Heroes create myths, myths become brands.

Welcome
to the 2017 Annual Report of
FRANCOTYP-POSTALIA HOLDING AG

Heroes create myths,
myths become brands:
ACT to win –
we are on our way.

At the heart of all myths there are heroes, smart heroes who are up to the challenges they face.

Smart heroes are always different from others,
standing tall above mediocrity and the mainstream,
they are bold, daring and unconventional, they are courageous.
Some things are hard before they become easy –
so what? Smart heroes roll with the punches and carry on,
because they want to win and make it through to the next round.

Smart heroes stay calm, because they know their objectives.
They don't lose their heads, because they know that only those who want to change the world will seize the opportunity to do so.

Smart heroes are charming and self-confident,
sharp and quick-witted, and they don't take themselves and others too seriously.
Such heroes will be remembered and they have the potential to become icons;
heroes can become myths,
and smart heroes can become relevant brands.

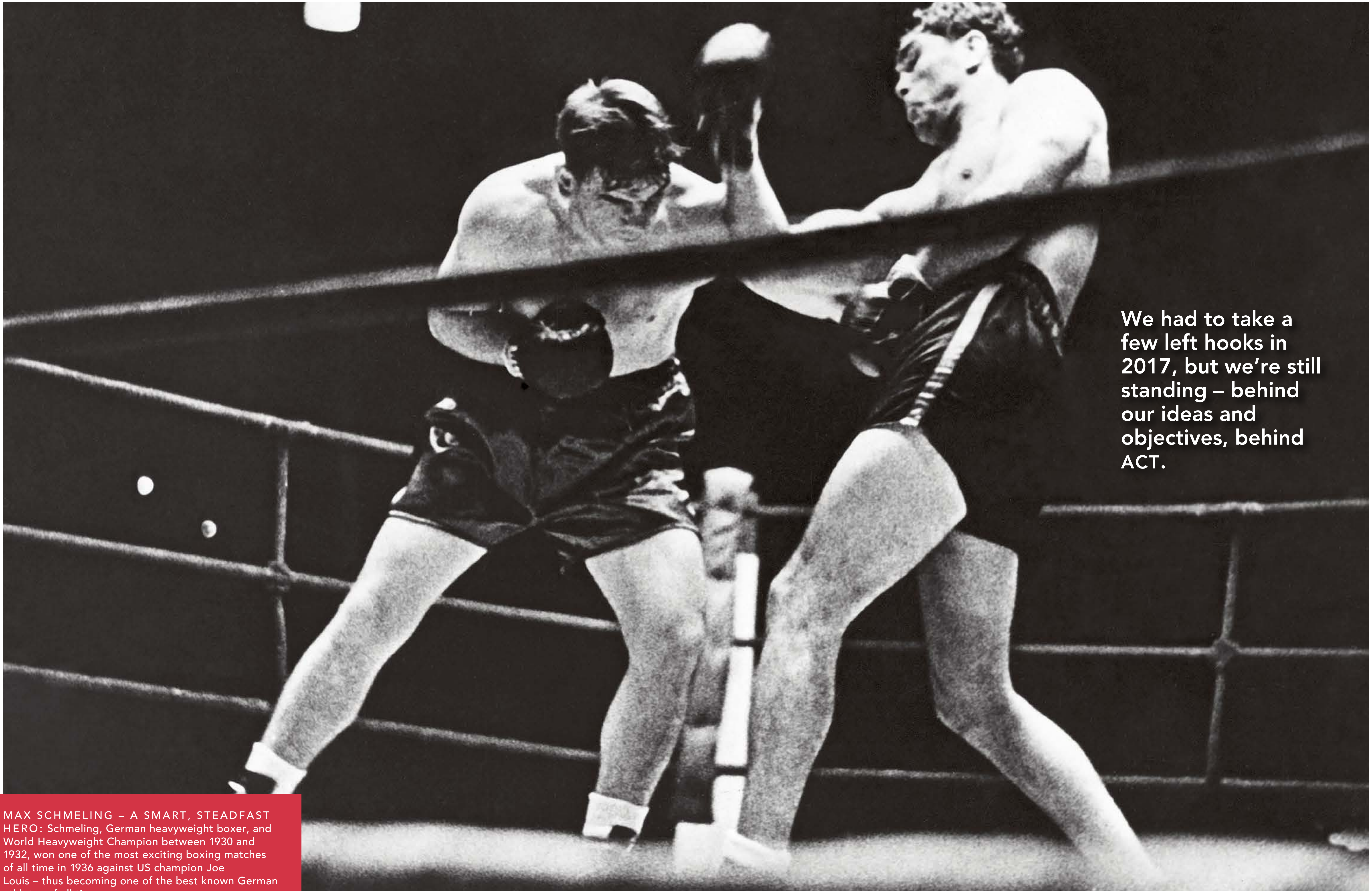
FP will become a smart hero for the digital age:
we get involved, calm and decisive, know how to take hits and still get ahead, we think unconventionally and find solutions to our customers' problems, leaving them with more free time, and thus more enjoyment in everyday life.

We are
Francotyp-Postalia.

Key Figures

FIGURES IN ACCORDANCE WITH CONSOLIDATED FINANCIAL STATEMENTS (in EUR million)

	2017	2016	Changes in %
Revenue	206.3	203.0	1.7
Recurring revenue	162.6	161.9	0.5
EBITDA	26.3	27.2	–3.3
as percentage of revenue	12.8	13.4	–4.9
EBIT	7.3	9.7	–25.5
as percentage of revenue	3.5	4.8	–26.7
Consolidated net income	4.6	6.2	–25.0
as percentage of revenue	2.3	3.1	–26.2
Free cash flow	5.8	4.6	26.7
Ajusted free cash flow	9.9	9.5	3.7
Equity capital	16.3	16.2	0.5
Shareholders equity	33.0	35.9	–8.3
as percentage of balance sheet total	19.4	21.5	
Return on equity (%)	14.1	17.2	
Debt capital	136.8	131.4	4.1
Net debt	19.5	19.8	–1.6
Net debt-equity ratio (%)	59.0	55.0	
Balance sheet total	**169.8**	**167.3**	**1.5**
Share price end of year (EUR)	**4.66**	**5.49**	**–15.1**
Earnings per share (basic in EUR)	**0.29**	**0.36**	**–21.5**
Earnings per share (diluted in EUR)	**0.28**	**0.36**	**–21.4**
Employees (end of period)	**1,067**	**1,052**	**1.4**



We had to take a few left hooks in 2017, but we're still standing – behind our ideas and objectives, behind ACT.

MAX SCHMELING – A SMART, STEADFAST HERO: Schmeling, German heavyweight boxer, and World Heavyweight Champion between 1930 and 1932, won one of the most exciting boxing matches of all time in 1936 against US champion Joe Louis – thus becoming one of the best known German athletes of all time.

FP: The first year of ACT was not an easy year – but we are still on course, because ACT is proving its mettle.

We have achieved the targets we set ourselves for 2017.

We have concentrated on implementing the strategic measures and projects.

We have put together good teams, established new processes, and invested in new employees.

FP: We are in a state of change.

Admittedly, it may become faster – and it will. But even if the wind of change is a little stormy, we want our employees to take pleasure in their work. Because that is what gives you wings.

REVENUE *

208.4 million euros =

+ 2.7%

EBITDA *

27.5 million euros =

+ 1.1%

ADJUSTED FREE CASHFLOW

9.9 million euros =

+ 3.7%

* Excluding currency effects

We kept our word that we would increase turnover and improve EBITDA; the adjusted free cashflow beats the predictions. Further news from the division of Promises Delivered:

DELIVERED: The 100,000th PostBase left the factory. It is more than just a franking machine – 100,000 proofs of our secure mail business.

DELIVERED: We further increased our market share for franking machines in 2017; we are now at around 11%.

DELIVERED: The triple victory in the new infrastructure discount from the German mail operator Deutsche Post AG with PostBase One, CentorMail and PostBase100.

DELIVERED: We welcome amongst others the German rail operator Deutsche Bahn as a new customer.

DELIVERED: In the following countries we are now both licensed and represented: with the PostBase Mini in Ireland, Japan, and Australia; with the PostBase in Russia, Latvia, and Singapore; the PostBase Sandd for a private carrier in the Netherlands; the licensing machine in the Philippines; the inserter release for Germany and the USA; and the PostBase One in France and Austria.

DELIVERED: The freesort issues, which also impacted profits, have been resolved, and our cooperation with Deutsche Post AG has improved; our crisis management was successful.

DELIVERED: We have met with investors throughout Europe, e.g. in Barcelona, Warsaw, London and Amsterdam, making **FP** interesting and attractive. And we will continue in 2018.

DELIVERED: The premise for expanding the customer base is a significant increase in **FP**'s brand recognition. Therefore, our Brand Management & Corporate Marketing were restructured in 2017 and provided with fresh personnel. In PR and social media, we have significantly increased awareness of our brand.

DELIVERED: With **FP** Connect, we have established the IT platform to improve cooperative work processes, and extended access to information for all employees; the teams around the world are in contact, without having to travel or being restricted by the limitations of the telephone.

DELIVERED: One important component of ACT is the portal solution discover**FP**, as a bridge between the analogue world and digital services, increasing transparency for the customers. It furthermore simplifies services and automates the handling of orders for consumable materials.

With **ACT**, we have given **FP** a widely acclaimed strategy to make the company fit for a future full of opportunities.

Of course, the path will not always be straightforward.

SIDNEY POITIER – A SMART HERO FOR HIS ATTITUDE:
Sir Sidney Poitier, shown here on the left next to Barack Obama, became the first African-American actor to receive the Oscar for Best Actor, for his performance in "Lilies of the Field". Poitier later supported a foundation that provided scholarships, giving Africans the opportunity to study in the USA – the recipient of one such scholarship was the Kenyan Barack Obama senior, whose son went on to become President of the USA. Poitier received his second Oscar in 2002, the Honorary Oscar for lifetime achievement.

FP: We have clear targets for what lies ahead.

2020:
revenue of 250 million euros,
EBITDA 17%

2023:
revenue of 400 million euros,
EBITDA 20%

This is where we want to be,
where we will be –
ambitious but achievable targets.
And targets create an attitude.

FP: We are on our way.

What is ACT?
ACT is the strategy that the Management Board and the Supervisory Board passed at the end of 2016 – it is a vision and a mission for the period until 2023, the company's centennial year.
In keywords:
A = Attack: We resolutely attack in the markets, achieving greater penetration than before.
C = Customer: The customer is at the heart of everything we do, we accompany them on their journey with new solutions, products and services.
T = Transformation: We are also on the path of digital transformation, which is transforming **FP** itself into a first-class digital service provider.

ACT is creating a new **FP**.
ACT works externally – we have a strategy and a good story. ACT works internally – for us, ACT is a challenge and represents our new way of thinking and working.

With ACT, we have arrived in a new chapter of almost a hundred years of **FP** company history:
FP wants to be the market leader for postal and organisational communication, secure, analogue and digital.
With ACT, we are breaking away from old rules and searching for a new path.

With ACT, we are driving change.
Innovation, increased tempo, strengthening the teams, a different and new way of working together in a corporate culture of recognition, proactive thinking and acting together: this is the new **FP** – we always think one step ahead and believe in our capabilities.

ACT means: we act in the interests of the customer.
ACT is: curiosity – for new ideas, new solutions, new people.
ACT is **FP**.
FP is who we are.

With FP Fit, we are restructuring our organisation, becoming faster and more efficient, more effective – we become more weightless.

THE MAN IN THE MOON – SMART HERO OF TEAM SPIRIT: Space travel is the result of exceptional international teamwork. From the first moon landing in 1969 to the landing on Mars – impossible without the optimal coordination of the best scientists and engineers.

FP: This is no time for resting, because 2018 is the year of implementation, an important phase of the transformation.

We will make FP even leaner, more agile, faster – without forgetting that people and team spirit are the driving force at the core of the organisation.

We will get even closer to our customers and get new customers excited about FP, we will win them over, we will expand our market share with new products and services, with new consulting services – we will become the trusted service centre for our customers.

FP: Many services from few hands.
From ours.

"The results of our teamwork and the prospects for a new **FP** are good – even though a company is like life, and everything does not always run smoothly.
We pool the competencies and experience of our subsidiaries in a manner that is unique in the market – we are thus in an excellent position to serve our core markets more intensively and be leaders in the digitalisation of our industry. We are the experts for secure mail business and secure digital communication processes."

Rüdiger Andreas Günther, CEO / CFO

Customer orientation, quality and innovation make us successful. Now we are adding the organisation and further ideas. Short reports on policy positions and projects:

CERTAIN: *Up, up* with JUMP! JUMP is taking centre stage, because JUMP is the structure & organisation project that is making us agile. JUMP costs energy, time and money, so we will hardly be able to avoid this affecting profits. The year 2018 will thus also be an endurance test.
But it will not be possible to do without JUMP – **FP** needs new and simple structures, worldwide: we have to reduce the complexity of our processes and increase our punching power.

CERTAIN: We have evaluated the opportunities for our comprehensive **FP**Product Roadmap, and set up corresponding development teams; we expect results over the course of 2018.

CERTAIN: Targeted sales measures increase the customer base, our initiative **FP** Marketing & Sales Plus gains new customers.

CERTAIN: We have also made progress with the human resources initiative. Around 1,000 employees took part in more than 40 **FP** Fit4Change workshops in six languages; almost all of our colleagues also took part in the opportunity to learn about their individual skills using the Stärkenkompass "strengths compass". With Leadership4Change, we trained the management to create an environment that promotes growth: independently minded employees deliver success.

CERTAIN: The relocation of the spare parts centre and central workshop to Wittenberge has pooled our forces and reduced costs.

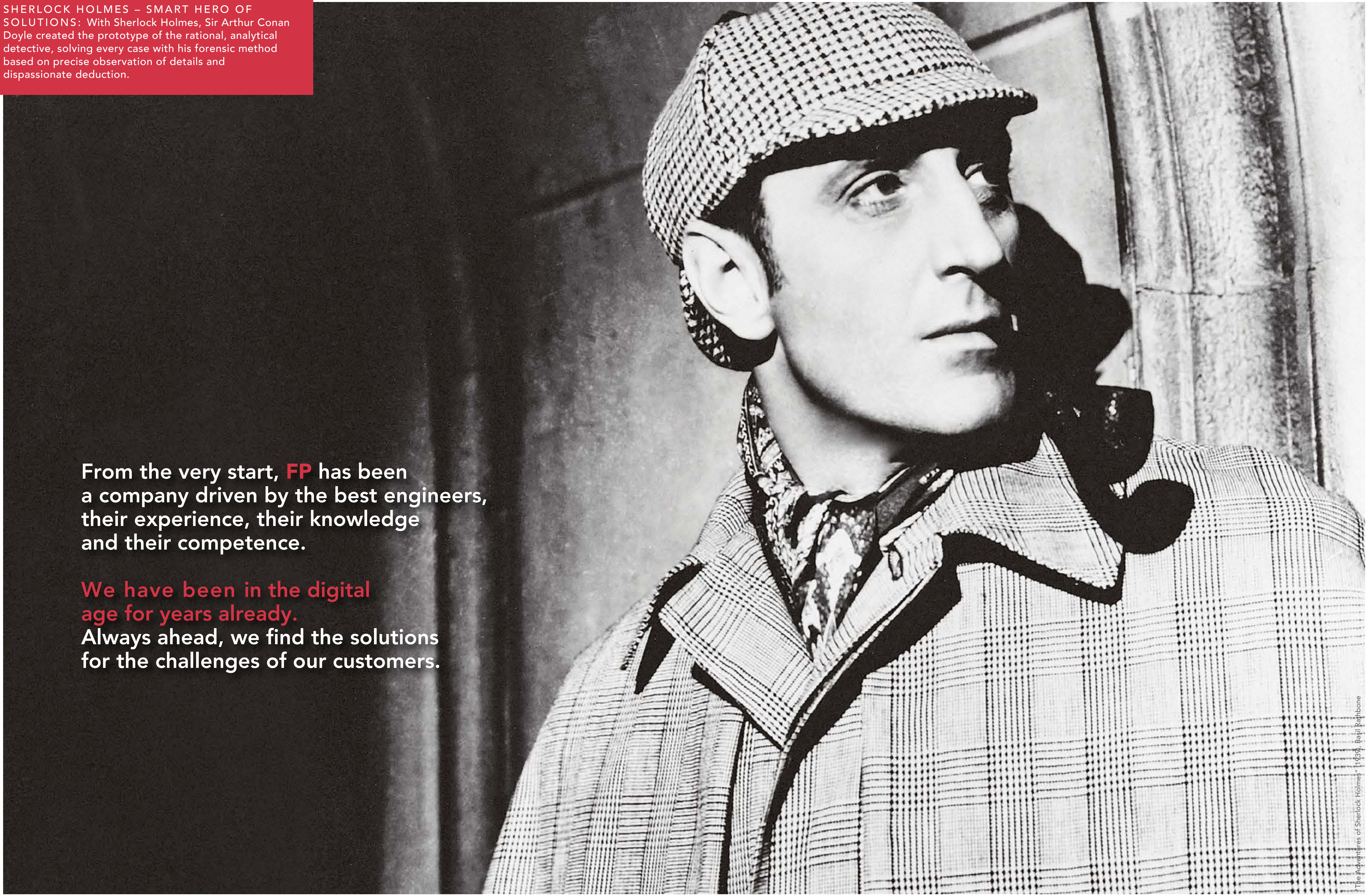
CERTAIN: In order to identify the opportunities being created by the Internet of Things (IoT), and moreover to allow us to utilise them, we have formed agile teams to access the potential of franking system technology in the field of IoT.

CERTAIN: **FP** Sign is the new platform-based solution for the secure, confidential, legally binding digital conclusion of contracts and exchange of documents. We are pressing ahead with the marketing of these software solutions.

CERTAIN: With the expansion of our brand recognition and the corresponding sales, including outside Germany, we will secure ourselves additional options in the market for digital transaction management.

CERTAIN: Digitalisation means making digital all company processes that can be made digital.
Here we offer our customers added value, e.g. by supplementing the familiar analogue dispatch processes with digital technologies, thus producing the first hybrids, which simplify and shorten workflows and reduce costs.

SHERLOCK HOLMES – SMART HERO OF SOLUTIONS: With Sherlock Holmes, Sir Arthur Conan Doyle created the prototype of the rational, analytical detective, solving every case with his forensic method based on precise observation of details and dispassionate deduction.



"The Adventures of Sherlock Holmes" (1939), Basil Rathbone

From the very start, **FP** has been a company driven by the best engineers, their experience, their knowledge and their competence.

We have been in the digital age for years already.
Always ahead, we find the solutions for the challenges of our customers.

FP: We are the start-up with 95 years of experience.

No one knows exactly how many patents have been registered by FP over the course of its 95 years – but the figure is at least 2,500.

That means 2,500 patents that prove how much this company has been driven, since its very beginning, by the knowledge and inventiveness of its engineers, and by the increasing experience they gathered over the decades. And how it continues to be so.

We are therefore well equipped for the coming challenges of the digital age.

After all, to name but one example, the security of data has been and remains an issue of great importance: Our experience in cryptography stands us in good stead here.

FP: We are ahead.

"Cryptography was once simply the encryption of information. Nowadays it is concerned above all with the conception, definition and design of information systems that are immune to manipulation and unauthorised reading; as such, cryptography means information security. This is an enormous subject area that offers amazing prospects for **FP**.
And the IoT: according to a recent IDC study, the global spending on the IoT in 2018 is expected to reach 772.5 billion dollars. This corresponds to an increase of 15% relative to the 674 billion dollars invested during the previous year.
By 2020, spending will exceed 1 trillion. We will be able to get a lot out of this growing market."

Sven Meise, CDO

Founded in 1923, we build the world's smallest franking machine in 1938 → 1968: the first electronic franking machine → 1960: we become the first non-American provider to receive a licence for the USA → 1983: we create the first ever fully electronic franking machine and → 1991 the firstthermotransfer franking machine → 1997: JetMail is the first franking machine with inkjet technology, vertical transport, integrated scale, and the world's largest thickness gauge → 2004: we are the first provider of FRANKIT franking machines and in → 2007 we build the CentorMail, the first franking machine to process real mixed post → 2010: PostBase starts, becoming the most successful market launch of **FP** → 2012: Mentana-Claimsoft becomes the first German De-Mail provider → 2015: we become the first partner to fulfil the special new IMI security standards of the US Postal Services → 2017: we are the first to fulfil the requirements of the new infrastructure discount of Deutsche Post AG → ...

