 3 (maturity loan of EUR 2,832,332.89) and loan B (loan of up to EUR 21,317,332.11 on a revolving basis). According to the loan agreement, loans A 1, A 2 and A 3 are to be used to refund the existing syndicated loan; loan B will initially be used to refund the existing syndicated loan and then for the financing of general working capital.

FP Produktionsgesellschaft mbH was founded in February 2011. The company's headquarters are currently in Weisen; there are plans to relocate the headquarters to Wittenberge in the near future. In accordance with the company's Articles of Association (as at February 2011), the purpose of the company is "the development, manufacture and assembly of electronic devices, their individual components and modules and advising third parties with engineering services". All shares in the new company are held by Francotyp-Postalia Holding AG.

Contrary to the company's expectations, the negotiations commenced in 2010 by Francotyp-Postalia GmbH and Francotyp-Postalia Vertrieb und Service GmbH with the Works Council regarding the preservation of the production site in Birkenwerder have not been successfully concluded in 2011. An agreement has still not been reached after more than 20 appointments with staff representatives. After the Works Council refused to agree to any of the measures proposed by the company and also rejected the offer of an employment guarantee for 320 employees, company representatives decided on 5 January 2011 to withdraw the offers that had been put forward and to end negotiations without an agreement.

In a letter dated 25 February 2011, the Works Council of the joint works of Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb und Service GmbH and FP Direkt Vertriebs GmbH was informed of the plans of management to discontinue production activities in Birkenwerder and the associated closure of the production site in Birkenwerder, and was invited to consultations regarding this. The necessary proceedings relating to a redundancy scheme and reconciliation of interests were thus officially commenced. The proceedings have not yet been concluded and no results are available as yet.

The discontinuation of production at the Birkenwerder site is also scheduled for the end of the first quarter of 2012 at the latest. The implementation of the necessary measures affects only production, and the company's headquarters will remain in Birkenwerder. In connection with the complete transfer of production from Birkenwerder to Wittenberge, it is currently estimated that around EUR 0.7 million will be incurred for redundancy schemes in addition to the provisions for restructuring of EUR 1.3 million as at 31 December 2010. Provisions will also need to be made for the expected vacancy of the production hall in Birkenwerder from the time of the transfer to the end of the lease agreement; it is currently estimated that the provisions will amount to EUR 1.5 million.

In March 2011, FP Holding acquired a property in Wittenberge / Prignitz, Brandenburg, for EUR 410 thousand. The property comprises land and a production hall. From autumn 2011, this site is to replace the production site in Birkenwerder.

On 3 March 2011, FP Holding acquired 51% of shares in Mentana-Claimsoft AG, headquartered in Hartmannsdorf, with effect from 1 January 2011. This acquisition allows the company to press ahead with short-term entry to the De-Mail market, created by the law adopted by the Bundesrat (upper house of the German Federal Parliament) on 18 March 2011 regarding the regulation of De-Mail services.

The purchase price of the stake was EUR 1,000 thousand, which will be increased or reduced by half of the amount of the proportionate balance in relation to the entire share capital of the consolidated results of the Mentana-Claimsoft Group carried forward or recorded between 1 January 2011 and 31 December 2014. The purchase price will be increased by up to a further EUR 1,000 thousand if the Mentana-Claimsoft Group achieves the agreed EBITDA in the 2014 financial year. FP Holding also has a long-term pre-emption right for the remaining 49% of shares in Mentana-Claimsoft AG; this right can be exercised in the period from 1 March 2015 to 1 March 2017. The purchase price is based on the proportionate amount of five times the adjusted EBITDA attributable to the option shares in relation to the share capital plus all consolidated results of the Mentana-Claimsoft Group recorded or carried forward between 1 January 2011 and 31 December of the financial year before the options were exercised.

Incidental costs of acquisition amounted to EUR 51 thousand and are treated as expenses for the 2011 financial year.

The Mentana-Claimsoft Group is expected to be included in the consolidated accounts of the FP Group for the first time on 31 March 2011 (date of first-time consolidation: 3 March 2011).

Other information required in accordance with IFRS 3 cannot be provided as it is not available. A purchase price allocation had not yet been carried out at the time of preparation of these 2010 consolidated financial statements of the FP Group.