We were already digital when others were still talking about weaving on looms – in secure communications, we will still be writing history tomorrow.

KONRAD ZUSE – SMART HERO OF THE INVENTIVE SPIRIT: German civil engineer, inventor and entrepreneur, in 1941 Zuse built the first functional, fully automatic, program-controlled and freely programmable computer using binary floating point operations, and thus the first functional computer in the world.

FP: We are Made in Germany. Sometimes it does get a little boring.

We Germans are punctual, often a little too serious, generally facing the future with scepticism rather than enthusiasm, and perhaps even sometimes somewhat boring in our love of order? … but on the other hand, we are reliable and dependable, we deliver quality and love technical innovation – *Made in Germany* enjoys global recognition and attention.

FP: We are in the thick of things.

FP was founded in Berlin and has its headquarters here, but with 21 locations and our subsidiaries in ten countries – in the USA, in Canada and the United Kingdom, the Netherlands, France and Belgium, Italy, Austria and Sweden – and with a further 40 dealers around the world, we have long been an international company represented in many of the important global markets.

There is much to be done – and plenty to be achieved.

"We are going to show the markets what we're made of: with around 11%, we are currently the global number 3 in the market for franking machines – there is space for development. In our home market of Germany, we have a market share of 42%, in the USA and France we will also achieve growth in 2018 – and we also have a good share of the 300 billion or so letters and packages dispatched each year, which are transported particularly in Europe and North America.
We need to be relevant for customers, markets and stakeholders. We are therefore combining our successful sales strategies with international marketing and branding: our brand communication is aimed at appeal and success – brand recognition is indispensable for the success of ACT."

Thomas Grethe, CSO

Increasing recognition, becoming a winner, being a strong brand. One central element for the communication, success, and the future is the new brand claim. Notes on a necessary move.

FP needs a strong profile and must become a strong brand – after all, a strong brand evokes trust. A strong brand has a strong claim.
A good claim can win people over – or at least gain their attention. And that counts for a lot.

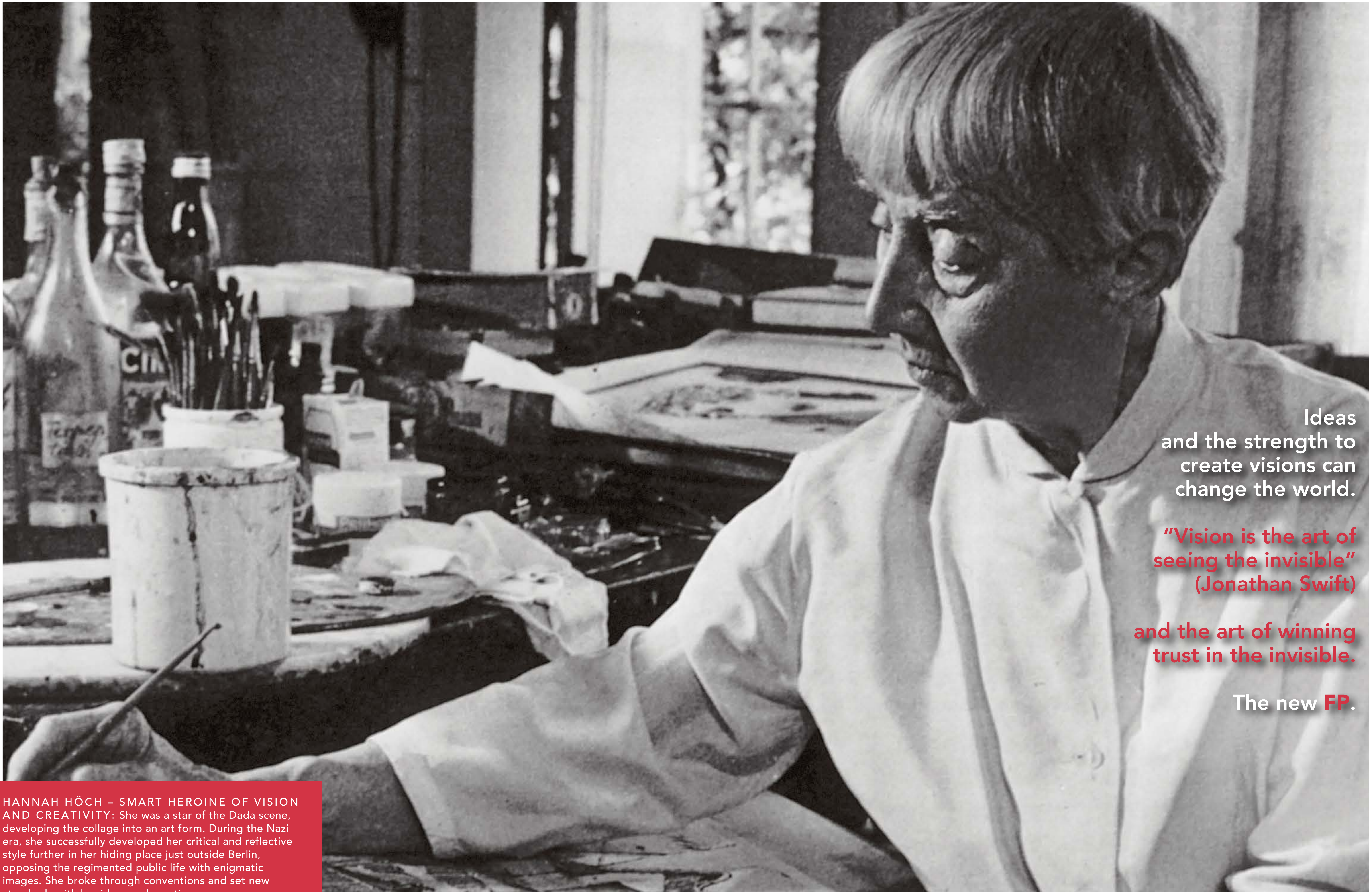
When we started thinking about a brand claim for the new **FP**, we began from the following premises: As a key element of our global brand communication, it needs to be understood worldwide, must be original, believable and something we can prove, needs to make the power of our 95 years tangible, must be future-proof and timeless, show a believable perspective and promote identification, evoke trust, express confidence, give orientation, and imply benefits and promises.

The suggestions generated by the overwhelming participation in the Stärkenkompass workshops were incorporated into the international rounds of communication with colleagues, and ultimately resulted in: German Mailgeneering.
Geneering is the development and modification of DNA, even that of a company, in order to give it a new character, *Engineering* = our field of expertise.
German Mailgeneering thus links our history, origins and tradition with the future.

German Mailgeneering also evokes associations of
→ the global recognition of German engineering, quality *Made in Germany*, which is valued around the world, confidence and security;
→ virtue and provenance;
→ technical development and innovation, being ahead, self-confident and smart;
→ the digital world, inventiveness and the strength of our engineers – enthusiasm and passion;
→ our willingness to transform, our open-mindedness and curiosity.

German Mailgeneering is an original neologism, thus stands alone and cannot be copied – German Mailgeneering says who we are and what we claim to be.

Short and pretty sweet:
German Mailgeneering – Trust, competence, security, customer benefit, relevance, performance, quality, passion.



Ideas
and the strength to
create visions can
change the world.

"Vision is the art of
seeing the invisible"
(Jonathan Swift)

and the art of winning
trust in the invisible.

The new FP.

HANNAH HÖCH – SMART HEROINE OF VISION AND CREATIVITY: She was a star of the Dada scene, developing the collage into an art form. During the Nazi era, she successfully developed her critical and reflective style further in her hiding place just outside Berlin, opposing the regimented public life with enigmatic images. She broke through conventions and set new standards with her ideas and creations.

FP: We have been writing the future for 95 years. Naturally we have a vision for our own.

The future is ahead, where no one has ever been.

So we cannot *know* what *will* happen – but we can say what we want to achieve, what ideas and missions we want to use to find and occupy our place in the markets of this world.

This is called a vision, a vision that is an achievable goal.

Because only when you have a goal is successful motivation possible – and successful motivation provides the strength required.

FP: We'll get there.

With our innovative, efficient products and services, we make our customers' lives easier, leaving them more time and thus greater enjoyment in their everyday work.

By 2023, we will be the *first* brand customers think of and trust for secure mail business and digital communication processes.

We are
Francotyp-Postalia.

GERMAN
MAILGENEERING

FP: The future is an open book of possibilities and opportunities, victories and prizes.

"We lead the field in combining postal logistics processes with digital technologies, will integrate the fields of mail services and software, and our research and development are oriented towards the requirements of digitalisation."
Sven Meise

"2017 and 2018 are transition years – in 2019, we will start reaping the fruits of our work with a faster organisation."
Rüdiger Andreas Günther

"For us, customers are partners, whom we accompany in the management of their entire postal and mail traffic, and with their challenges in many fields of communication."
Thomas Grethe

Dear Companions, Lateral Thinkers, Visionaries, Partners, and Shareholders,

"The greatest progress has always been made during times of pressure and tension."
Ferdinand Porsche

We started with the ACT strategy just 16 months ago, and have made decisive progress. Although 2017 may not have been the year of the "final breakthrough", we are entirely on course, the course resolved upon by the Management Board and Supervisory Board. 2017 and 2018 are intended to be 24 months of necessary upheaval, of investment in change, in the change that will make us sustainably successful.
We can – no, we cannot be *satisfied* with what we have achieved. Because being "satisfied" implies leaning back and getting comfortable. But we need to roll our sleeves up even further, because this year, 2018, is the year for ACTion.

Together we carry on, together we get ahead.

What we have begun, what we have achieved, everything described on the preceding pages, we can be proud of all of this.
It is therefore important to me that I can now take this opportunity to *sincerely* thank all of our employees on behalf of the Management Board and the Supervisory Board. We thank you for your commitment and ideas, for your criticism and improvements; thank you for participating in the *Stärkenkompass* workshops – almost 1,000 of you participated in ten countries. We combined your feedback and improvement suggestions with the results of our market research, and condensed it all into our new brand claim.
Many thanks to each of our colleagues and every team, worldwide. And now let us continue on the path of ACT: Together we can hit the ground running, building a new, stronger and future-proof **FP**.

Fulfilling forecasts, earning trust.

The volume of transactions with our share has increased by over 20% compared to the previous year: **FP** is apparently receiving considerably more attention – but the price for our shares is not where our analysts predicted.
The drop in the share price in 2017 was a bitter pill for all of us investing in FP, for you, for the employees, and also for me – because yes, we invest in **FP**: Money, lifeblood, years of our lives. All of us at **FP** *want* success, the success that means trust – the trust of investors, *your* trust.
However, we did fulfil all of the forecasts for 2017:
turnover and EBITDA grew as predicted, the adjusted free cashflow is even slightly higher than our forecast – and we are not making empty promises for 2018 either.
We wave goodbye to the competition if they think that the franking machine business has no future, no potential for growth. The competition may withdraw – we will be happy to take up more space and increase our shares in various markets.
Because our strategy of betting on smaller franking systems is right, has gained us market share, and is successful e.g. in the focus markets of France and the USA; in France, we have even doubled the number of installed bases. And we will continue.

Do good work and make sure people know.

ACT creates continuous momentum. In 2017, we added another central element to our strategy: Corporate Communication & Brand Management join forces with Marketing & Sales. The Global Marketing Team is installed and working, the brand is becoming more visible.
Starting from our tradition, competencies and technologies, we are increasing recognition of the **FP** name, making it a more powerful brand, a smart hero of the digital age. Our customers and brands should *know*: we are their partner in matters of secure communication, analogue or digital.
These intentions are expressed equally by our new brand claim and by our corporate language and new corporate design, the first manifestation of which you are seeing in this Business Report.

Welcome to the future.

What we sowed in 2017, we will reap in 2019, and so 2018 is the year of germination and growth, of transformation, another year of hard work. The forces of **FP** are not yet completely released – but we have begun to unlock them.
FP is being rapidly restructured through JUMP, accelerating excellence projects and increasing efficiency with further automation and digitalisation. We are thus concentrating e.g. the Shared Service Centres at the most practical location, thus saving significant costs. All of this makes us faster and fitter for the coming stages of growth – and for increasing value.
Our future comes from our history. The history of a company that is now 95 years old, whose origins are firmly rooted in the quality promise *Made in Germany*, in the curiosity and willingness of our engineers to always create something new for our customers. Across all those years, customer-oriented progress expressed in successful services and products. This immense growth in engineering knowledge in the development and product areas of sensors, actuators, cryptography and connectivity is where our potential lies, the potential for new customers in new markets.
And we are also well equipped for the Internet of Things, that important market of the global future, because our brand essence *security* will play a major role here.
I would still like to mention two important proofs of our digital competence and the trust of special customers: the German government printing office, Bundesdruckerei, advises its customers to use our signature software for their electronic seals. And with **FP** Sign, we are the lead company in the consortium contracted by the EU for the development of a Europe-wide digital student identity, and its use for the secure transfer of documents.

Our expertise, ideas and visions make us successful. Our passion and determination to succeed help us get ahead.
Join us – and together we can shape the successful future of **FP**.

Your
RÜDIGER ANDREAS GÜNTHER,
CEO / CFO

Report of the Supervisory Board of Francotyp-Postalia Holding AG (FP Group)

With this report, the Supervisory Board provides details of its activities in accordance with section 171(2) of the German Stock Corporation Act (Aktiengesetz – AktG). In the fiscal year 2017, the Supervisory Board performed the duties required of it pursuant to prevailing law, the Articles of Association and the Rules of Procedure, while taking the associated decisions as and when necessary. The Supervisory Board regularly advised the Management Board on the company's management, monitored its work and dealt continuously with the course of business and situation of the FP Group. The Supervisory Board was directly involved in all important decisions from an early stage. The Management Board informed the members of the Supervisory Board of the company's situation regularly, comprehensively and in due time. Whenever a decision was required from the Supervisory Board regarding individual measures of the Management Board, the Supervisory Board passed resolutions on this, if necessary by written procedure. A total of seven meetings took place in the past year. The Management Board participated in all Supervisory Board meetings.

In addition to the discussion of the net assets, financial position and results of operations and the development of the Franking and Inserting, Mail Services and Software Solutions segments, the following issues were prioritised:

– Implementation of the ACT strategy, including FP FIT measures

– Detection of deviations and occasional irregularities due to employee misconduct in the internal recording and billing of letter volumes in the consolidation business and the associated operational review

– Remuneration model for the Management Board

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

Implementation of the ACT Strategy, Including FP FIT Measures

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

Franking and Inserting, Mail Services and Software Solutions Segments

The ACT strategy has shifted the focus onto the Franking and Inserting segment as the FP Group's key product segment. The development of the traditional franking and inserting machine business was addressed and discussed in detail at every meeting of the Supervisory Board. The FP Group's core business with franking systems for small and medium volumes of mail is growing. This confirms one of the basic assumptions underlying ACT. We achieved our planned progress in the core countries of the US and France in particular.

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

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

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

Members of the Management Board

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

Remuneration System

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

Work in the Committees

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

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

Net Assets, Financial Position and Results of Operations

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

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

Auditing the Annual Financial Statements and Consolidated Financial Statements

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

In accordance with section 315e German Commercial Code (Handelsgesetzbuch – HGB), the Group management report and consolidated financial statements were prepared in line with the International Financial Reporting Standards (IFRSs), as adopted by the EU. The independent auditor conducted his audit in accordance with the generally accepted standards for the audit of financial statements promulgated by the IDW Institute of Public Auditors in Germany. As the Supervisory Board did not form its own audit committee, the Supervisory Board as a whole conducted the audit of the documents specified. The Management Board submitted these documents to the Supervisory Board in due time, together with the audit reports by KPMG AG.

During the balance sheet meeting held by the Supervisory Board on 22 March 2018, in the presence of the independent auditor, who reported on key audit findings, the 2017 annual financial statements, 2017 consolidated financial statements and combined Group management report and audit reports were discussed comprehensively. The Supervisory Board concurs with the Management Board's presentation of the company's and Group's situation in its reports and annual financial statements as well as with the results of the audit reports. Accordingly, the Supervisory Board raises no objections thereto. The Supervisory Board approved by resolution the financial statements prepared by the Management Board on 22 March 2018. The financial statements of Francotyp-Postalia Holding AG for 2017 have thus been established in accordance with section 172 AktG.

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

Corporate Governance

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

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

Efficiency Review

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

Expression of Thanks

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

The Supervisory Board
Francotyp-Postalia Holding AG

Klaus Röhrig
March 2018

Group Corporate Governance Report

The Management Board and the 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 group's declaration on corporate governance in accordance with section 315d of the German Commercial Code (Handelsgesetzbuch – HGB) in conjunction with section 289f HGB. The purpose of the German Corporate Governance Code is to make the rules for the management and supervision of companies that apply 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 the Supervisory Board, the transparency of corporate governance and the duties of the auditor. The Management Board and the 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 the Supervisory Board also safeguard the company's continued existence and ensure sustainable added value. These principles require not only legality, but also ethically sound conduct on one's own responsibility (the model of the honourable merchant). The Management Board and the Supervisory Board report on potential departures from the recommendations of the Code in both the declaration of compliance and the following extensive disclosures, based on the version of the Code dated 7 February 2017.

Declaration of Compliance with the German Corporate Governance Code

In accordance with section 161 of the German Stock Corporation Act (Aktiengesetz – AktG), the Management Board and the Supervisory Board of Francotyp-Postalia Holding AG hereby declare in the declaration of compliance which recommendations of the version of the German Corporate Governance Code dated 7 February 2017, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, the company has complied with and will comply with, and which recommendations have not been or are not applied.

2.3.3 Given the high level of administration involved, the company will not be able to make it possible for shareholders to watch the Annual General Meeting using modern communication media, e.g. the Internet.

3.8 D&O insurance was concluded for the Supervisory Board. This policy does not currently include a deductible for the Supervisory Board. A deductible for the Supervisory Board will be included when the policy is renegotiated.

4.1.3 The Management Board is responsible for compliance with the law and internal policies, and ensures compliance with these throughout the Group companies. A compliance management system has been set up for this purpose and has been unveiled and introduced at the Group. Employees and third parties have the opportunity to report misconduct at the company. Owing to the organisational effort involved, the Group has not introduced a system that allows users to give information under protection (whistleblower system).

5.3.1 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.

5.3.2 As long as the Supervisory Board continues to consist of three persons, the Supervisory Board as a whole will perform the duties of an audit committee.

5.3.3 Regarding the formation of a nomination committee, the same conditions apply as to the other committees.

5.4.1 The Supervisory Board of Francotyp-Postalia Holding AG is not subject to co-determination, which means that the rules of the law on co-determination cannot be observed for employee representatives.

A time limit for membership of the Supervisory Board has not been set. In light of the knowledge, ability and expert experience required by article 5.4.1 sentence 1 of the Code, setting a time limit does not currently seem reasonable.

The Rules of Procedure for the Supervisory Board provide an age limit for members of the Supervisory Board. A Supervisory Board mandate should end no later than the Annual General Meeting following the member's 70th birthday. Here, too, this recommendation shall not be followed for the time being in light of the requirements for the composition of the Supervisory Board according to article 5.4.1 sentence 1 of the Code and in the interests of continuity.

7.1.2 Given the large amount of consolidation work involved, the quarterly and half-yearly reports are published, at the latest, within two and three months respectively of the end of the reporting period, in compliance with the Stock Exchange Rules and the Securities Trading Act (Wertpapierhandelsgesetz – WpHG).

Berlin, 22 March 2018

For the Supervisory Board

Klaus Röhrig
Chairman of the Supervisory Board

Management Board

Rüdiger Andreas Günther, CEO

Thomas Grethe

Sven Meise

Basic Information on the Structure of Corporate Governance and the Underlying Rules

Francotyp-Postalia Holding AG, Berlin, is subject to German stock corporation law, and is governed by the executive bodies that are the Management Board, the Supervisory Board and the Annual General Meeting. Corporate governance is based on the close and trusting cooperation of all executive bodies and an active and continuous flow of information between them. At the Annual General Meeting in particular, shareholders can put questions to the management and exercise their voting rights.

Assuming responsibility is normal business for the FP Group. The company assumes responsibility for products and processes, employees, customers and partners, and for the environment and society. The company maintains an open approach and ongoing dialogues with its stakeholders. German stock corporations are required by law 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 it created itself, govern its working methods.