Restructuring measures at the Dutch subsidiary were agreed in March 2011 and employees were informed. The forthcoming measures will affect mainly employees in the service division. The costs expected to result from this amount to approximately EUR 0.4 million.

CORPORATE GOVERNANCE

The Management Board and Supervisory Board of Francotyp-Postalia Holding AG have issued a declaration on the Corporate Governance Code in accordance with Section 161 AktG and have made this declaration permanently accessible on the company's website at (http://www.francotyp.com/investoren/corporate-governance/entsprechenserklaerung/archiv/2011.html).

ANNOUNCEMENTS IN THE ELECTRONIC FEDERAL GAZETTE

The 2010 consolidated financial statements of the FP Group and the 2010 annual financial statements of Francotyp-Postalia Holding AG are to be published in the electronic Federal Gazette. The announcements, together with the documents mentioned therein, are to be filed with the Company Register.

Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb und Service GmbH, FP Hanse GmbH and FP Direkt Vertriebs GmbH are exempt from the obligation to publish their annual financial statements for 2010 in accordance with Section 264 paragraph 3 HGB in conjunction with Section 325 HGB.

Francotyp-Postalia GmbH and Francotyp-Postalia Vertrieb und Service GmbH are also exempt from the obligation to prepare a management report for 2010 in accordance with Section 264 paragraph 3 HGB in conjunction with Section 289 HGB.

The corresponding resolutions have been submitted to the operator of the electronic version of the Federal Gazette and the relevant announcement arranged.

Hans Szymanski
(CEO & CFO)

Andreas Drechsler
(CSO)

DEVELOPMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT FROM 1 JANUARY TO 31 DECEMBER 2009

EUR thousand	Acquisition / production costs					
	Carryforward 1 Jan. 2009	Currency differences	Additions	Disposals	Reclassifi-cations	As at 31 Dec. 2009
Intangible assests						
Intangible assets generated internally	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	22,269	0	0	0	0	22,269
Development projects in progress	5,935	0	2,538	0	-983	7,490
Total	**138,935**	**-78**	**3,420**	**55**	**22**	**142,244**
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	6,838	0	0	1,318	0	5,520
Total	**103,823**	**332**	**4,001**	**3,882**	**-22**	**104,252**
Non-current assets Total	**242,758**	**254**	**7,421**	**3,937**	**0**	**246,496**

	Depreciation, amortisation and impairment losses							Carrying amounts	
	Carryforward 1 Jan. 2009	Currency differences	Depr. / amort. in financial year	Impairment in financial year	Disposals	Reclassifications	As at 31 Dec. 2009	31 Dec. 2009	1 Jan. 2009
	6,092	0	3,031	0	0	0	9,123	7,340	9,106
	70,431	-50	13,930	0	53	0	84,258	11,764	25,102
	76,523	-50	16,961	0	53	0	93,381	19,104	34,208
	1,275	0	0	12,500	0	0	13,775	8,494	20,994
	2,421	0	0	0	0	0	2,421	5,069	3,514
	80,219	**-50**	**16,961**	**12,500**	**53**	**0**	**109,577**	**32,667**	**58,716**
	104	3	6	0	0	0	113	34	33
	3,631	1	280	0	13	1	3,900	1,473	1,650
	29,670	191	1,895	0	1,769	-1	29,986	3,485	4,149
	46,279	-843	4,198	0	209	0	49,425	10,316	11,445
	0	0	0	0	0	0	0	0	24
	2,011	0	403	0	1,300	0	1,114	4,406	4,827
	81,695	**-648**	**6,782**	**0**	**3,291**	**0**	**84,538**	**19,714**	**22,128**
	161,914	**-698**	**23,743**	**12,500**	**3,344**	**0**	**194,115**	**52,381**	**80,844**

DEVELOPMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT FROM 1 JANUARY TO 31 DECEMBER 2010

EUR thousand	Acquisition / production costs						
	Carry forward 1 Jan. 2010	Currency differences	Additions from changes in the scope of consolidation	Other Additions	Disposals	Reclassifications	As at 31 Dec. 2010
Intangible Assets							
Internally generated intangible assets	16,463	1	0	238	0	1,913	18,615
Other intangible assets	96,022	817	4,751	1,011	6,555	0	96,046
Intangible assets	112,485	818	4,751	1,249	6,555	1,913	114,661
Goodwill	22,269	0	0	0	0	0	22,269
Development projects in progress	7,490	0	0	3,213	0	-1,913	8,790
Total	**142,244**	**818**	**4,751**	**4,462**	**6,555**	**0**	**145,720**
Property, plant and equipment							
Land, land rights and buildings	147	4	0	143	101	84	277
Technical equipment and machinery	5,373	11	0	382	31	371	6,106
Other equipment, operating and office equipment	33,471	521	19	1,274	1,451	-474	33,360
Leased products	59,741	4,931	0	3,010	11,884	19	55,817
Assets under finance leases	5,520	0	0	182	0	0	5,702
Advance payments and assets under construction	0	0	0	109	0	0	109
Total	**104,252**	**5,467**	**19**	**5,100**	**13,467**	**0**	**101,371**
Non-current assets total	**246,496**	**6,285**	**4,770**	**9,562**	**20,022**	**0**	**247,091**

	Depreciation, amortisation and impairment losses							Carrying amounts	
	Carry forward 1 Jan. 2010	Currency differences	Additions	Impairment losses	Disposals	Reclassi-fications	Balance at 31 Dec. 2010	31 Dec. 2010	1 Jan. 2010
	9,123	1	3,198	0	0	0	12,322	6,293	7,340
	84,258	292	7,813	46	6,535	0	85,874	10,172	11,764
	93,381	293	11,011	46	6,535	0	98,196	16,465	19,104
	13,775	0	0	0	0	0	13,775	8,494	8,494
	2,421	0	0	0	0	0	2,421	6,369	5,069
	109,577	**293**	**11,011**	**46**	**6,535**	**0**	**114,392**	**31,328**	**32,667**
	113	3	20	0	96	76	116	161	34
	3,900	10	546	93	31	266	4,784	1,322	1,473
	29,986	464	1,366	244	1,327	-344	30,389	2,971	3,485
	49,425	3,757	4,337	0	11,377	2	46,144	9,673	10,316
	1,114	0	414	0	0	0	1,528	4,174	4,406
	0	0	0	0	0	0	0	109	0
	84,538	**4,234**	**6,683**	**337**	**12,831**	**0**	**82,961**	**18,410**	**19,714**
	194,115	**4,527**	**17,694**	**383**	**19,366**	**0**	**197,353**	**49,738**	**52,381**

NOTIFICATIONS IN ACCORDANCE WITH SECTION 26 PARAGRAPH 1 SECURITIES TRADING ACT (WPHG) (NOTIFICATIONS OF VOTING RIGHTS)

Supplement	Entity with reporting obligation	Reported in accordance with	"Date of threshold change"	Thresholds	
				Below threshold	Above threshold
	United Nations, New York, USA	Section 21 paragraph 1 WpHG	14 Jul. 08		3%
Correction of our notification dated 17 July 2008	Baillie Gifford & Co., Edinburgh, Scotland, UK	Section 21 paragraph 1 WpHG	14 Jul. 08		5%
Correction of our notification dated 17 July 2008	Baillie Gifford Overseas Limited, Edinburgh, Scotland, UK	Section 21 paragraph 1 WpHG	14 Jul. 08		3%
	Baillie Gifford & Co, Edinburgh, Scotland, UK	Section 21 paragraph 1 WpHG	23 Feb. 10	5%	
	WestLB AG, Düsseldorf, Germany	Section 21 paragraph 1 WpHG	25 Feb. 10		3%
	Banque d'Orsay S.A., Paris, France	Section 21 paragraph 1 WpHG	25 Feb. 10		3%
	Orsay Asset Management SNC, Paris, France	Section 21 paragraph 1 WpHG	25 Feb. 10		3%
	Eric Spoerndli, Switzerland	Section 21 paragraph 1 WpHG	05 May 10		5%
	WestLB AG, Düsseldorf, Germany	Section 21 paragraph 1 WpHG	07 May 10	3%	
	Banque d'Orsay S.A., Paris, France	Section 21 paragraph 1 WpHG	07 May 10	3%	
	Baillie Gifford & Co, Edinburgh, Scotland, UK	Section 21 paragraph 1 WpHG	06 Aug. 10	3%	
	Baillie Gifford Overseas Limited, Edinburgh, Scotland, UK	Section 21 paragraph 1 WpHG	06 Aug. 10	3%	
	United Nations Joint Staff Pension Fund, New York, USA	Section 21 paragraph 1 WpHG	24 Jun. 10	3%	
Correction of our notification dated 16 August 2010	United Nations, New York, USA	Section 21 paragraph 1 WpHG	24 Jun. 10	3%	
	Orsay Asset Management SNC, Paris, France	Section 21 paragraph 1 WpHG	16 Sep. 10	3%	
	Stephan Jaax, Belgium	Section 21 paragraph 1 WpHG	17 Dec. 10	25%, 20%, 15%, 10%, 5% und 3%	
	Quadriga Capital (US) LP, St. Helier, Jersey, Channel Islands	Section 21 paragraph 1 WpHG	17 Dec. 10	20%, 15%, 10%, 5% und 3%	
	Quadriga Capital Inc., Wilmington, Delaware, USA	Section 21 paragraph 1 WpHG	17 Dec. 10	20%, 15%, 10%, 5% und 3%	
	Quadriga Capital Limited, St. Helier Jersey, St. Helier, Jersey, Channel Islands	Section 21 paragraph 1 WpHG	17 Dec. 10	25%, 20%, 15%, 10%, 5% und 3%	
	Quadriga Capital Private Equity Fund II LP, St. Helier, Jersey, Channel Islands	Section 21 paragraph 1 WpHG	17 Dec. 10	20%, 15%, 10%, 5% und 3%	
	Stockwell Fund L.P., Chicago, USA	Section 21 paragraph 1 WpHG	17 Dec. 10	3%	
	Stockwell Managers L.L.C., Chicago, USA	Section 21 paragraph 1 WpHG	17 Dec. 10	3%	
	Stockwell Capital L.L.C, Chicago, USA	Section 21 paragraph 1 WpHG	17 Dec. 10	3%	