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 Chairman of the Supervisory Board as required and at his due discretion. In accordance with the Articles of Association, the Supervisory Board can appoint one or more persons to the Management Board of the company. The Management Board of Francotyp-Postalia Holding AG comprises three members.

The Management Board manages the company independently in the interests of the company, with the aim of creating sustainable added value, while taking into account the interests of its shareholders, 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 business in line with uniform plans and policies. The Management Board therefore bears joint responsibility for the management of the entire company. As part of the overall responsibility for the governance of the company, the three members of the Management Board are required to work together in a loyal and trustful manner for the good of the company within the remit of their assigned duties. 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 policies, the Management Board also ensures appropriate risk management and monitoring within the company and the Group companies. More information can be found in the report on risks and opportunities in the Group management report. Management Board meetings are held at regular intervals, every two weeks if possible.

Committees of the Supervisory Board

Owing to the size of the company and the number of members of the Supervisory Board prescribed by the Articles of Association, generally no other committees are formed. For this reason, the Supervisory Board as a whole decides on and monitors issues relating to the remuneration system for the Management Board, including the principal elements of contracts. The Supervisory Board as a whole also performs the duties of an audit committee, with the Chairman of the Supervisory Board performing the role of the chairman of said committee. At least one member of the Supervisory Board possesses the requisite specialist knowledge in the area of accounting.

Cooperation between the Management Board and the Supervisory Board – Diversity

The common goal of the cooperation between the Management Board and the Supervisory Board is achieving sustained increases in enterprise value. The Management Board and the Supervisory Board meet at regular intervals to jointly coordinate the strategic direction of the company. The Management Board also regularly reports to the Supervisory Board on all issues relating to planning, business development, risk, risk management, internal accounting and compliance. The Management Board reports on and explains any discrepancies between actual business performance and the plans and goals prepared. 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 that could materially affect the company's net assets, financial position and results of operations, and also concerning transactions of major importance.

Francotyp-Postalia Holding AG has concluded a D&O insurance policy for the members of the Management Board in accordance with the provisions of the German Corporate Governance Code. The policy is subject to a deductible of at least 10% of the loss up to at least one and a half times the annual fixed remuneration of the member of the Management Board in accordance with section 93(2) AktG. D&O insurance was also concluded for the Supervisory Board. This policy does not currently include a deductible for the Supervisory Board. A deductible for the Supervisory Board will be included when the policy is renegotiated.

Diversity Concept

The subject of diversity is of crucial importance to the entire FP Group. The concepts, goals and non-financial performance indicators are set out in detail in the sustainability report, which has been published for the first time for 2017 and which is available to view and download on the following web page of the company:
https://www.fp-francotyp.com/nachhaltigkeitsbericht.

Notwithstanding this report, the Supervisory Board must also always consider the issue of diversity within the meaning of the German Stock Corporation Act (Aktiengesetz –AktG) and the German Corporate Governance Code when it comes to the composition of the Supervisory Board and the corresponding nominations to the Annual General Meeting. This includes not only the composition of the Supervisory Board recommended in accordance with the German Stock Corporation Act and the German Corporate Governance Code, with female and male members, but also consideration of the experience of individual members based on age, professional experience and internationality. The key factor for nomination is the company's interests, together with the requirements stipulated in article 5.4.1 sentence 1 of the Code regarding the knowledge, skills and expert experience that a member of the Supervisory Board must have. For its composition, the Supervisory Board must include what it considers to be an appropriate number of independent Supervisory Board members according to article 5.4.2 of the Code. This allows the Supervisory Board – following an appropriately conducted application and nomination process and taking into account a balanced composition for the Supervisory Board in terms of knowledge, skills, experience and independence – to put forward the most suitable candidates.

The age limit for members of the Supervisory Board stipulated in the Supervisory Board's Rules of Procedure must be viewed in the light of this. A Supervisory Board mandate should end no later than the Annual General Meeting following the member's 70th birthday. The Supervisory Board is currently deviating from this regulation, in order to be able to cover the broadest possible range of experience and to ensure continuity in the Supervisory Board.

Furthermore, at least one member of the Supervisory Board must satisfy the criterion of internationality. At least one member already has the required traits.

In order to ensure that the Supervisory Board's advice for and monitoring of the Management Board is independent, the Supervisory Board's Rules of Procedure stipulate that more than half of the members of the Supervisory Board are to be independent in accordance with the German Corporate Governance Code. The Supervisory Board estimates that there are currently no concrete indications that any Supervisory Board member has relevant circumstances or relationships, especially with companies, with members of the Management Board or with other Supervisory Board members, that could cause a substantial and not merely temporary conflict of interest and therefore count against independence. No member of the Supervisory Board performs board functions or consulting activities at significant competitors. With regard to the Supervisory Board member Klaus Röhrig, the Supervisory Board believes that his function as founding partner of Active Ownership Capital S.à.r.l. does not impair his independence according to the German Corporate Governance Code. The Code does not contain an exhaustive definition of independence, but merely names examples of circumstances that count against the independence of a Supervisory Board member. Accordingly, Supervisory Board members are not to be considered independent if they have a personal or business relationship with the company, its governing bodies, a controlling shareholder or a company affiliated with the controlling shareholder that may cause a substantial and not merely temporary conflict of interest. The Supervisory Board is tasked with assessing the independence of individual Supervisory Board members on the basis of these indicators. Active Ownership Capital S.à.r.l. is not a controlling shareholder with a de facto majority at the Annual General Meeting. There are no other discernible circumstances that would count against Klaus Röhrig's independence.

The German Stock Corporation Act and the Code also stipulate that the supervisory boards of listed companies must define targets for the proportion of women. At present, there are still no women on the company's Supervisory Board. In view of the fact that the Supervisory Board was last elected in 2016 and the Supervisory Board is composed of three members in accordance with the Articles of Association, a target of 0% for the percentage of women has been set for the time being in accordance with a resolution of 6 June 2017 for the period up to 30 June 2019 at the latest. The resolution of 6 June 2017 replaces the original resolution of the Supervisory Board from 2015, which applied to the period up to 30 June 2017.

New regulations on the filling of Management Board positions must be viewed under the same conditions. As with the Supervisory Board, the company's interests are the key factor when filling management positions. In the case of Management Board positions, it is also important to ensure continuity in the company's forthcoming strategic development. In accordance with the regulations in the German Stock Corporation Act and the German Corporate Governance Code, the Supervisory Board has therefore resolved a target of 0% for the percentage of women in the Management Board for the period up to 30 June 2019. Nevertheless, the Supervisory Board will take the issue of diversity into account when seeking suitably qualified candidates for Management Board positions that need to be filled.

In addition, the Management Board is required to set a target for the share of women in the first and, if appropriate, second levels of management below the Management Board. The Management Board defined the first level of management below the Management Board as the managing directors of the domestic and foreign companies and German divisional heads or equivalent staff functions in the company. The FP Group does not have a second level of management below the Management Board. The Management Board stipulated once again on 26 June 2017 that the percentage of women in the first level of management below the Management Board of the FP Group should be at least 9%. Since then, this target has been continuously met or exceeded.

Remuneration of the Management Board and the Supervisory Board

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

The remuneration of members of the Management Board includes a long-term variable remuneration component. Ahead of the payment of the expected long-term bonus, the respective member of the Management Board receives an annual advance payment. The Supervisory Board is entitled to adjust the amount of the advance payment as it sees fit, taking into account a possible malus component. If it is clear that the long-term bonus will not be paid, there will be no advance payment.

Conflicts of Interest

When making decisions and performing their duties, the Management Board and the Supervisory Board are required to act in the company's interest, and they must not pursue personal interests or confer advantages on other persons, or make personal use of business opportunities of the company. 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. In its report, the Supervisory Board must notify the Annual General Meeting of any conflicts of interest and how they were dealt with. No conflicts of interest requiring disclosure arose in 2017.

Efficiency Review

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

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, when necessary, the appropriation of the unappropriated surplus and their official approval of the actions of the members of the Supervisory Board and the Management Board. Those present at the Annual General Meeting also elect the auditor each fiscal year.

At the Annual General Meeting, shareholders of Francotyp-Postalia Holding AG exercise their rights of control and their voting rights. They have the option of exercising their voting rights themselves or having them exercised through an authorised representative of their choice, including a shareholder 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. The documents are also sent directly to shareholders by their banks. The Articles of Association do not allow postal votes.

Naturally, it is in the interests of the company and of the shareholders to ensure that the Annual General Meeting is conducted 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 degree of organisational effort 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 management and control of the company. In particular, this includes equal treatment of shareholders when passing on information. The Supervisory Board Chairman is prepared, within reason, to discuss issues specific to the Supervisory Board with investors. These are issues for which the Supervisory Board alone is responsible and on which it alone can make decisions. For matters that must be decided jointly by the Management Board and the Supervisory Board, discussions will be held either by the Management Board alone or by the Supervisory Board Chairman together with the Management Board.

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 that ensure the simultaneous publication of information both in Germany and abroad.

All important regular publications and dates are published well in advance in 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. In accordance with Article 19 of the Market Abuse Regulation (MAR), these persons have an obligation to report transactions if the value reaches or exceeds EUR 5,000 in a calendar year.

Beyond the statutory obligation to report and disclose dealings in shares of the company without delay, the ownership of shares in the company or related financial instruments by Management Board and Supervisory Board members shall be reported if these directly or indirectly exceed 1% of the shares issued by the company. As the total ownership of all Management Board and Supervisory Board members exceeds 1% of the shares issued by the company, total ownership figures for the Management Board and the Supervisory Board are listed here separately:

SHAREHOLDER

	Number of shares	%
(Direct)		
Botho Oppermann (Supervisory Board member)	300,000	1.84
Rüdiger Andreas Günther	19,887	0.12
Sven Meise	1,916	0.01
(Indirect)		
Klaus Röhrig (Chairman of the Supervisory Board) via Active Ownership Fund SICAV-FIS SCS	1,550,000	9.51
Klaus Röhrig (Chairman of the Supervisory Board) via 3R Investments Ltd.	130,000	0.80

Accounting

The principal sources of information for shareholders and third parties are the company's consolidated financial statements and, during the fiscal year, the quarterly and half-yearly reports. Given the large amount of consolidation work involved and in derogation from the recommendation of the Code, the quarterly and half-yearly reports are published, at the latest, within two and three months respectively of the end of the reporting period, in compliance with the Stock Exchange Rules and the Securities Trading Act.

The consolidated financial statements and interim reports are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The separate financial statements required by law for tax and dividend payment purposes are prepared in compliance with the German Commercial Code (HGB). An internal control system and uniform accounting principles ensure a true and fair view of the net assets, financial position and results of operations and the cash flows of all Group companies. The Management Board also ensures appropriate risk management and monitoring within the company.

The Management Board reports to the Supervisory Board on all existing risks and their development regularly and in good time. The Supervisory Board advises on risk management and is explicitly involved in the monitoring of the effectiveness of the risk management system, the internal control and audit systems, the accounting process and the audit, in particular their independence, in accordance with section 107(3) AktG as amended by the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG). A list of relationships with shareholders qualifying as related parties, as defined by IAS 24, is published by the company in its consolidated financial statements.

Audit

In accordance with the resolution by the 2017 Annual General Meeting, the Supervisory Board engaged KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, to conduct the audit of the 2017 annual financial statements and consolidated financial statements. In compliance with the recommendations of the Code, it was agreed with the auditor that it 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 undue 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 the Supervisory Board, in accordance with section 161 AktG.

Compliance

The Management Board is responsible for compliance with the law and internal policies, and ensures compliance with these throughout the Group companies. Questions of compliance are regular issues in the discussions between the Supervisory Board or the Chairman of the Supervisory Board and the Management Board. The corporate culture of the FP Group is characterised by trust and mutual respect, and by the will to adhere strictly to laws and internal regulations. Nonetheless, statutory violations due to individual misconduct can never be completely ruled out. Employees and third parties have the opportunity to report misconduct at the company. Owing to the organisational effort involved, the Group has not introduced a system that allows users to give information under protection (whistleblower system). The company does its utmost to minimise this risk as far as possible, to uncover misconduct and to deal with it systematically. Compliance with legal and ethical regulations and principles is of central importance. Regulations and principles are set out, together with the responsible handling of insider information, in the compliance policy. They provide all employees with guidance regarding corporate integrity in business. Executives and employees receive compliance policy training.

The Share

With ACT Focus on Sustainable Increase in Enterprise Value

2017 was a positive year overall for trading. Germany's DAX share index temporarily surpassed the 13,000-point mark. On the last trading day in 2017 the index stood at 12,918 points – a year-on-year gain of 12.5%. The SDAX small caps index, which comprises 50 smaller German companies, performed even better, climbing 24.9% year-on-year.

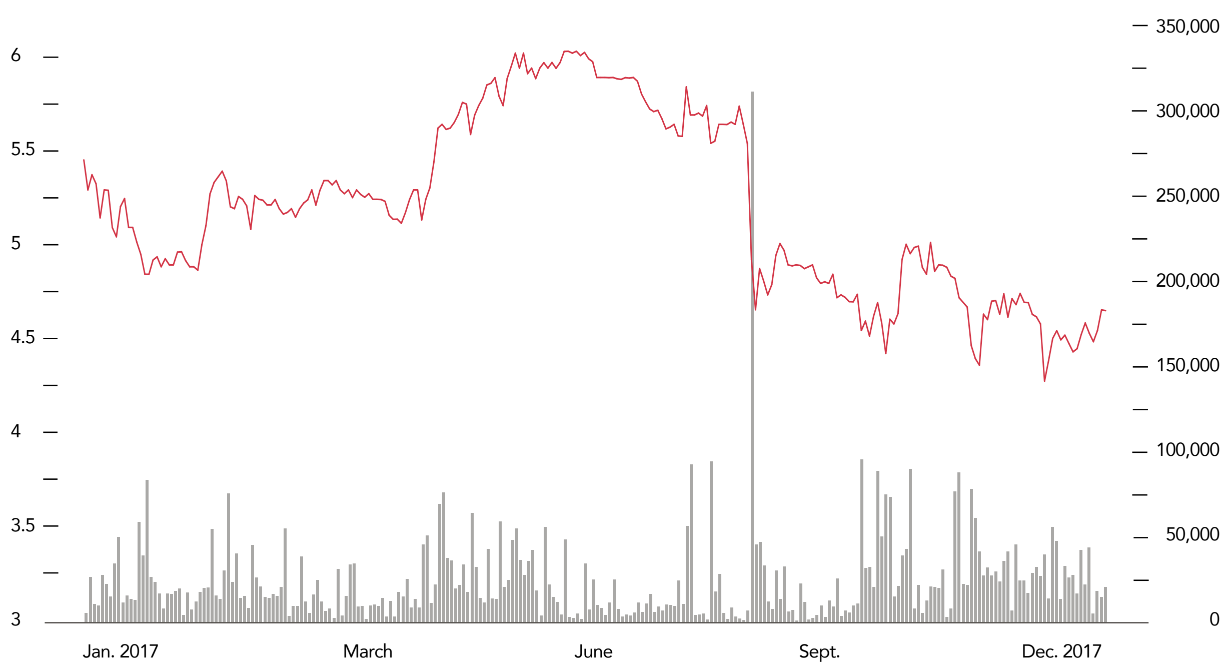
Last year, there was more active stock exchange trading for FP shares. An average of more than 24,000 FP shares were traded on the Xetra platform each day. The high was reached on the day the half-yearly figures were announced on 24 August 2017, with over 310,000 shares traded in a single day. The trading volume rose by more than 20% compared with the previous year.

The FP share started the 2017 stock exchange year at EUR 5.46. The share price rose over the first few months of the year, reaching the annual high of EUR 6.10 in mid-June. In August, after the company presented its half-yearly figures, there was a sharp price decline. From September, the FP share trended sidewards and then declined. The share posted its annual low of EUR 4.28 in December and closed 2017 at EUR 4.66.

In the 2017 stock exchange year, the FP share lost 15.2%. FP's two listed competitors recorded drops of as much as 19.2% and 26.4% year-on-year, after the two companies failed to meet market expectations. This resulted in an industry trend which we were not able to escape. Further reasons for the drop of the FP share in the second half of the year were irregularities detected in the Mail Services segment in the summer and the assessment of some market participants that it was possible that FP would not achieve its forecast for the fiscal year 2017. Investor fears were not confirmed. The company achieved its forecast. The targets for revenue and EBITDA were met, while the forecast for adjusted free cash flow was actually exceeded. FP is decisively moving forward. With its ACT growth strategy and the radical measures to increase profitability to be implemented in fiscal year 2018, a sustained increase in enterprise value is set to be achieved.

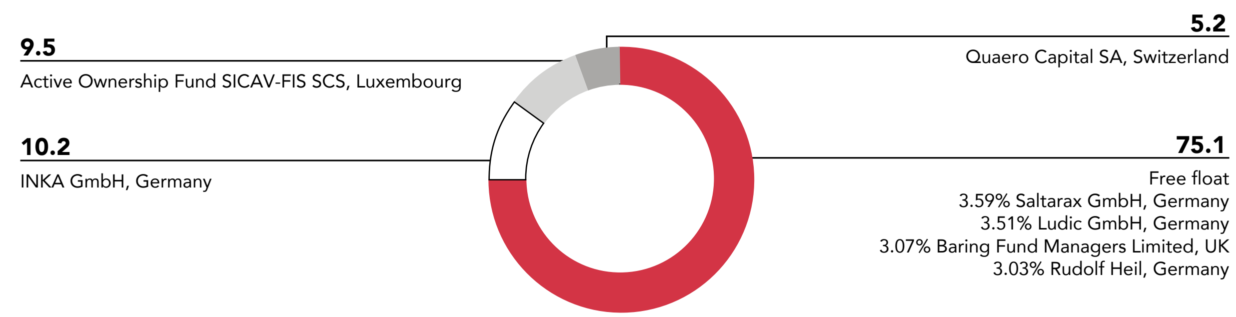
PERFORMANCE OF THE FRANCOTYP-POSTALIA SHARE (1.1.2017–29.12.2017)

Share price in EUR, volume in shares



A broad shareholder base

SHAREHOLDER STRUCTURE IN PERCENT



Contingent Capital 2015 and share buybacks

In 2017, FP used the Contingent Capital approved by the Annual General Meeting to serve stock options that had been exercised. The FP Group issued 86,100 new no-par value bearer shares, each accounting for a pro rata amount of share capital of EUR 1.00. The company's share capital now amounts to EUR 16.3 million, giving the company a total of 16,301,456 voting rights.

FP also began buying back treasury shares in October 2017. The buy back was for servicing outstanding claims from the stock option programme, thus avoiding additional capital increases with the resulting dilution. The share buyback programme was launched on 13 October 2017 and ended on 12 January 2018. The buyback was limited to 475,000 shares at a maximum total purchase price of EUR 3.0 million. A total of 351,168 shares had been bought back by 31 December 2017. By the end of the programme, a total of 398,493 shares had been purchased at an average price of EUR 4.6478.

Coverage of the FP share expanded

Analyst ratings play a key role in an investor's decision whether or not to buy a share. As announced, FP has significantly expanded its collaboration with analyst firms. Four institutions / analysts, Warburg Research, LBBW, EQUI.TS and GSC Research, followed the FP share in 2017. Only two companies had published analyses of FP in the previous year. LBBW, EQUI.TS and GSC Research were new in 2017. FP regards this development as a success, particularly in view of the forthcoming changes due to MiFID II regulations, with many companies anticipating that they will probably lose coverage rather than expanding it. All four institutions recommend the FP share as a buy.

Annual General Meeting approves dividend

Once a year, the Annual General Meeting offers all FP Group shareholders the opportunity to take part in a direct dialogue with Group management. 44.97% of the share capital with voting rights was represented at the last Annual General Meeting, which was held in Berlin on 7 June 2017. All items on the agenda were approved by a large majority and a dividend of 16 cents per share to be paid out for the 2016 fiscal year was resolved, among other things.

In fiscal year 2017, the FP Group started the implementation of the ACT growth strategy, with the related comprehensive and extensive measures. Initial successes confirm the correctness and effectiveness of the measures taken. With a view to the medium-term targets, the strategy will be continued and its implementation intensified. Nevertheless, in the interests of its shareholders, the FP Group is adhering to its dividend policy. The Management Board and Supervisory Board will propose to the Annual General Meeting 2018 to distribute a tax-free dividend of EUR 0.12 for fiscal year 2017 from the tax account, equivalent to the gross dividend of EUR 0.16 paid out in the previous year. As a result, shareholders are receiving a net dividend of EUR 0.12 for the fourth time in succession. The proposed distribution ratio is 40% in relation to the 0.12 cent dividend. This means that the FP Group has fulfilled its dividend policy communicated in 2014, which targets a distribution ratio between 35% and 50% of adjusted consolidated net income.

Significant increase in dialogue with investors

The strategy of the FP Group is geared towards a sustainable increase of the enterprise value. Continuous, open and transparent communication with all capital market participants is of paramount importance to the company. The Management Board and the Investor Relations team make use of one-on-one meetings, investor conferences and roadshows to explain the company's business model and highlight its potential. In the 2017 fiscal year, the company further expanded its IR activities as planned. The Management Board presented the company at numerous conferences. In January 2017, a roadshow organised by Berenberg Bank was again successfully used to present FP in detail to investors from London. In February, the company attended the German Small & Mid Cap Conference organised by Oddo Seydler in Frankfurt. FP was invited by the Bankhaus Metzler to attend its Mid Cap Investors' Day in Frankfurt at the end of March. At the end of April, the FP team attended the Kalliwoda Capital Markets Conference in Madrid and Barcelona for the first time to meet Spanish investors. The team was present at the Oddo Nextcap Forum in Paris in early May to present FP to predominantly French investors. Immediately after the Annual General Meeting, the Management Board and IR visited further investors in Cologne and Düsseldorf. In mid-September, Francotyp-Postalia attended the Goldman Sachs Berenberg corporate conference in Unterschleissheim for the first time. The Management Board and IR brought the year's conference calendar to a successful conclusion with the German Equity Forum in Frankfurt, Europe's most important platform for equity capital financing for medium-sized enterprises, which takes place regularly in November, as well as around 30 appointments. Other events were held over the year and many one-to-one meetings took place with investors, either in person or over the telephone. Overall, IR activities intensified considerably compared with the previous year, which shows at the same time that interest in the FP share is growing.

The FP Group also uses conference calls as an important forum for dialogue after the quarterly figures have been published. The associated presentations have been made available on the company's website for the benefit of all interested parties. Visitors and capital market participants can find all the relevant background information on the company's homepage at www.fp-francotyp.com. The Investor Relations section of the website is a central point of contact for all shareholders. Along with annual and half-yearly reports, quarterly reports, financial presentations and press releases about the FP Group are available there. All the latest developments, such as announcements about voting rights or information concerning the share buyback programme, can also be found there. In addition, the Investor Relations team uses social networks and online forums, such as ARIVA or Wallstreet Online, to engage in an open and transparent dialogue with shareholders.

In the 2018 fiscal year, the company will continue its dialogue with investors and step up its IR activities further. FP's presence at international roadshows and capital market conferences is to be expanded in order to strengthen the relationship with existing contacts and build new ones.

For any inquiries, please contact the Investor Relations team by e-mail (ir@francotyp.com) or phone on +49 30 220 660-410.

KEY SHARE DATA

Number of shares	16.3 million
Type of shares	Bearer shares
Share capital	EUR 16.3 million
Voting rights	Each share grants one vote
WKN	FPH900
ISIN	DE000FPH9000
Stock exchange symbol	FPH
Trading segment	Official market (Prime Standard)
Stock markets	XETRA and regional German exchanges
Designated sponsor	ODDO SEYDLER BANK
Coverage	Warburg Research, LBBW, GSC Research, EQUI.TS
Announcements	Electronic Federal Gazette
Closing price (Xetra)	EUR 4.66 (29.12.2017)
Annual high (Xetra)	EUR 6.04 (22.06.2017 and 26.06.2017)
Annual low (Xetra)	EUR 4.28 (06.12.2017)
Market capitalisation as at 29 December 2017	EUR 75.9 million
Earnings per share (basic)	EUR 0.29
Earnings per share (basic)	EUR 0.28

GROUP MANAGEMENT REPORT

Please note that there may be rounding differences compared with exact mathematical figures (monetary units, percentages, etc.).

1. Group Principles

1.1 Operating Activities

Francotyp-Postalia Holding AG (FP Group, FP, Francotyp-Postalia or the company), which has its headquarters in Berlin and a history spanning 95 years, is an expert in secure mail business and digital communication processes. The FP Group's business activities focus on products and services for efficient mail processing, the consolidation of business mail and digital solutions for businesses and authorities. The company is represented in many developed countries with subsidiaries and a dense network of dealers.

The company's activities are divided into three product segments: Franking and Inserting, Mail Services, and Software Solutions.

1.1.1 Product segments

Franking and Inserting segment

The FP Group develops and manufactures franking systems. Moreover, it sells and rents out franking and inserting systems and also offers extensive services. Customers are able to frank their mail quickly and automatically and save postage costs using franking systems. The main revenue generator is the after-sales business, which generates recurring revenue from the leasing of franking machines, the sale of consumables such as tape or ink cartridges, services, software solutions for cost centre management and the Teleporto service.

Mail Services segment

The Mail Services segment comprises the franking service – collecting unfranked outbound post and providing the franking – and the consolidation of business mail. This includes collecting letters from companies, sorting them by postcode and delivering them in batches to a sorting office of Deutsche Post AG or an alternative postal distributor. This business is operated by freesort, which is the leading independent consolidator of business mail on the German market with eight sorting centres throughout Germany.

Software Solutions segment

In the Software Solutions segment, the FP Group consolidates its business with hybrid mail services and solutions for fully digital communication. Using the FP subsidiary IAB's hybrid mail services, the sender dispatches a document over the internet with the highest security standards guaranteed, and the recipient normally receives a physical letter. The FP Group handles the entire production process until letters are handed over to mail delivery companies (FP Outbound). In addition, the FP Group offers its customers universal complete solutions for incoming mail processing (FP Inbound), whereby inbound post is digitised, analysed according to the customer's specific criteria, evaluated and then fed into the customer's data or document system in electronic form. The subsidiary Mentana-Claimsoft's fully digital communication services primarily comprise products for long-term storage and protection of electronic documents using encryption and signature software. A pioneering product in this field is FP Sign, a cloud-based solution for the legally binding digital signing and exchange of contracts and documents.

1.1.2 Significant sales markets and competitive position

With its franking systems, the FP Group is represented on the most relevant important markets in the world, which include Germany, the US, the UK and France. With a total of approximately 225,000 installed franking systems, the company's global market share improved to approximately 11%. As a result, the FP Group is the third-largest provider worldwide. In Germany and Austria, the company is the market leader, with a market share of approximately 42% and 47% respectively. Global sales are performed by subsidiaries in Germany, the US, Canada, the UK, the Netherlands, Belgium, France, Austria, Italy and Sweden as well as by a dense network of dealers in around 40 countries.

In fiscal year 2017, the FP Group again benefited from the ongoing trend towards smaller franking systems on a number of markets. The FP Group traditionally focuses on the A and B segment for franking systems and has innovative franking systems for smaller and medium volumes of correspondence in the shape of the PostBase family.

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

In the Mail Services and Software Solutions segments, the FP Group is currently focusing on the German market. Thanks to a nationwide structure with eight sorting centres in Langenfeld, Hamburg, Hanover, Berlin, Leipzig, Frankfurt, Stuttgart and Munich, the FP Group can guarantee the extensive collection of business mail and has thus established itself as the leading independent consolidator on the German market. The Group has its own printing centre in Berlin for hybrid mail. There is also a printing centre at the Austrian Group company in Vienna. FP Inbound solutions are also offered at eight locations of the company, with data processing taking place on a centralised basis in Berlin.

1.2 Strategies and Objectives

1.2.1 New era with ACT strategy

The FP Group drew up the new ACT strategy over the course of 2016 and presented it to the public in November of the same year. ACT heralded a new era and makes the Group a dynamically growing company. The new growth strategy persuasively dispels the three long-standing myths about the FP business model:

1. “The franking machine market is shrinking due to declining letter volumes.”
2. “The FP Group cannot continue to grow in business with franking systems.”
3. “Digitalisation is happening overnight and disrupting the market.”

The FP Group counters this with its strategy and the first results from the year in which ACT was implemented.

Revenue growth in the franking machine business is viable

The performance of the FP Group in fiscal year 2016 already showed the potential still to be tapped in the core business with franking systems. This trend continued in 2017. The revenue growth of 1.1% (2.8% with adjustments for currency effects) achieved in business with franking systems in fiscal year 2017 is an important initial indicator that the strategic assumptions are correct. This growth is based on the FP Group’s good position on the changing market for franking systems. FP has an innovative and customer-oriented product range. The FP Group thus appeals to a broad spectrum of businesses worldwide, from small customers to customers with medium and large volumes of correspondence. Over 80% of these companies continue to use letters even in the digital age, especially for confidential documents. This is clear from the FP efficiency report published in 2017, for which Bitkom Research surveyed more than 300 medium-sized and large companies in Germany regarding communication activities, mail processing procedures and document management (https://www.fp-francotyp.com/Effizienzreport).

Parts of the franking machine market are growing

Within the franking machine market, the penetration of e-mail is bringing substantial change: companies are increasingly replacing large systems for high volumes of correspondence with smaller systems. The shift from the C segment with more than 2,000 letters a day to the A segment with fewer than 200 letters a day is convincingly demonstrated by the example of the world’s largest markets for franking systems, the US, the UK, Germany and France. While the C and B segments (200 – 2,000 letters a day) are noticeably declining, the A segment has been growing by around 2.8% per year since 2011. Businesses that previously processed large to very large volumes of correspondence themselves are now outsourcing this processing to third-party service providers. Small volumes of traditional correspondence remain within the companies, for which small, easy-to-use franking systems can now be utilised instead of large franking machines. This segment shift is offering Francotyp-Postalia opportunities to gain new customers, as the FP Group has state-of-the-art technological systems that have won multiple awards for their design and functionality, including in particular the PostBase franking systems in the A segment.

Digitalisation is happening gradually

Digitalisation is taking place rather slowly, particularly when it comes to communication and document processes. One major reason for this is that there is considerable uncertainty about the right way to use digital media and communication channels. Businesses are sticking to tried and tested processes and media for confidential information and are using e-mail mainly to send simple correspondence.

Digitalisation itself generally takes place in three stages:

1. Digitalisation of incoming mail,
2. Outgoing mail production and processing,
3. Complete digital document and transaction management.

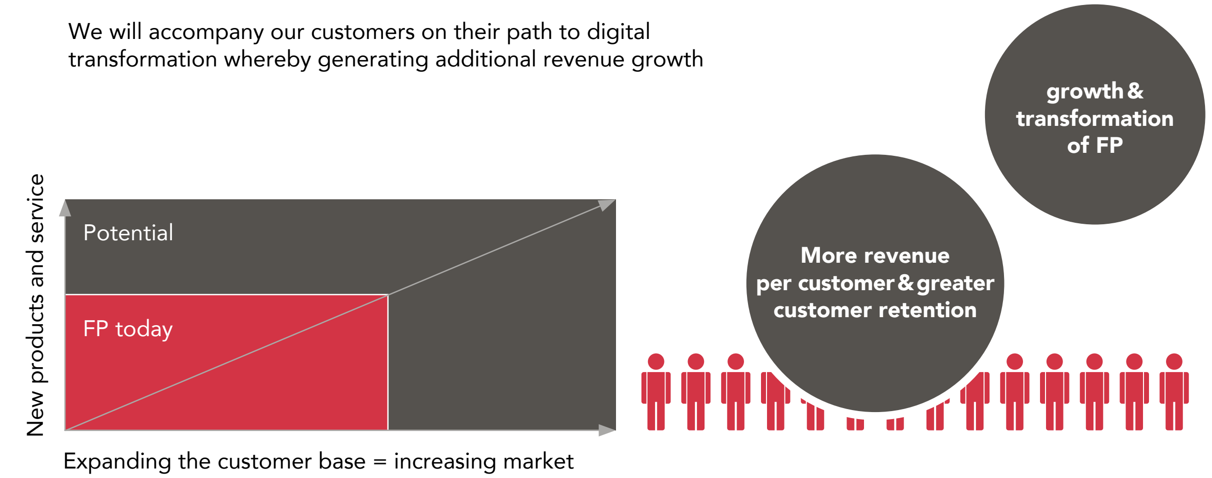
The digitalisation of these areas takes place gradually and in most cases does not result in previously fully analogue, paper-based communication and document processes becoming exclusively digital. Instead, the two communication channels operate side by side. Digitalisation is therefore not disrupting the market, but is leading to a longer-lasting transformation process for the customer. The FP Group already has solutions such as FP Sign for supporting this process with fully digital handling, in particular confidential communication processes including contracts.

A paradigm shift at the FP Group

When drawing up the ACT strategy, the FP Group analysed and reassessed the relevant facts from a changed perspective. The conclusion was that FP can further expand its existing customer base of around 200,000 companies by exploiting the above-mentioned segment shift in business with franking systems. At the same time, with each existing customer and each new customer there is an opportunity to accompany them through the digital transformation process and offer them digital communication products and services in addition to traditional mail processing. Overall, this leads to better customer retention and higher sustainably profitable growth per customer.

The ACT strategy takes these opportunities into account. It comprises the three components of Attack, Customer Journey and Transformation. It is supported by the ongoing FP FIT measures to increase efficiency and implementation expertise in all areas, with the four priorities of finance, HR, sales and digitalisation.

PostBase



Attack: expanding the customer base and increasing market share in the core business

The FP Group’s core business with franking systems has more growth potential than was assumed in the past. More and more business customers are choosing systems for smaller volumes of correspondence. With its innovative PostBase family, the FP Group is optimally prepared for changes in customers’ requirements. This is already allowing the company to increase its revenue. With a targeted market development strategy, especially in the US and France, which are still the most attractive markets, the FP Group now wants to successively acquire market share in the core business and expand its customer base. The FP Group also plans to enhance its range with further innovative products and services relating to packets and parcel shipment, for example.

Customer Journey: developing new solutions and services for existing and new customers

The FP Group is anticipating changes in customer requirements and evolving to become a partner for digitalising processes relating to in- and outbound business communication in companies and authorities. To this end, existing services from the subsidiary IAB are being expanded systematically with the help of the subsidiary freesort’s sorting centres throughout Germany. This is creating digitalisation hubs for inbound mail. The FP Group is strengthening its market position with additional innovations. For example, FP Sign is a pioneering product presented at CeBIT 2017. With this new solution for the secure, confidential and legally binding digital signing and exchange of contracts and documents, the FP Group is addressing the growing market for digital transaction management, which is expected to expand by 43% per year up to 2020 (Aragon Research).

Transformation: developing new, digital business areas

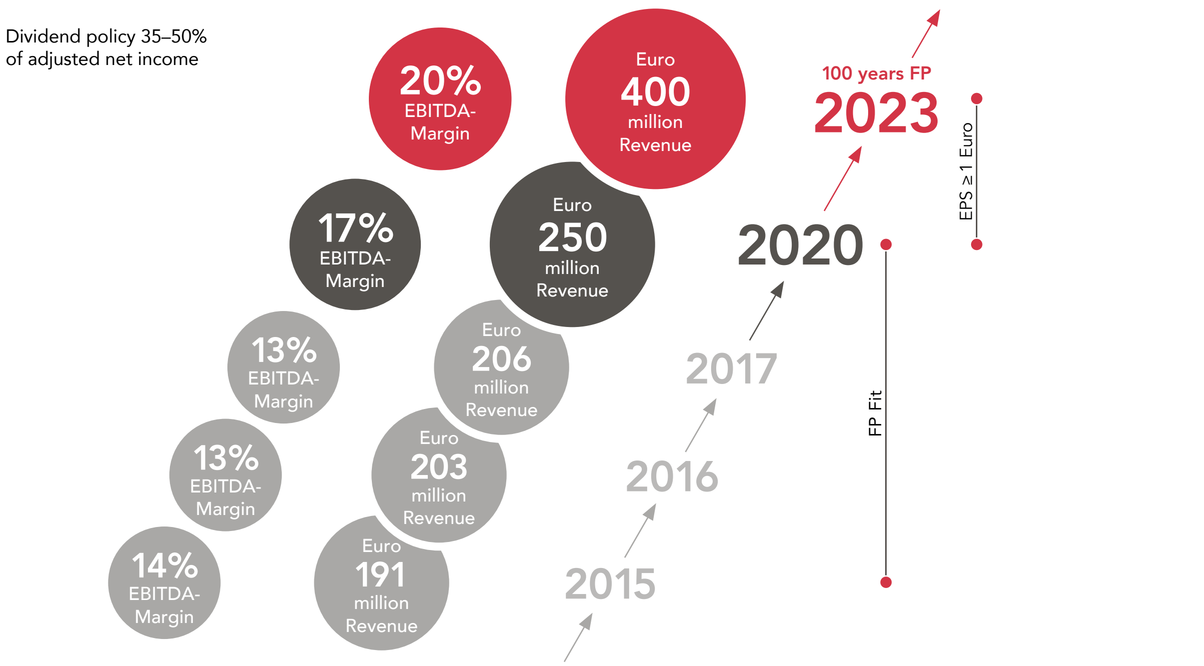
At the same time, the FP Group's evolution to become a partner for digitalising processes means that it also has to change. The challenges here primarily relate to the implementation and use of new, agile methods of innovation for better and faster strategic positioning and the adjustment of the core business in line with changing customer needs.

This is followed by the exploration and testing of future markets, products and business models on the basis of FP's DNA (cryptography, sensor technology, actuator technology, connectivity) and the further consideration of strategic options for the transformation of FP. In addition, in fiscal year 2018 the FP Group is rolling out the "Structure & Organisation" project with the aim of reducing complexity within the FP Group and in the transformation significantly increasing the company's clout and agility.

1.2.2 Clear targets for dynamic growth

The FP Group is pursuing ambitious targets as part of the ACT strategy. By 2023, its 100th year, the company wants to double its revenue to around EUR 400 million and achieve an EBITDA margin of approximately 20%. FP intends to generate revenue of around EUR 250 million and an EBITDA margin of at least 17% as early as 2020.

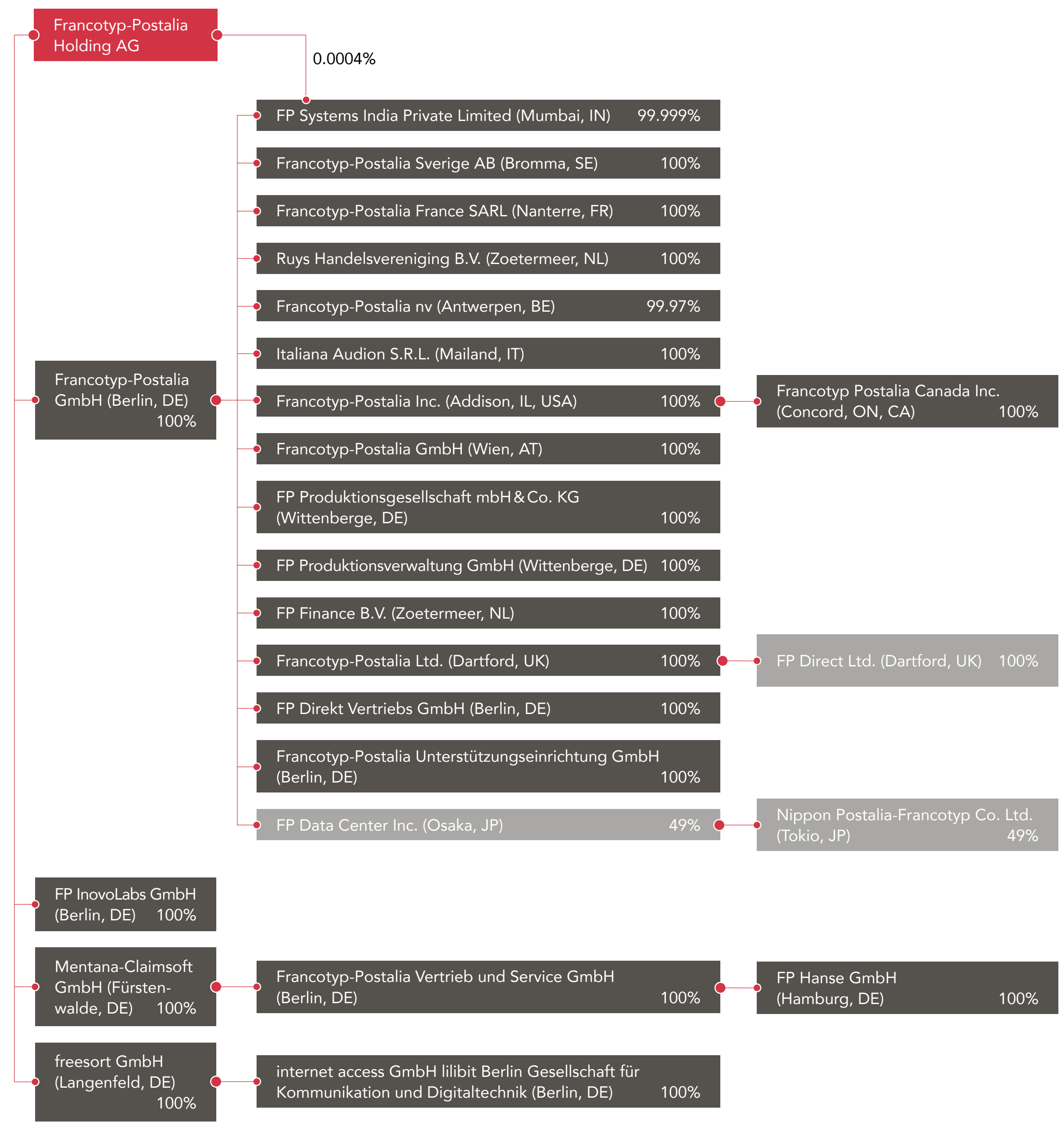
The company is creating the basis for ACT with FP FIT, which combines existing and newly defined measures. These measures serve to increase efficiency and implementation expertise in all areas of the company. The measures with the four priorities of finance, HR, sales and digitalisation will take full effect from 2019. In the period from 2020 to 2023, the company then aims to generate earnings per share (EPS) of at least EUR 1.00. The company remains constant in its dividend policy: subject to positive free cash flow, it plans to distribute between 35% and 50% of the Group's adjusted net income.