* Orsay Asset Management SNC has acquired the shares of Francotyp-Postalia Holding AG. Orsay Asset Management SNC is a 100% subsidiary of Banque d'Orsay S.A., which in turn belongs fully to WestLB AG. With the issuance of the statement in accordance with Section 32 paragraph 3 in conjunction with Section 2 German Investment Act (InvG), Orsay Asset Management SNC ceased to be considered a subsidiary on 7 May 2010, which means that no allocation takes place as set out in Section 22 paragraph 1 sentence 1 no. 1 WpHG. For this reason, notification is given that the holding has moved below the 3% threshold and a notification of a holding of 0% is made.

Current voting rights	Of which to be attributed:	In accordance with	Voting rights	The following shareholders, who each hold a share of 3% or more of the voting rights in Francotyp-Postalia Holding AG, are assigned voting rights:
3.18% (468,000 voting rights)				
5.39% (792,000 voting rights)	Baillie Gifford & Co.	Section 22 paragraph 1 sentence 1 no. 6 WpHG	1.61% (236,500 voting rights)	
	Baillie Gifford & Co.	Section 22 paragraph 1 sentence 1 no. 6 and sentence 2 WpHG	3.78% (555,500 voting rights)	United Nations
3.78% (555,500 voting rights)	Baillie Gifford Overseas Limited, Edinburgh, Scotland, UK	Section 22 paragraph 1 sentence 1 no. 6 WpHG	3.78% (555,500 voting rights)	United Nations
3.78% (555,500 voting rights)	Baillie Gifford & Co	Section 22 paragraph 1 sentence 1 no. 6 and sentence 2 WpHG	3.78% (555,500 voting rights)	United Nations
3.06% (449,429 voting rights)	via Banque d'Orsay S.A. and Orsay Asset Management SNC	Section 22 paragraph 1, sentence 1, no. 1 WpHG	3.06% (449,429 voting rights)	
3.06% (449,429 voting rights)	via Orsay Asset Management SNC	Section 22 paragraph 1, sentence 1, no. 1 WpHG	3.06% (449,429 voting rights)	
3.06% (449,429 voting rights)				
5.02% (738,291 voting rights)				
0%				
0%				
2.91% (428,180 voting rights)	Baillie Gifford & Co (via Baillie Gifford Overseas Limited)	Section 22 paragraph 1 sentence 1 no. 6 and sentence 2 WpHG	2.91% (428,180 voting rights)	
2.91% (428,180 voting rights)	Baillie Gifford Overseas Limited	Section 22 paragraph 1 sentence 1 no. 6 WpHG	2.91% (428,180 voting rights)	
2.98% (437,396 voting rights)				
2.98% (437,396 voting rights)				
2.70% (397,261 voting rights)				
0%				
0%				
0%				
0%				
0%				
0%				
0%				
0%				

RESPONSIBILITY STATEMENT

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 Holdings' prospective future developments.