1.3 Organisation

1.3.1 Group structure and locations

The chart below shows the Group structure as at 31 December 2017.



■ Companies not included in consolidation

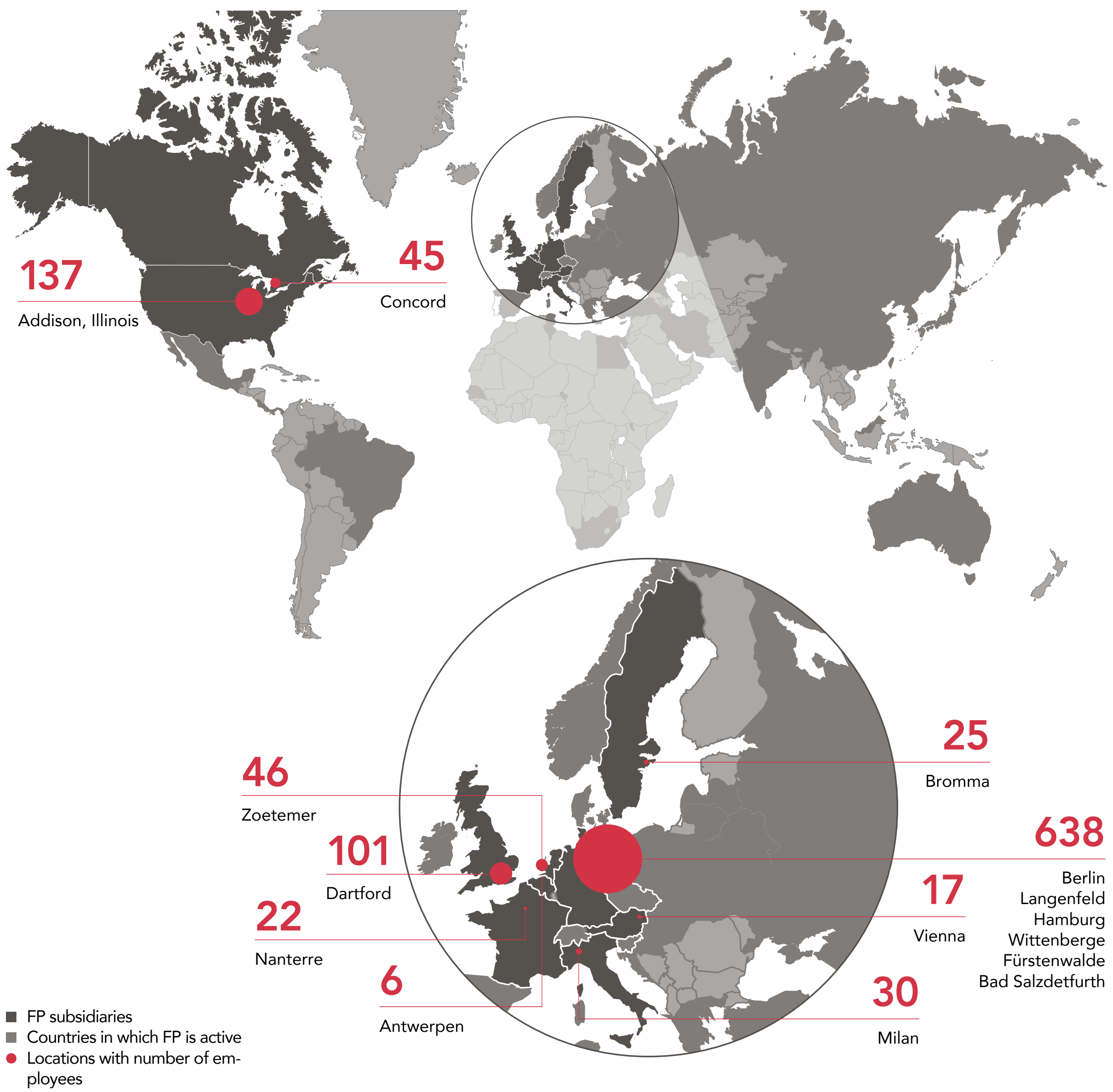
The headquarters and main office of the FP Group is located in Berlin. Key departments such as Controlling, Accounting, Tax and Treasury, HR, Procurement, IT and Group Controlling are based in Berlin, where the franking systems and numerous software solutions are also developed. Franking and inserting systems are distributed worldwide by subsidiaries on the markets in Germany, the UK, the Netherlands, Belgium, Austria, Italy, Sweden, the US, Canada and France, and also via a dense network of dealers. A chart of subsidiaries can be found in the notes to the consolidated financial statements.

Since 2012, the FP Group has been manufacturing its franking systems exclusively on a modern and flexible production line dedicated to high quality requirements in Wittenberge, Brandenburg in Germany.

1.3.2 Management and controlling

Please see section V. Management Board and Supervisory Board (additional disclosures in accordance with German Commercial Code) in the notes to the consolidated financial statements for information on the Management Board members' responsibilities according to the schedule of responsibilities.

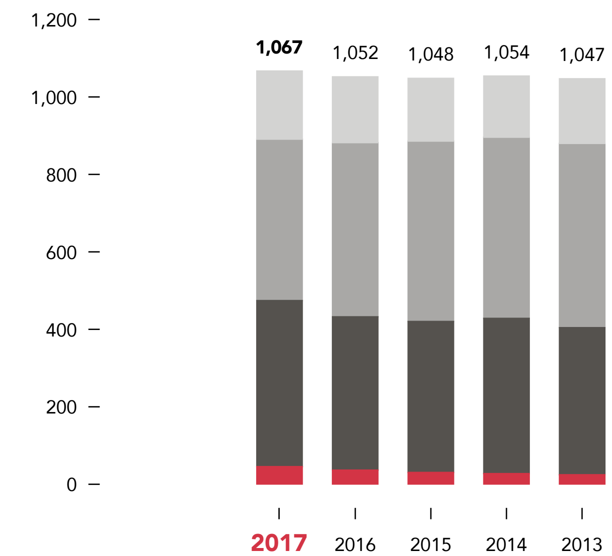
The Management Board works closely with a team of national and international managers.



A Supervisory Board with three members monitors and advises the Management Board. There were no changes of personnel within the Supervisory Board in fiscal year 2017. As at 31 December 2017, the Supervisory Board comprised the following members: Klaus Röhrig (Chairman), Robert Feldmeier (Deputy Chairman) and Botho Oppermann.

1.3.3 Employees

NUMBER OF EMPLOYEES by segment as at the reporting date



	2017	2016	2015	2014	2013
Production	176	170	162	158	167
Sales Germany	417	450	466	468	476
International Sales	429	396	390	401	380
Central Functions	45	36	30	27	24

The number of employees in the Sales Germany segment declined in 2017, partly as a result of the realignment of customer service in the Franking and Inserting segment, which had begun in the previous year. In the Software segment, the number of employees in hybrid mail services increased; on the other hand, measures to improve efficiency in connection with the FP Group's De-Mail service led to a drop in the number of staff.

The expansion of the sales team in the International Sales segment in 2017 forms part of the ACT measures aimed at a targeted increase in market share in core business with franking systems.

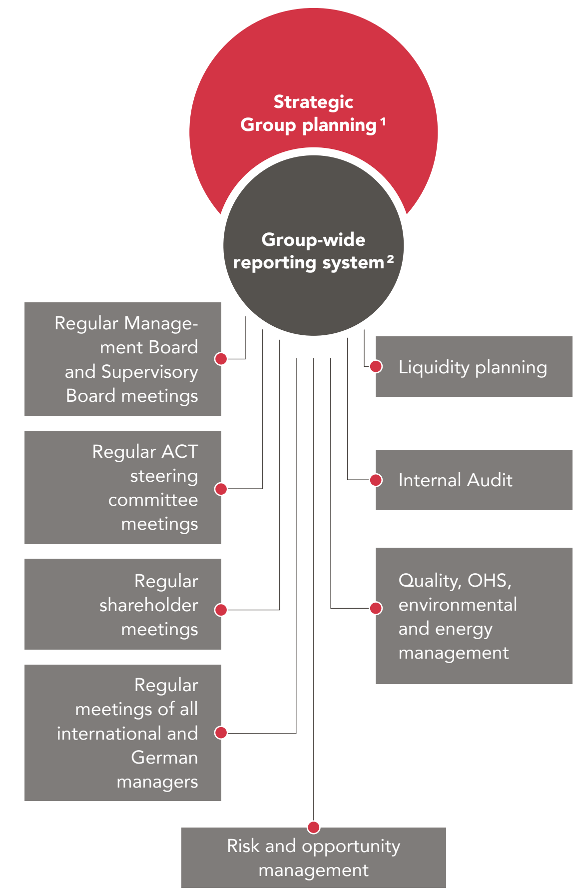
The increase in the number of employees in the Central Functions segment in the year under review was due to the further professionalisation of administrative areas of the FP Group in connection with the ACT strategy.

1.4 Management

1.4.1 Management system

The FP Group organises its operating activities in four segments: Production, Sales Germany, International Sales, and Central Functions. This segmentation is in line with the company's internal reporting.

MANAGEMENT SYSTEM



1) Covers a period of three years, is adjusted annually in the budget process and during the year, if necessary
2) Monthly on net assets, financial position and results of operations

1.4.2 Financial performance indicators

Group management is essentially carried out using the following financial performance indicators:

- Revenue
- EBITDA
- Adjusted free cash flow

The FP Group thereby ensures that decisions take sufficient account of conflicting priorities: growth, profitability and cash flow.

Revenue is used to gauge market success. The Group uses earnings before interest, taxes, depreciation, and amortisation (EBITDA) to measure operational performance and the performance of the individual business units.

In principle, taking free cash flow into account ensures that the financial substance of the Group is preserved. Free cash flow is derived from the net cash flow from operating activities less capital expenditure. Adjusted free cash flow was introduced as a new financial performance indicator in the last fiscal year in the context of the ACT strategy. This is the free cash flow adjusted for investments in finance lease assets and M&A.

1.4.3 Non-financial performance indicators

In addition to financial performance indicators, the FP Group also uses non-financial performance indicators to manage the company. The focus lies on the quality of the service range, which is measured using a quality and improvement indicator.

The quality indicator measures changes in product quality based on annual servicing incidents in relation to the average weighted installed base of machines. Ongoing changes such as the introduction of new products or the optimisation of existing ones are also taken into consideration. This indicator is ascertained in Germany, as the organisational structure here is best suited to recognising and analysing servicing incidents. The results are applied on a comparative basis to the international subsidiaries, where they can be used, for example, to calculate costs for sales partners.

The improvement indicator also records the quality of FP products, especially the quality of new franking systems. It is based on the amount of parts used for improvements to machines already delivered and measures the ratio of costs for parts warranty claims to total revenue. The FP Group records the necessary data on a monthly basis; an analysis of past years shows that the indicator embarks on an upward trend when a new generation of franking systems is introduced.

The FP Group also uses these two non-financial performance indicators internally with respect to the issue of sustainability. In doing this, the company makes use of the Global Reporting Initiative (GRI). Both non-financial performance indicators measure sustainable increases in product and service quality. Improvements in the two indicators serve to ensure customer satisfaction and thus the company's financial success. This also helps ensure more sparing use of material and human resources.

1.5 Research and Development

1.5.1 Research and development: Targets

- Supporting the key strategic measures under the ACT strategy to develop new, innovative products and overhaul existing products based on the evaluation of markets and technology
- Increasing efficiency and innovative capacity by implementing new, agile methods of innovation as part of FP FIT
- Revising the existing patent strategy
- Developing new products in line with our DNA
- Establishing an innovation network – close cooperation with universities and start-ups

1.5.2 News from research and development (products, national variants and software programs)

- Implementation of the security standard IMI-PC (Intelligent Mail Indicia Performance Criteria) of USPS for US franking systems
- Conversion of franking systems to the requirements for the Deutsche Post AG infrastructure discount (ISR)
- Development of the Secure Gateway (Internet of Things, IoT)
- Development of the FP discoverFP customer portal
- Market research for the future FP Product Roadmap
- Evaluation of technical alternatives in the areas of drives and printing technology and for the use of web technologies (embedded software)
- Development of the cloud-based digital signature solution FP Sign
- Realisation of eleven additional country variants for the international rollout of the FP PostBase family

1.5.3 Innovation is in FP's DNA – core areas of expertise

FP's DNA predestines the company to advance into the fields of Industry 4.0 and the Internet of Things (IoT). For this reason, alongside the support of existing products, high priority is attached to developing new, innovative products and services. Agile development methods have been established practice here for years. Added to this is cooperation with universities and partnering young and established companies. The digital transformation of companies brings challenges at many levels, and collaborations are needed in order to not only maintain, but significantly increase, the ever-accelerating pace of innovation cycles. The creative energy of the FP Group's development engineers provides the platform for innovative products and services.

Cryptography (security and encryption software)

For over 15 years, Francotyp-Postalia has been growing its expertise in applied cryptography and adapting it continuously to new technologies and requirements. Mastering this technology is vital for all FP products and demonstrates outstanding discipline. Cryptography was originally the science of the encryption of information. Today, it also concerns the conception, definition and design of information systems that are resistant to manipulation and unauthorised reading, i.e. information security. It is therefore used wherever secure storage and transmission of confidential data is required. These technologies are complemented by functions that permit the sender of information to be clearly identified. In the case of franking systems, this largely secures high-security transmission of monetary values and sensor data.

Sensor / actuator technology

The sensors used in the franking systems and other devices recognise external and internal operating conditions. For example, they detect temperature, speed or brightness. This information is recorded in the franking systems and used to control drive components, or actuators, via special software programs. This ensures that transportation, printing and system protection is of high quality.

Software

Software is of critical importance to the success of FP products in use around the world. FP is increasingly consolidating software development in competence centres. These ensure that FP keeps its finger on the pulse of the different areas of software technology. Software development today therefore encompasses much more than "simple" machine control, and ranges from PC and web applications to the servers used to carry out cryptography. The expansion of the competence centres was continued in 2017.

Connectivity

An FP product or service is no longer a single unit that works in isolation. For example, FP has an installed base of more than 120,000 PostBase, PostBase One and PostBase Mini systems, which are all linked to the FP Repository. A wide variety of orders can be issued and executed via this system. Each product and service is a complex system that is connected to and communicates with other systems. The navigator for franking systems establishes a connection to hybrid or fully electronic mailing systems. Cloud systems can be used to access parcel services and to exchange or sign (FP Sign) contracts and documents legally, securely and confidentially, even on the move. In addition to the connection beyond product boundaries, services that are only possible through bonding with other subsystems are also made available within a product.

Development processes

It is not only individual areas of expertise that are crucial to success in research and development; processes are also a major factor in success. The use of agile development methods, e.g. SCRUM, enables FP to adapt products dynamically to market requirements. This means that, while there is an idea at the start of a project, this idea is not slavishly carried out as per a conventional waterfall model, but continuously improved upon by early contact with customers and marketing. In addition to the agile execution of projects, FP is also making increasing use of agile methods in the product definition phase. These design sprints already result in quick market feedback during the inception phase of the product idea. FP now works in accordance with agile processes and methods on all projects where this is practical.

Technical centre

FP's technical centre brings together development results and approaches to solutions from the various specialist areas. Potential functional principles are developed, tested and analysed in the experimental laboratory, and important decisions on product design are made based on the overall findings. At the same time, the technical centre offers space to make changes in real time and carry out further testing. The technical centre is therefore equipped with the latest technology. The number of available 3D printers has been increased, for example, allowing parts to be produced and tested within a short time. High-speed cameras and climate cabinets also provide research environments that simulate long lifetimes. This gives FP an insight into the long-term performance of the products being developed. Alternative printing technologies and simulated ageing processes are just two examples of the insights that the technical centre has provided in the areas of design and electronics. Software technologies such as web servers are also tested to establish whether they are suitable for use in mechatronic systems.

New products need new technologies. However, existing products also contain technologies that continue to evolve. The technical centre does not just try out new technologies, but also assesses their use in products. The interplay between new and old and the experience gained from experiments create a fertile environment for development of new products. The range of new and / or alternative technologies is very diverse, encompassing the use of printing technologies, communication techniques and so-called human-machine communication.

1.5.4 Data security has top priority – certification conditions and processes for products and services of the FP Group

Most FP products and services require certification from a regulatory authority. For franking systems this is the postal authorities, for software products usually the BSI (German Federal Office for Information Security), to name just the most important.

The individual regulatory authorities are already making it clear that FP's products do not just have to work smoothly and be safe for consumers to operate. An important criterion for approval of products and services is that data security must be ensured at all times. The transfer of billions in postal funds between the cloud-based infrastructures of the national postal companies and the customers' franking systems requires high-security online communication channels. The amounts transferred between the parties must be settled and assigned exactly. The postal companies therefore demand the highest security standards from manufacturers for each new model. These tests are carried out using accredited testing laboratories.

In addition to initial approval, the respective postal companies regularly monitor whether the security requirements are also reliably met during the lifetime of the product. These audits not only look at the level of security; the review and evaluation are also important elements. Security at this high level can only be guaranteed by well-defined and long-established processes. Long-standing consistency and quality is a particular core competence of Francotyp-Postalia and demonstrates how high the barriers are for companies that want to enter the franking machine market. There are also interfaces with excellent potential for synergies with modern products such as FP Sign. Confidentiality, security and legal obligation are essential requirements for the success of products and services in this context.

1.5.5 Innovative product development / strategy determination

Group-wide decision-making criteria for assessment of product ideas

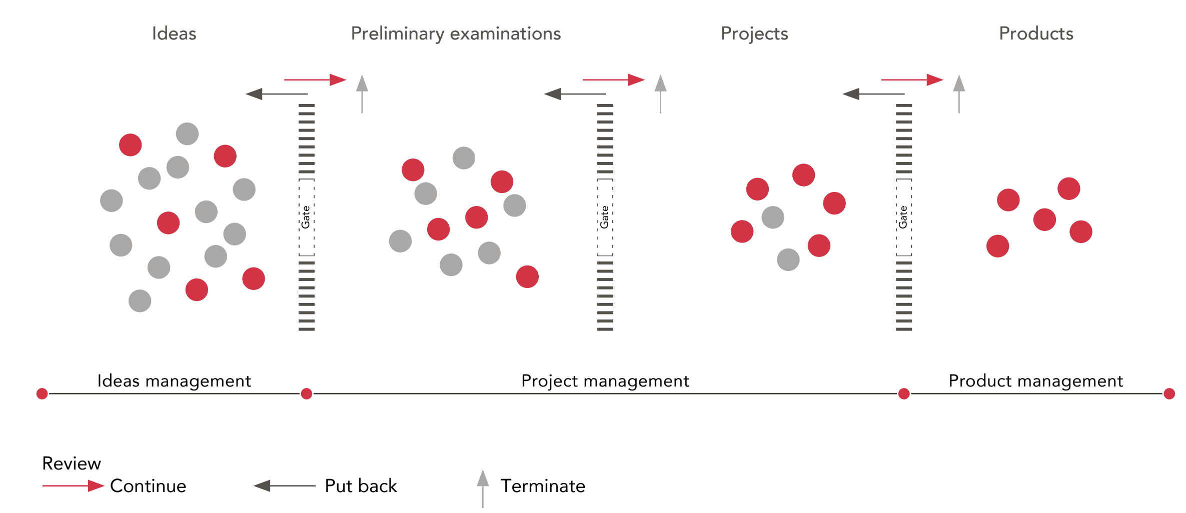
Not every idea will lead to a marketable product. So what makes an idea, a product or a partnership successful, and are there ways of assessing this quantitatively and qualitatively? The R&D team looked at precisely this question across all departments and segments last year.

Everything starts with an idea, and the faster and more detailed an assessment can be carried out of how good an idea is, the faster it can be brought to the market and the less risk will be involved. Ideas go through a multi-step process. From a first pitch to a panel of experts, through a prototyping and testing process to an assessment matrix that examines in detail how the idea will fit with customers, strategy, markets and technology. FP follows a user-centred approach here from design thinking. That means that ideas are assessed and developed in an iterative process together with potential customers. If it becomes apparent during this process that changes are necessary, this will be integrated into the next iteration step and further testing will then be carried out.

Considerations relating to the assessment of product ideas led last year to the creation of further assessment models, for example for strategic partnerships. With the assessment criteria it has developed, FP is setting standards for quick decision-making.

TYPICAL APPROVAL PROCESS

THE STAGE-GATE PROCESS



The stage-gate process

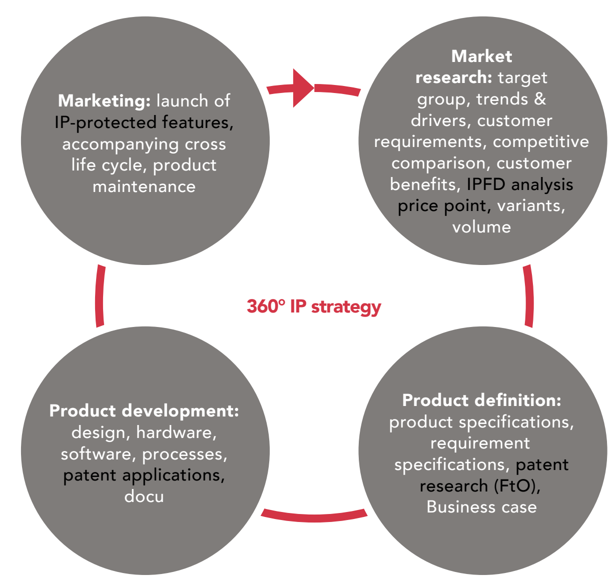
Strategies and projects are not static. The world is becoming faster and more dynamic. Decision-making processes need to be verified and validated periodically and at appropriate intervals in a modern world. To provide an optimum response to customers' needs, FP must incorporate what customers say into its decisions. This is the only way in which FP can bring customer-oriented products to the market quickly and efficiently and ensure that optimum use is made of resources. As part of the periodic stage-gate process, a systematic, transparent selection procedure takes place based on the principle of competing projects, in order to take into account changing market requirements and changes in technological parameters. The process ensures that FP makes optimum use of valuable development resources and is thus a key process for the efficiency and targeted implementation of the ACT strategy.

Patents

FP's transformation process requires a forward-looking, active strategy for intellectual property rights. The core element of this is the systematic analysis of new, relevant business areas with respect to the existing framework for intellectual property (IP): What IP rights are already in place, which strategic fields can still be conquered, how can FP's innovative products be protected optimally and efficiently? Along with the classic "freedom to operate" analysis and protection of new products during the development process, special priority is given to the targeted creation of strategic IP rights. This active IP strategy is based on the periodic review of FP's patent portfolio to test for impairment. It offers a good starting point and ensures that FP is in a strong position for future IP activities.

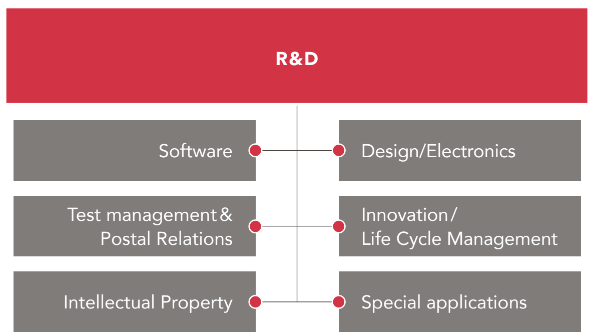
With the aid of its 360° IP strategy, FP accompanies the entire development cycle of new products, thereby ensuring all-round protection by applying for IP rights at an early stage. Even in the idea generation and concept phase, systematic analysis is used to identify and register functions that are relevant to IP rights, which leads in subsequent marketing to competitive advantages with monetary value. The targeted occupation of relevant fields in IP rights aims to significantly strengthen FP's position on the market.

360° IP STRATEGY



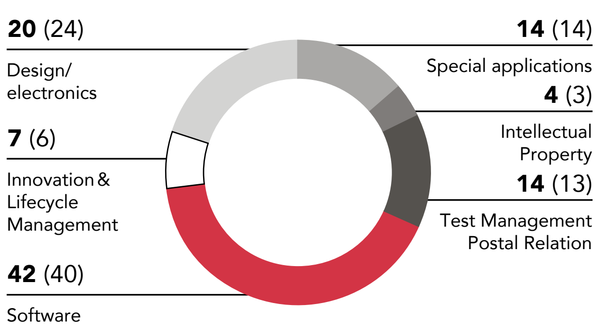
1.5.6 Research and development structure and employees

a. Research and development divisions



b. Allocation of employees to the research and development divisions as at the reporting date

(in %, previous year in brackets)



c. Research and development employees

At the end of 2017, 69 employees (previous year: 75) were permanent staff in the research and development divisions of the Group (including subsidiaries), which represents 6.5% of the Group's total workforce (previous year: 7.1%). Additional external employees are temporarily recruited for certain projects, as required. At the end of 2017, external staff accounted for 10.1% of the permanent R&D workforce.

d. Cooperation with universities

Cooperation with universities and other educational providers is essential for any company that wishes to be ready for the future. The FP Group has therefore been in active discussions with various institutions for a long time. FP offers students working on their bachelor's and master's dissertations opportunities to work with experienced FP engineers and developers and use FP's laboratories and workshops for their own research and developments. FP also offers interested students opportunities to spend a semester at a foreign subsidiary.

1.5.7 Selected research and development topics

a. US: FP is focusing consistently on the new IMI standard

In the North American market, the US Postal Services (USPS) published a new standard in 2013 for franking systems and other services in this business area. The standard is known as Intelligent Mail Indicia Performance Criteria (IMI-PC) and replaces the previous standard, Information Based Indicia Performance Criteria (IBI-PC). This change takes into account the latest recommendations and standards for cryptographical modules and algorithms and raises the level of security accordingly.

FP was the first franking machine manufacturer to implement these high security standards in its PostBase Mini system and make them available to its customers in 2015.

Ongoing cooperation with the postal authorities and accredited testing institutions with the aim of further improving and implementing this standard has since been systematically continued. Since 2017, FP's entire PostBase family with all models and associated projects (MailOne and infrastructure) has been certified in accordance with this new standard. FP has thus been a first mover in fulfilling the highest security standards on the world's largest franking machine market – the US.

b. Germany: Infrastructure discount (ISR)

With the aim of improving process security in the handling of part delivery services for customers and Deutsche Post AG (DPAG), in August 2017 DPAG announced that it would be introducing a new infrastructure discount and simultaneously reducing its part-performance discounts on 1 January 2018. Even though the specifications were not made available until a very late stage in some cases, the R&D department of the FP Group succeeded in obtaining approval from DPAG for a total of three franking systems for the planned start date.

That means that FP customers have been able to completely offset the reduction of 3 percentage points in the part-performance discounts by taking advantage of the new infrastructure discount with the PostBase One and CentorMail franking systems since the beginning of the year and with the PostBase 100 since the end of January 2018. In this case, FP again demonstrated its innovative capacity and agility, responding at short notice to changes in market requirements in the interests of our customers.

c. discoverFP customer portal

In the first quarter of 2018, FP activated the **discoverFP** customer portal in the first countries (UK, Netherlands, Belgium). The worldwide roll-out with access to portal functions that will add value is planned later in 2018.

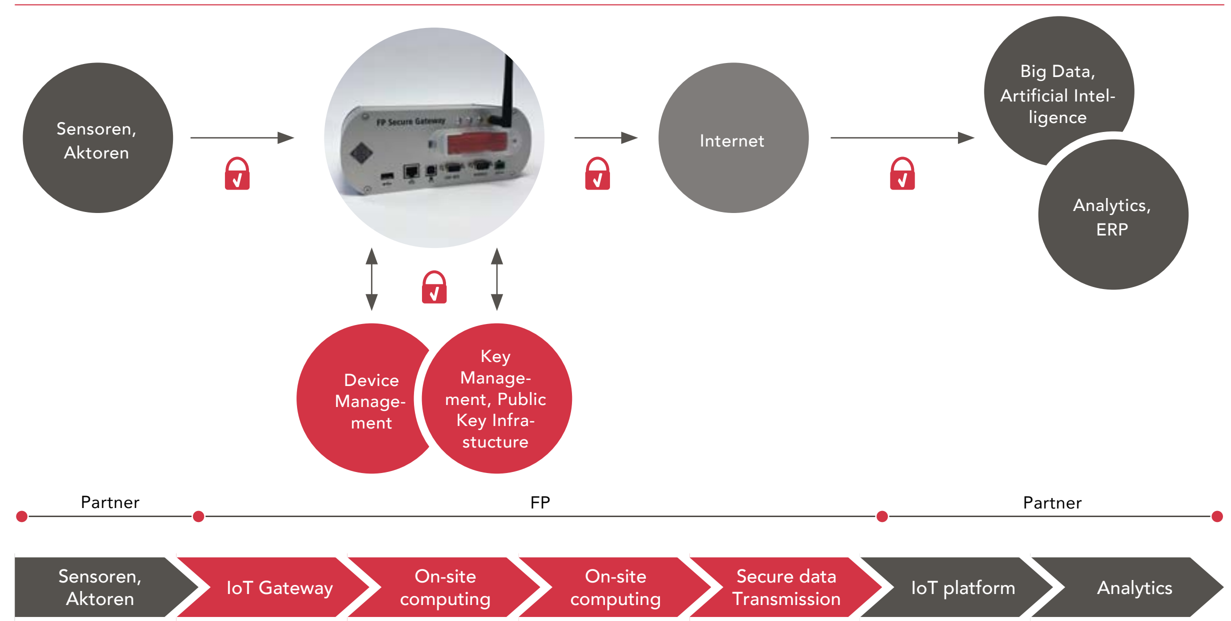
Starting with an overview of the relevant franking system data for existing customers and with an integrated help centre and the option to access invoices, orders and contracts, the aim of **discoverFP** is to support all current and future customers with the digital transformation of their own communication business processes. The solutions and services required for this, based on Francotyp-Postalia's ACT strategy, are to be successively adapted to new target groups of customers. Agile project methodology ensures that customer feedback is quickly incorporated into the development of further portal functions, meaning that our services are subject to a process of continuous improvement in the interests of customers.

d. FP Secure Gateway

The IoT (Internet of Things) will fundamentally change the habits of all people. When all things from toasters to power plants can be connected via the internet, it opens up huge scope for applications, which we cannot yet fully recognise. In short, this technology means that a device that is connected to the internet can communicate with other devices, a group of devices or a device centre. The possibilities for communication range from the transfer of simple status updates, e.g. the current temperature, to complex management of industrial facilities. Yet however varied the applications may be, a high level of security is required. The integrity of the data transmitted must be ensured, i.e. it must be unchanged, complete and authorised by the expected communication participant. In some sensitive areas, confidentiality must also be ensured – unauthorised persons must not be able to read the content. The latest FP product "FP Secure Gateway" is the perfect solution for security requirements in the IoT environment.

FP Secure Gateway has a scalable number of input sensors. The information recorded by sensors is transmitted to a data centre and protected in accordance with the required level of security. The communication channels are set up in line with the area of application. The volume of data and the available network connection are the main influencing factors.

FP IOT VALUE CHAIN



Although this is still a new market segment for FP, this new product has been well received by potential customers. Its flexible and robust design allows it to be used in industrial environments. This is generating interest among solution providers in the field of Industry 4.0. This product's security features make it stand out in relation to other products.

FP IoT Value Chain
The transfer of billions of pieces of valuable data every year shows that FP has already been offering outstanding data security for many years. Based on FP's core areas of expertise (DNA) and the basic technologies used in traditional FP products, a new field of application is thus being opened up.

e. FP Sign
CeBit 2017 saw the public unveiling of our new flagship signature solution. We took on board the positive feedback we received from the market and in the course of the year implemented major additional changes. In 2018, this is to be followed by further new functions, particularly in the area of work flow management and document handling, but also in the integration of national and international identity services

FP Sign – the new signature solution for Germany
Transformation and digitalisation are the most important challenges for companies looking to prosper in the face of competition. Not only do business processes have to be transacted more quickly, but in many cases whole new digital business models are needed for tapping new areas of business.

As a result, the world of work is becoming increasingly digital and mobile. Smartphones, tablets, working from home or on the move – customers, suppliers and employees are used to getting things done in just a few clicks.

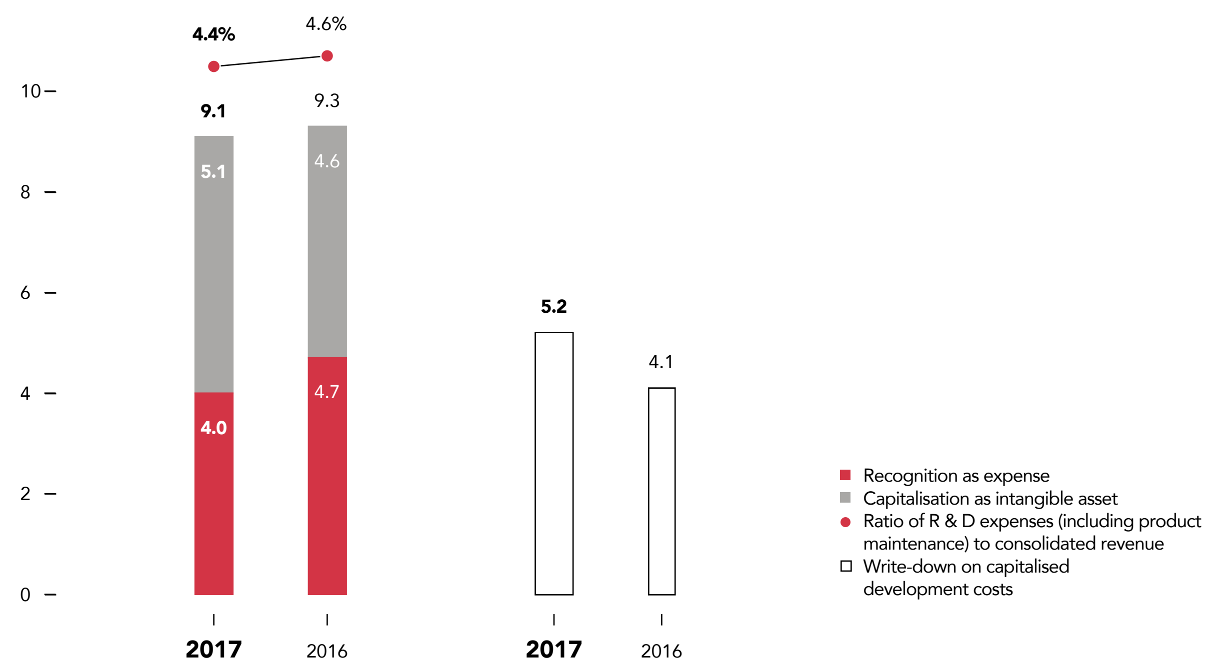
FP Sign – quick, easy and secure
In this digital age, FP's FP Sign solution gives companies that all-important competitive edge by enabling them to sign documents online and share them within minutes – whether in the office or on the move. Officially unveiled at CeBIT 2017, interest in FP Sign moved up strongly around the middle of the year. FP Sign can be used in any industry. However, increased demand can be seen in particular among recruitment agencies, tax consultants, legal practitioners, insurance companies and banks.

Companies can use FP Sign to digitally sign contracts, offers, forms, certificates and so on quickly and securely and have documents countersigned by their customers, suppliers and employees. Whether contracts, approvals, resolutions, offer acceptances or confidentiality agreements – FP Sign allows companies to transact their business transparently and within seconds. Different signature levels ensure the legal security of documents. The cloud-based software solution is hosted in computer centres which are BSI-certified, which means that it meets the very highest security standards in Germany.

Further core features of FP Sign:
- eIDAS compliance
- End-to-end monitoring and transparency of digital business processes
- Seamless integration in business applications due to state-of-the-art APIs
- Mobile app for working on the move

1.5.8 Research and development costs
In fiscal year 2017, research and development costs declined 1.7% year on year. The share of capitalised development costs in the period's total research and development costs (capitalisation rate) increased from 49.3% in the previous year to 56.3% in the reporting period.

RESEARCH AND DEVELOPMENT COSTS in EUR million



2. Economic Conditions

2.1 Macroeconomic and Industry-Specific Conditions

According to calculations by the International Monetary Fund (IMF), the global gross domestic product (GDP) increased by over 3% in 2017. Higher growth in developing countries was offset by lower growth rates in the developed countries, which are particularly relevant to the FP Group. Significant growth was recorded in the US, FP's largest foreign market, in 2017. The economy in the eurozone and Germany also performed well, as shown in the figure below:

TABLE OF GDP GROWTH IN 2017

World	+3.6%
United States	+2.2%
Eurozone	+2.1%
Germany	+2.0%

Sources: IMF, Bureau of Economic Analysis, Eurostat, German Federal Statistical Office

The euro increasingly gained ground against the US dollar in the course of 2017. Having been worth USD 1.05 at the end of 2016, the euro appreciated to USD 1.20 by the end of 2017 and was thus up about 14% compared with the previous year's closing price. Even if progress in Brexit negotiations in recent months has led to a slight recovery, the pound sterling, which, like the US dollar, is also important to the FP Group, has continued to decline in value against the euro since the beginning of 2017. At the end of 2017 the rate was GBP 0.89, compared with GBP 0.86 at the end of 2016. A weaker US dollar and pound sterling has a damping effect on the revenue and earnings development of the FP Group insofar as some of the revenue is generated in these currencies and converted into euro at Group level.

The FP Group processes post in foreign and domestic markets. Various post office statistics report that over 300 billion letters continue to be sent worldwide every year – mostly in Europe and North America. However, global mail volumes fell by 3.0% in 2016 according to the Universal Postal Union; figures for 2017 have not been published yet. This decline is changing the market for franking systems and leading to slight decreases overall. The A segment, the FP Group's domain, is an exception to this rule. The four largest markets, the US, the UK, France and Germany, have grown here since 2011, as the figure below shows.