Birkenwerder, 7 April 2011

Francotyp-Postalia Holding AG

Hans Szymanski
(CEO & CFO)

Andreas Drechsler
(CSO)

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 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, 7 April 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Großmann	Sternberg
(German Public Auditor)	(German Public Auditor)

GLOSSARY

TERMS AND DEFINITIONS OF FRANCOTYP

2D barcode technology
In contrast with one-dimensional barcodes, data in 2D barcode technology are coded not only in one direction (one-dimensional) but in the form of an area over two dimensions, hence the name. The advantage of this is that a greater density of useful information can be accommodated in each area (cf. also 2009 Annual Report p. 7).

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

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

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

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

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

Centralised Communication
Individual daily mail, collated centrally.

Certification
Official operating authorisation for franking machines.

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

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

Decertification
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.

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

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

E **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.

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

FP webbrief
The online solution FP webbrief has been developed for private customers. This application is loaded via an internet browser. The user then types the text into a window as with a normal text program. The service is cost-effective and can be used even for a single letter.

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

G **GDP**
Gross domestic product (GDP) refers to the market value of all final goods and services produced within a country in a given period.

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

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

I **Installed Base**
Refers to the number of franking machines in the market as located at customers.

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

M **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.

MailOne
MailOne is a newly developed software platform from FP USA. This offers additional functions such as special discounts for express and priority delivery, delivery tracking and invoicing based on various cost centres.

MailReport
The MailReport software serves for cost centre recording and analysis and provides the greatest possible transparency with regard to franking machines. Each franking process is immediately recorded in MailReport and assigned to a cost centre. Up to three cost centre levels can be set up.

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

O **optimail30**
optimail 30 is a franking machine from the FP Group that is ideally suited to small to medium volumes of mail. This machine, with economical thermal transfer printing, saves up to six advertising themes and has a large, easy-to-use display.

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.

P **Phoenix**
Phoenix is a new franking system from the FP Group that will be manufactured in Wittenberge. This latest franking platform is distinguished by numerous innovations in mechatronics, software management and distribution processes.

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.

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

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

GENERAL DEFINITIONS

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

B **BNP**
The BNP Paribas Group has operated in Germany since 1947 and offers a wide range of products for private customers, corporate customers and financial institutions. BNP Paribas is one of the leading foreign banks in Germany.

C **Cap**
A cap is a contractually agreed interest rate ceiling that is subject to a nominal amount of capital. If the reference interest rate exceeds the cap at a specified date, the seller is obliged to pay the buyer the difference between the reference interest rate and the interest rate ceiling.

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

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

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

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

DPAG
Abbreviation for Deutsche Post AG.

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

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

EBITDA
Earnings before interest, taxes, depreciation and amortisation.

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

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

F 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").

G Gearing
Gearing is an indicator of a company's debt and reflects the relationship between borrowed debt capital and the company's equity.

German Job Investment Award
The German Job Investment Award is a prize awarded jointly by the Rhein-Main Business Club and the Federal Employment Agency.

I IAS
International Accounting Standards. See also IFRS.

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

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

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

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

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

N Net Working Capital
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.

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

R Royal Mail
Royal Mail is the national postal service in the UK.

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

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

U UPU – Universal Postal Union
The Universal Postal Union (UPU) was founded in 1874 and regulates the international cooperation of postal authorities and the conditions for cross-border postal services. It is headquartered in Bern, Switzerland.

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

FINANCIAL CALENDAR

Annual Report 2010	28 April 2011
Presentation 1st Quarter Results 2011	26 May 2011
Annual General Meeting	30 June 2011
Presentation Half-year Report 2011	25 August 2011
Presentation 3rd Quarter Results 2011	November 2011
Equity Forum 2011 Frankfurt	21–23 November 2011

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TRANSLATION

EVS Translations GmbH, Offenbach,
www.evs-translations.com

PHOTOGRAPHY

Daniel Möller Fotografie, Hanover
www.fotodanielmoeller.de

PRINTING

Schulz + Co. GmbH, Hamburg
www.schulz-und-co.de

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.

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