AVERAGE ANNUAL GROWTH RATE
2011–2016

A segment	+2.8%
B segment	–0.9%
C segment	–9.2%

Source: post office statistics and own assumptions

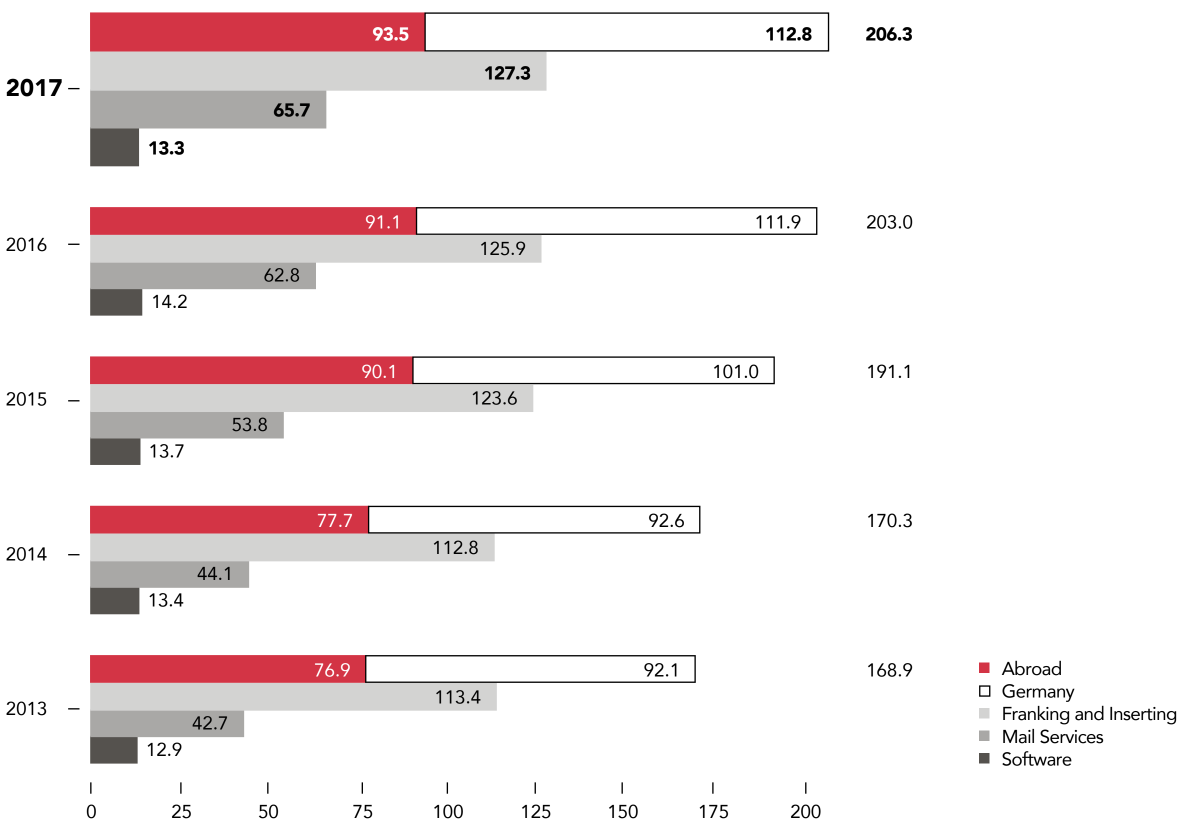
3. Results of Operations

3.1 Changes in Material Items in the Consolidated Statement of Comprehensive Income

in EUR million	2017	2016	Change %
Revenue	206.3	203.0	1.7%
Change in inventories	0.5	0.2	237.3%
Other own work capitalised	10.8	11.4	–4.8%
Overall performance	217.7	214.5	1.5%
Other income	4.8	3.8	26.6%
Cost of materials	102.9	96.5	6.6%
Staff costs	59.2	57.4	3.1%
Other expenses	34.1	37.1	–8.3%
EBITDA	26.3	27.2	–3.3%
Amortisation, depreciation and write-downs	19.1	17.5	9.0%
EBIT	7.3	9.7	–25.5%
Net interest income	0.2	–0.2	n/a
Other financial result	–0.4	0.1	n/a
Income taxes	–2.4	–3.4	–29.1%
Consolidated net income	**4.6**	**6.2**	**–25.0%**

3.1.1 Revenue development

CONSOLIDATED REVENUE (in EUR million)



In fiscal year 2017, the FP Group maintained its growth trajectory and increased its revenue by 1.7% year on year. In particular, FP achieved further growth in the strategic growth markets of the US and France. Revenue in the traditional franking and inserting business increased by 1.1% to EUR 127.3 million in fiscal year 2017, despite the strong euro. Adjusted for negative exchange rate effects, the company generated a growth rate of 2.8% in the core business in fiscal year 2017.

In the German domestic market, the FP Group increased its revenue by 0.9% year on year to EUR 112.8 million in fiscal year 2017.

In the Franking and Inserting segment, the company's revenue in Germany was down 2.7% at EUR 33.9 million in 2017. FP had benefited in the previous year from the decertification of technically outdated franking machines by Deutsche Post AG; in addition, the company generated higher revenue with trading partners from the sale of consumables.

Revenue in the Mail Services segment grew by 4.6% year on year. Various factors influenced revenue in the reporting year. The total mail volume processed declined by 6.1% to around 199 million letters in fiscal year 2017. From the second quarter of 2017 in particular, the decline in volume led to a tangible slowdown in growth achieved. Furthermore, revenue in the year under review was reduced by EUR 1.0 million because Deutsche Post AG cut postage discounts from the start of the year, which had an effect on margins. The total growth reported in the Mail Services segment resulted from the increase in revenue from the franking service with a correspondingly large effect on the cost of purchased services. Despite ongoing strong revenue growth over the last five years, unfortunately margins in the product segment remained weak, with profitability declining considerably in fiscal year 2017. For this reason, FP brought forward the reorganisation planned in the context of ACT in the reporting year, in order to exploit the identified potential for enhancing efficiency and reducing costs quickly and consistently. The integration of the Mail Services and Software Solutions segments is also planned.

The drop in revenue in the Software segment in fiscal year 2017 (–6.5% year on year) resulted primarily from a decline in the volume of mail processed with hybrid mail services during the year. With the launch of FP Sign, the FP Group continued to expand its performance range in the Software segment, although it did not yet achieve significant revenue with this innovative product in fiscal year 2017. The performance of the De-Mail business continued to fall short of expectations in the year under review. Moreover, the low volume of mail meant that customer agreements for which provisions for anticipated losses had been recognised in the previous year were unprofitable. Measures to cut costs and improve efficiency were therefore continued in fiscal year 2017, and a sale was also examined as one of several options for divesting these agreements in the short to medium term.

The FP Group's largest foreign market in fiscal year 2017 was again the US, where revenue grew by 5.9% to EUR 46.1 million despite the stronger euro. Business with PostBase remained positive, particularly following the launch of the PostBase 100 and PostBase One franking systems. However, revenue in the UK fell to EUR 15.5 million in fiscal year 2017 compared with EUR 17.2 million a year before, mainly owing to the strong euro. Based on the euro, foreign revenue rose by 2.6% to EUR 93.5 million in total compared with EUR 91.1 million in the previous year, despite the strong negative impact of currency effects. The exchange rate effects across all currencies were negative, totalling EUR 2.1 million in the reporting year. Adjusted for currency effects, the FP Group achieved growth of 4.9% in foreign business in fiscal year 2017.

REVENUE by product and service

in EUR million	2017	2016	Change %
Product sales income	43.7	41.1	6.3%
Franking	35.0	32.6	7.1%
Inserting	7.4	7.1	5.3%
Other	1.3	1.4	–9.0%
Recurring revenue	162.6	161.9	0.5%
Rental	33.2	32.7	1.4%
Service / customer service	18.6	19.7	–5.8%
Consumables	22.8	23.4	–2.5%
Teleporto	9.0	9.0	0.8%
Mail Services	65.7	62.8	4.6%
Software	13.3	14.2	–6.5%
Total	206.3	203.0	1.7%
Non-recurring revenue	21.2%	20.3%	
Recurring revenue	78.8%	79.7%	

The significant year-on-year increase in income from product sales in the core business is attributable in particular to the sales successes and persistent high demand for the PostBase franking system in the US and France as well as from international dealers. In the UK, the FP Group is also its customers' financing partner and continued to make greater use of finance leases in fiscal year 2017 in order to boost sales and customer retention. Negative currency effects on product sales totalled EUR 0.8 million in the reporting year. Adjusted for currency effects, the FP Group achieved growth of 8.2% in income from product sales in fiscal year 2017.

The slight increase in revenue from the leasing of franking systems is based in particular on the sales success in the US lease market. In fiscal year 2017, the company seamlessly continued its positive development from previous years. By contrast, revenue from services and consumables declined. As the positive development of the non-financial quality indicator used for internal management of the company also underlines, the high quality of the PostBase product family is resulting in fewer ad hoc servicing incidents, in the context of the advanced replacement of the installed base. Postage changes had boosted the service business, mainly in Austria and Belgium, in the previous year (EUR –0.4 million in total across all markets). With all-in contracts being concluded in the US, there is an ongoing shift from service / Teleporto revenue towards leasing revenue. Recurring revenue was also negatively affected by exchange rate effects in the year under review (EUR –1.3 million); adjusted for this, the FP Group recorded growth of 1.3% in recurring revenue in fiscal year 2017.

3.1.2 Other own work capitalised

Various factors influenced own work capitalised in the reporting year, leading to an overall decline of EUR 0.6 million year on year. The additions to leased products reported in own work capitalised amounted to EUR 5.5 million in 2017, compared with EUR 6.4 million in fiscal year 2017. This decline was essentially due to changes in sales, such as the expansion of indirect sales channels and the use of finance leases, and to a reduction in leasing business in a few regions. The development costs contained therein rose by EUR 0.6 million to EUR 5.1 million in fiscal year 2017 in connection with the implementation of the ACT strategy.

3.1.3 Other income

The increase in other income in the reporting year resulted mainly from higher income from statute-barred liabilities of EUR 2.8 million (previous year: EUR 1.2 million). There was a contrary effect from the expected decline in income from cost subsidies and grants in the amount of EUR 0.9 million (previous year: EUR 1.4 million).

3.1.4 Cost of materials

The cost of materials increased by a total of 6.6% in fiscal year 2017, mainly due to the increase in franking service business in Mail Services. The cost of purchased services rose accordingly by 11.2% year on year to EUR 67.6 million. Expenses for raw materials, consumables and supplies declined slightly to EUR 35.2 million in the reporting year compared with EUR 35.6 million in the previous year, despite the slight increase in revenue in the core business of franking and inserting. The performance of the euro against pound sterling and the US dollar had an impact here. As a result, the cost of materials ratio increased by about two percentage points to 49.9% in fiscal year 2017.

3.1.5 Staff costs

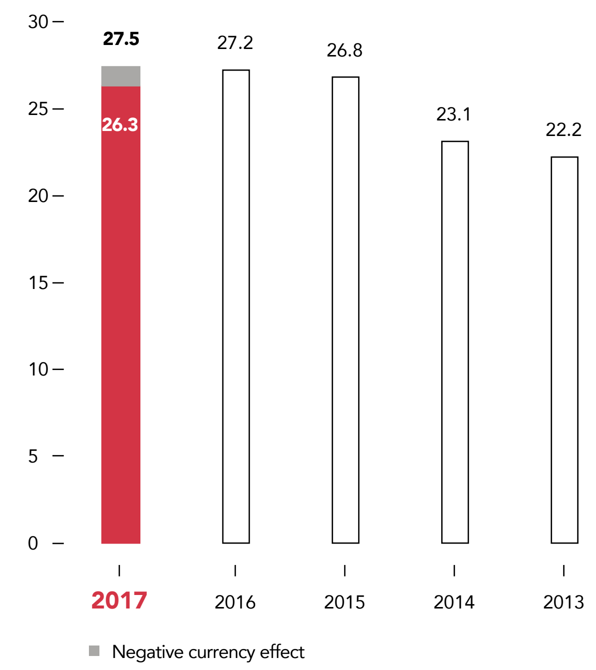
Staff costs rose by 3.1% year on year to EUR 59.2 million in fiscal year 2017. In addition to general salary increases, this essentially reflected the expansion of the international sales team in connection with the implementation of the ACT strategy and the further professionalisation of administrative areas of the Group (total amount EUR 2.3 million). The drop in the number of employees in the Sales Germany segment reduced staff costs by EUR 1.4 million in the reporting year, while exchange rate effects reduced the burden by EUR 0.5 million. The staff cost ratio increased slightly to 28.7% in fiscal year 2017, compared with 28.3% in the previous year.

3.1.6 Other expenses

Other expenses declined by 8.3% to EUR 34.1 million in the reporting year, despite expenses of EUR 1.3 million for the implementation of ACT projects and FP FIT measures, one-off effects with a negative impact of EUR 0.5 million in connection with the irregularities reported in the Mail Services segment in fiscal year 2017 and further non-recurring expenses of EUR 0.5 million relating mainly to the concentration of production-related activities at the Wittenberge site and to ongoing audits. The significant year-on-year drop in expenses for fees and consulting services (EUR –1.0 million) and the reversal of provisions in the amount of EUR 1.1 million, mainly for uncertain liabilities for which the reasons had ceased to exist and following the remeasurement of provisions for anticipated losses recognised in the previous year for De-Mail customer agreements, led to a reduction in other expenses in the year under review.

3.1.7 EBITDA

EBITDA (in EUR million)



The FP Group's EBITDA margin decreased to 12.8% in the reporting year after 13.4% in the previous year. EBITDA was reduced by currency effects, especially the performance of the euro against the US dollar and pound sterling. The negative exchange rate effects in fiscal year 2017 totalled EUR 1.2 million.

EBITDA was also influenced by the following extraordinary factors in fiscal year 2017:

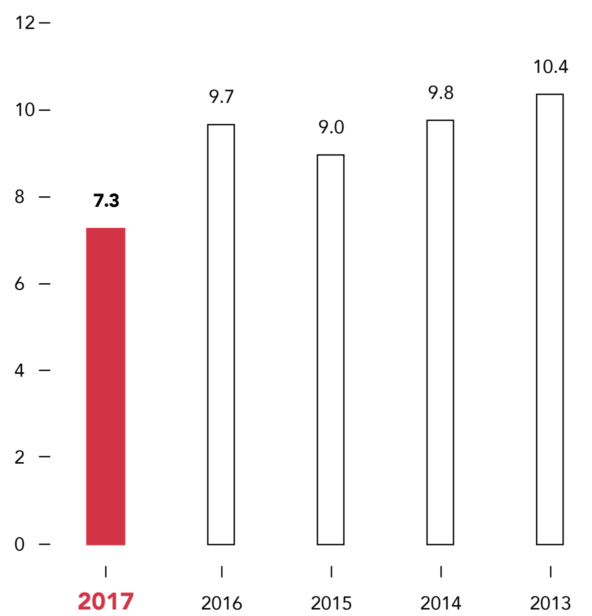
- Expenses for the ACT strategy and the implementation of FP FIT measures totalling EUR 3.5 million;
- Income from the derecognition of statute-barred liabilities of EUR 2.8 million;
- Expenses of EUR 0.9 million resulting mainly from the concentration of production-related activities at the Wittenberge site and a restructuring measure in the Sales Germany segment;
- Expenses of EUR 0.6 million in connection with the irregularities reported in the Mail Services segment.

3.1.8 Amortisation, depreciation and write-downs

Amortisation, depreciation and write-downs increased as forecast in fiscal year 2017 compared with the previous year. This was mainly due to higher amortisation of internally generated intangible assets of EUR 5.2 million (previous year: EUR 4.1 million) as a result of large investments in the modernisation of the product portfolio in previous years. In the light of the recent investment in customer relationship management (CRM) software and the acquisitions of customer lists, amortisation of other intangible assets also increased by EUR 0.5 million to EUR 1.3 million in fiscal year 2017. Depreciation on leased products, including finance lease assets, declined slightly for the first time to EUR 9.3 million in the reporting year, compared with EUR 9.4 million in the previous year, following the successfully concluded decertification of around 36,000 franking systems in the US lease market in the period from 2013 to 2015.

3.1.9 EBIT

EBIT (in EUR million)



EBIT for the reporting year decreased by EUR 2.5 million compared with the previous year to EUR 7.3 million, owing to lower EBITDA and higher depreciation and amortisation.

3.1.10 Net interest income

The significant improvement in net interest income of EUR 0.2 million (previous year: EUR −0.2 million) in the year under review resulted primarily from increased interest income from finance leases of EUR 1.6 million (previous year: EUR 1.1 million) and from non-recurring effects of tax-related interest income of EUR 0.5 million due to the successful completion of mutual tax agreement procedures in accordance with the EU Arbitration Convention (previous year: EUR 0.1 million). Non-recurring interest expenses of EUR 0.7 million from ongoing tax audits had a negative impact.

3.1.11 Other financial result

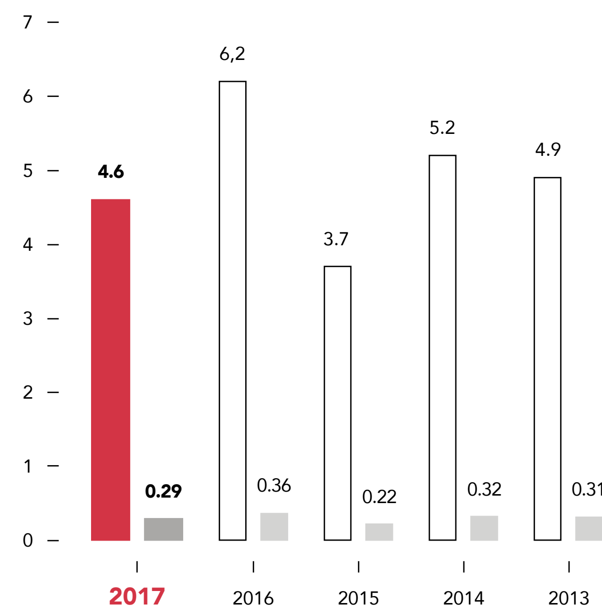
The FP Group posted a negative financial result of EUR −0.4 million in fiscal year 2017, compared with EUR 0.1 million in the previous year. This development is primarily due to exchange rate effects affecting the measurement of statement of financial position items at the reporting date.

3.1.12 Income taxes

In the previous year, the FP Group had implemented measures which resulted in the tax rate declining. The tax rate in fiscal year 2017 was 34.3% after 35.5% in the previous year. Overall the tax reform in the US did not have any significant impact on the FP Group's income taxes in the year under review.

3.1.13 Consolidated net income

CONSOLIDATED NET INCOME
(in EUR million and EPS (basic) in EUR)



In fiscal year 2017, consolidated net income declined as a result of lower earnings before tax, partially compensated for by income taxes being lower year on year. As a result, earnings per share (EPS) fell to EUR 0.29 (basic) and EUR 0.28 (diluted) in fiscal year 2017, compared with EUR 0.36 (basic / diluted) in the previous year.

3.1.14 Summary of results per segment

SUMMARY OF RESULTS PER SEGMENT

	Revenue [1]			EBITDA		
in EUR million	**2017**	2016	Change in %	**2017**	2016	Change in %
Production	4.9	4.9	0.7%	11.0	7.0	56.6%
Sales Germany	113.3	112.2	0.9%	4.5	8.6	−48.0%
International Sales	88.7	85.7	3.4%	20.5	18.6	10.5%
Central Functions	–	–	–	−8.2	−6.6	−24.5%
Group [2]	206.3	203.0	1.7%	26.3	27.2	−3.3%

1) Revenue with third parties.
2) Further information on the Group reconciliation can be found in section II of the notes to the consolidated financial statements.

4. Financial Position

4.1 Principles and Objectives of Financial Management

The main aim of financial management is to avoid financial risks and ensure the financial flexibility of the FP Group. The company achieves this objective by employing a variety of financial instruments. Various factors are taken into account when selecting the instrument, such as flexibility, loan terms, the existing maturity profile and finance costs. The long-term liquidity forecast is based on operational planning. A significant part of liquidity in the FP Group comes from segment operating activities and the resultant cash flow. The company also uses loans from financial institutions and finance leases.

4.2 Dividend-Bearing Net Profit and Dividends

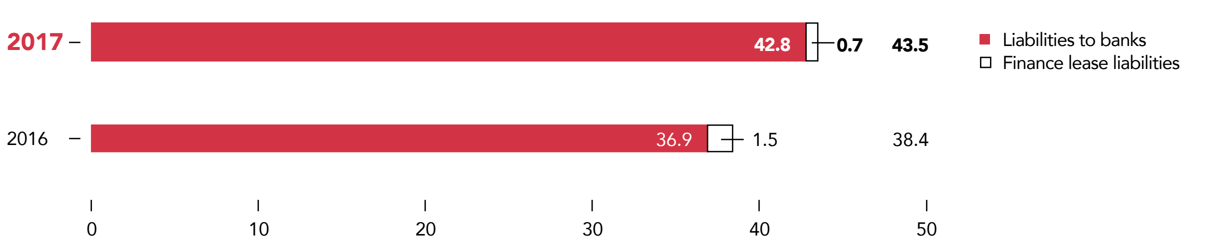
Also in the framework of implementing its ACT growth strategy, the FP Group is adhering to its dividend policy. At the AGM on 29 May 2018, the Management Board and Supervisory Board will propose that the meeting approves a dividend payment of EUR 0.12 per share for fiscal year 2017.

In contrast to the previous year, this proposal is to make a distribution from the tax account in line with Section 27 German Corporate Tax Act (not in contributions to nominal capital). For this reason the payment is to be made without deduction of capital gains tax and the solidarity tax surcharge. For this reason the net dividend is unchanged against the previous year. The FP Group paid a gross dividend of EUR 0.16 per share in fiscal year 2017. Please refer to section IV of the notes to the consolidated financial statements for information on how the net income giving rise to a dividend entitlement is determined. If the AGM approves the proposed dividend, the total amount distributed for dividend-bearing shares will be EUR 1.9 million. The Management Board proposes that the remaining accumulated profit be carried forward.

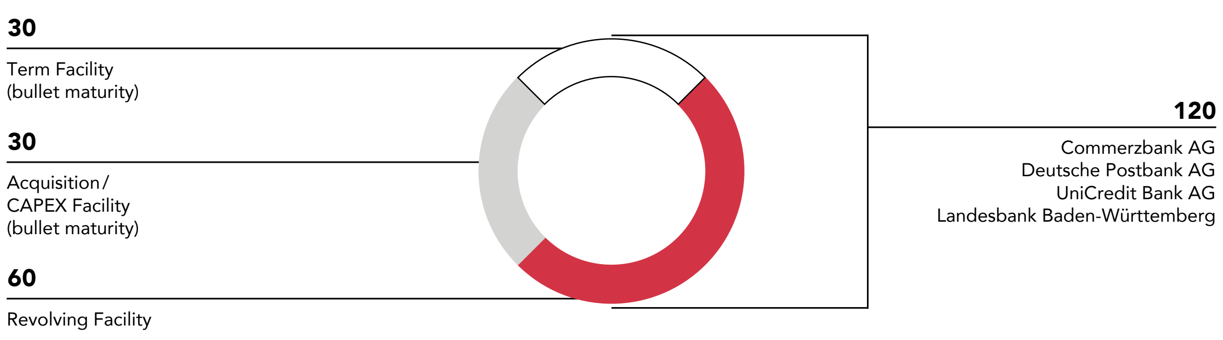
4.3 Financing Analysis

To finance itself, the FP Group primarily uses cash flow from operating activities, along with existing or adjusted loan agreements with financial institutions and finance leases of less than one year.

FINANCIAL LIABILITIES (in EUR million)



SYNDICATED LOANS (in EUR million)



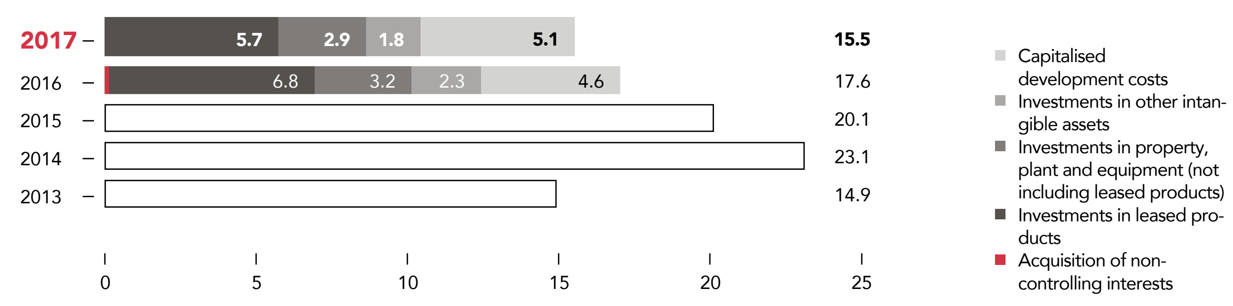
The syndicated loan agreement for EUR 120.0 million concluded in 2016 with a strong syndicate of international banks has a duration of five years to 14 June 2021, plus two one-year extension options. The financing documents on the basis of the British Loan Market Association (LMA) include an option to increase the loan by EUR 30.0 million.

Other key conditions of the syndicated loan agreement include the option to utilise part of the loan facility in foreign currency. The loan agreement also provides financing security for acquisitions. Furthermore, the FP Group has entrepreneurial headroom to enter into additional financial obligations. Overall, the syndicated loan agreement forms the basis for the FP Group's financial stability and flexibility.

Information on changes to company equity in fiscal year 2017 can be found in section 5.2 EQUITY.

4.4 Investment Analysis

INVESTMENT (in EUR million)



The FP Group again made significant investments in future growth on the basis of the ACT strategy in fiscal year 2017, including in product development, production and other core and supporting processes and in franking systems for leasing mainly in the US, the UK, Canada, the Netherlands, Belgium and Italy.

The decline in investment in leased products in the reporting year was essentially due to changes in sales, such as the expansion of indirect sales channels and the use of finance leases, and to a reduction in leasing business in a few regions. The reduction in investment in other intangible assets is due primarily to the conclusion of the previous year's investment in customer relationship management (CRM) software in the core business in Germany. The FP Group invested a total of EUR 1.4 million in the acquisition of a customer list including leased products in fiscal year 2017. The rise in capitalised development costs is linked to the implementation of the ACT strategy in the year under review.

4.5 Off-Balance Sheet Financial Instruments

The FP Group uses operating leases to lease business premises or vehicles, for example. Furthermore, there are tax loss carry-forwards of EUR 5.7 million (previous year: EUR 5.7 million) that were not recognised.

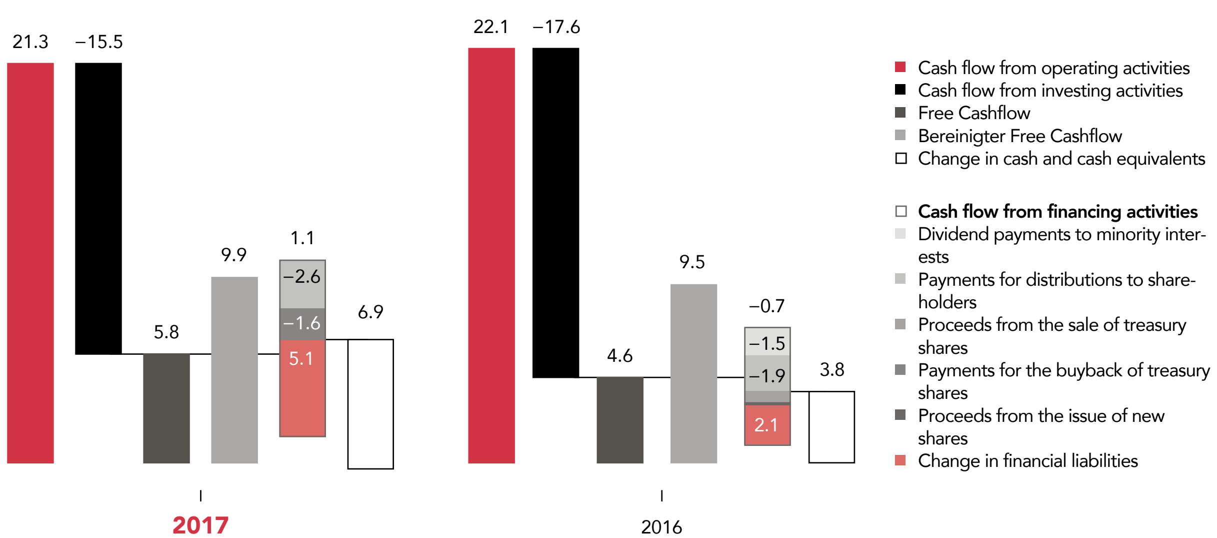
4.6 Liquidity Analysis

LIQUIDITY ANALYSIS

in EUR million	**1.1.–31.12.2017**	1.1.–31.12.2016
Cash flow from operating activities	21.3	22.1
Cash flow from investing activities	–15.5	–17.6
Free cash flow	5.8	4.6
Adjusted free cash flow*	9.9	9.5
Cash flow from financing activities	1.1	–0.7
Change in cash and cash equivalents	6.9	3.8
Change in cash and cash equivalents due to currency translation	–1.4	–1.1
Cash and cash equivalents at beginning of period	18.7	15.9
Cash and cash equivalents at end of period	**24.1**	**18.7**

* Adjusted for investments in finance lease assets and M&A.

LIQUIDITY ANALYSIS (in EUR million)



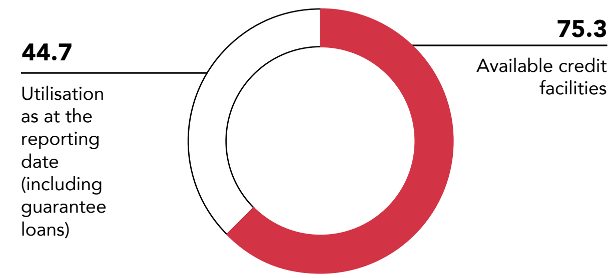
The slight decline in cash flow from operating activities in the reporting year resulted from lower EBITDA, while working capital remained sound. At the same time, cash flow from operating activities was influenced by the use of finance leases to boost sales and retain customers, resulting in an increase in finance lease receivables to EUR 2.7 million. Non-recurring payments of EUR 1.5 million from the successful conclusion of mutual tax agreement procedures in accordance with the EU Arbitration Convention had a positive effect once again in the year under review (previous year: EUR 1.7 million).

In fiscal year 2017, cash flow from investing activities benefited primarily from reduced investment in leased products and intangible assets. Please see the investment analysis for more information about further changes.

The increase in free cash flow underlines the positive performance in 2017. Adjusted for investment in finance lease assets of EUR 2.7 million (previous year: EUR 4.1 million) and investments in M&A of EUR 1.4 million (previous year: EUR 0.8 million), the FP Group generated free cash flow of EUR 9.9 million, an improvement on the previous year's figure of EUR 9.5 million.

The change in cash flow from financing activities is primarily attributable to payments for distributions to shareholders in the amount of EUR 2.6 million, payments in connection with the buyback of treasury shares amounting to EUR 1.6 million, the repayment of liabilities from finance leases of EUR 1.2 million and incoming payments from the assumption of liabilities to banks of EUR 5.9 million.

COMMITTED, BUT NOT FULLY UTILISED CREDIT FACILITIES (in EUR million)



In accordance with the syndicated loan agreement, the FP Group has undertaken to comply with two defined financial covenants:

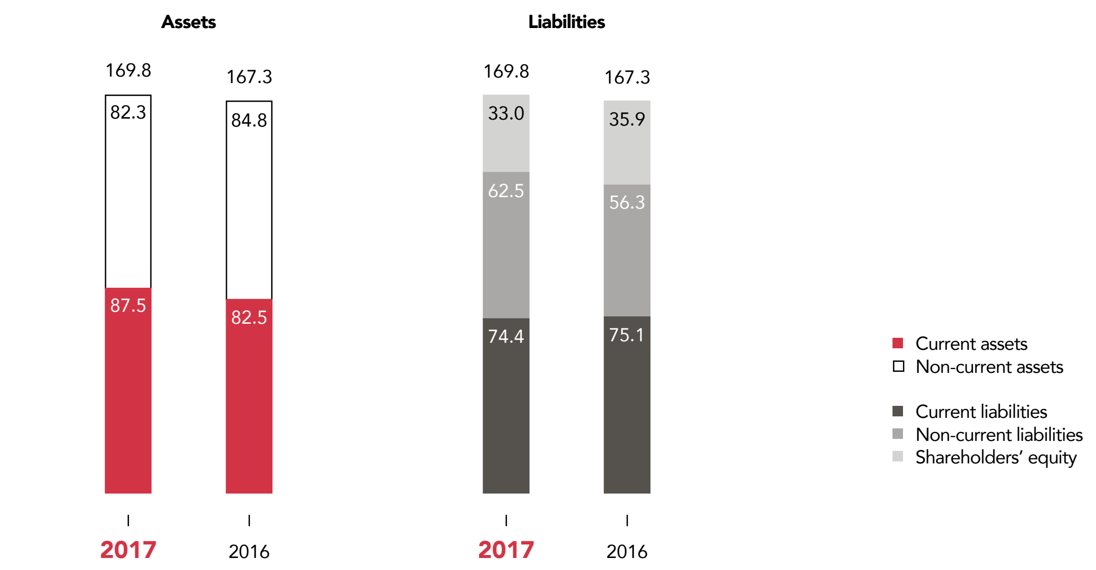
$$\text{Leverage} = \frac{\text{Total net debt}}{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}} \leq 3{,}0\times$$

$$\text{Interest Cover} = \frac{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}}{\text{Net interest income (adjusted for IAS 23 Borrowing Costs)}} \geq 5{,}0\times$$

The credit conditions were complied with consistently throughout the reporting year. In fiscal year 2017, the FP Group was able to meet its payment obligations at all times.

5. Net Assets

STATEMENT OF FINANCIAL POSITION STRUCTURE (in EUR million)



The growing operating business also shaped the FP Group's statement of financial position as at 31 December 2017.

5.1 Non-Current and Current Assets

NON-CURRENT AND CURRENT ASSETS

in EUR million	2017	2016	Reason for change
Intangible assets	35.1	34.9	Slight increase as a result of investment in new products and other intangible assets; essentially in a customer list in the UK
Property, plant and equipment	31.8	39.3	Decline in leased products and finance lease assets due to depreciation (EUR −7.3 million; adjusted for currency effects EUR −4.4 million)
Other assets	11.6	9.7	Increase in finance lease receivables (EUR 1.9 million)
Tax assets	3.8	0.9	Reporting of expected tax receivables from seeking new mutual agreement and arbitration procedures (EUR 2.4 million)
Non-current assets	**82.3**	**84.8**	
Inventories	10.6	11.2	Slight decline as part of working capital management
Trade receivables	18.7	19.0	Slight decline as part of working capital management
Other assets	23.2	25.3	Increase in finance lease receivables (EUR 0.9 million), decline in other current assets from settlement of claims from cost subsidies and grants (EUR −1.1 million) and decline in claims to reimbursement of other taxes (EUR 0.7 million)
Securities and cash	34.9	27.1	Significant increase in cash and cash equivalents and postage credit managed by the FP Group (EUR 2.4 million)
Current assets	**87.5**	**82.5**	

5.2 Equity

In fiscal year 2017, the FP Group exercised Contingent Capital 2010 / I in order to service stock options and increased the share capital by 86,100 shares. As a result, as at 31 December 2017, the share capital of Francotyp-Postalia Holding AG amounted to EUR 16.3 million, divided into 16,301,456 no-par value bearer shares (31 December 2016: 16,215,356).

In the period from 13 October 2017 to 12 January 2018, the company carried out a share buyback programme that had been resolved upon by the Management and Supervisory Boards. In total, up to 475,000 shares were to be acquired for a maximum total purchase price of EUR 3.0 million. As at 31 December 2017, the company held 351,168 treasury shares or 2.2% of the share capital (previous year: 0 shares or 0.0% of the share capital). The nominal amount of the shares is openly deducted from equity. The difference of the purchase price is offset against capital reserves. More information about authorised and contingent capital and conversion and option rights can be found in the explanatory report by the Management Board in accordance with sections 289a (1) and 315a (1) HGB (German Commercial Code).

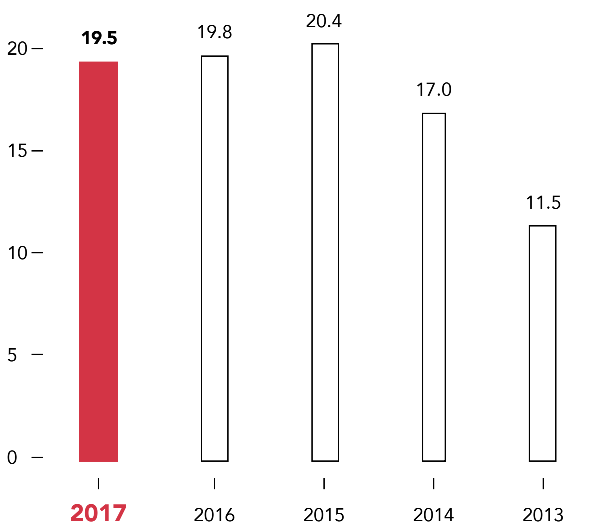
5.3 Non-Current and Current Liabiities

NON-CURRENT AND CURRENT LIABIITIES

in EUR million	2017	2016	Reason for change
Provisions for pensions and similar obligations	16.5	17.1	Slight decline owing to interest rate adjustment
Other provisions, deferred tax liabilities and other liabilities	2.8	1.7	
Financial liabilities	43.1	37.5	Increase in liabilities to banks (EUR 5.8 million)
Non-current liabilities	**62.5**	**56.3**	
Tax liabilities	5.1	3.6	Increase owing to expected additional tax payments from ongoing audits (EUR 2.9 million)
Other provisions	8.0	8.0	Decrease owing to utilisation / remeasurement of the provisions for anticipated losses recognised in the previous year for De-Mail contracts (EUR −0.7 million), increase in miscellaneous provisions (EUR −0.6 million)
Financial liabilities	0.4	0.9	
Trade payables	11.2	10.6	Increase due to the expansion of operating business
Other liabilities (incl. hedging derivatives)	49.7	52.0	Decline in Teleporto liabilities (EUR −0.8 million; adjusted for exchange rate effects EUR −0.1 million), decline in liabilities from other taxes (EUR −0.7 million) and decline in other liabilities (EUR −1.0 million)
Current liabilities	**74.4**	**75.1**	

An additional indicator for the FP Group's capital structure is the net debt ratio, which represents net debt over equity and is constantly monitored.

DEVELOPMENT OF NET DEBT* (in EUR million)



* Figures for 2013–2015 adjusted in 2016.

Net debt is calculated from financial liabilities less cash and cash equivalents. Financial liabilities include liabilities to banks and finance lease liabilities. Cash and cash equivalents comprise cash less restricted funds (postage credit managed by the FP Group) and securities. This applies to the calculation of the net debt ratio as a management parameter for the FP Group's capital structure as well as the presentation in the cash flow statement.

in EUR million	**31.12.2017**	31.12.2016
Financial liabilities	43.5	38.4
Cash and cash equivalents	24.1	18.7
Net debt	**19.5**	**19.8**
Shareholders' equity	33.0	35.9
Net debt ratio	**59%**	**55%**

On the basis of the positive operating performance and the reduction in investments in leased products, the FP Group's net debt decreased in fiscal year 2017. Equity decreased as at 31 December 2017, resulting in an increase in the company's net debt ratio as at the reporting date.

5.4 Leases

The FP Group offers both operating and finance leases. These business models are reflected in the company's statement of financial position. The "leased products" and "finance lease assets" items under non-current assets contain assets with a total carrying amount of EUR 19.6 million (previous year: EUR 26.9 million), which are mostly leased to customers under operating leases. Finance leases with customers are reported in finance lease receivables; the non-current and current amounts total EUR 15.3 million (previous year: EUR 12.5 million). Without these business models, total assets would be EUR 134.9 million instead of EUR 169.8 million. On the liabilities side, the financial liabilities (non-current and current) include EUR 0.0 million for sale and lease-back transactions relating to the financing of leased franking systems. Without this component, total liabilities would be EUR 169.7 million instead of EUR 169.8 million.

6. Overall Assessment on the Course of Business and Position of the Group

6.1 Comparison of Actual / Forecast Business Performance in 2017

The table below shows the financial and non-financial performance indicators of the FP Group. The actual values for the financial performance indicators of revenue and EBITDA are also stated with adjustments for exchange rates, as the FP Group published a forecast based on the assumption of constant exchange rates for foreign currencies.

COMPARISON OF ACTUAL / FORECAST BUSINESS PERFORMANCE IN 2017

in EUR million	2017 forecast*	ACTUAL 2017	Note
Revenue	Slight increase year on year (EUR 203.0 million)	EUR 206.3 million EUR 208.4 million*	Growth in the core business despite negative currency effects, driven by higher product sales. Growth in the Mail Services segment exceeded expectations, while there was a slight decline in the Software segment.
EBITDA	Slight increase year on year (EUR 27.2 million)	EUR 26.3 million EUR 27.5 million*	A solid result as planned despite negative currency effects, high expenses for the implementation of the ACT strategy and one-off effects with a negative impact. Income from statute-barred liabilities had a positive effect.
Adjusted free cash flow	At the level of the previous year (previous year: EUR 9.5 million)	EUR 9.9 million	Positive operating performance and planned lower investment laid the foundation for improved free cash flow. In addition, the one-time payment from two mutual tax agreement procedures provided a boost.
Quality indicator	Slight improvement year on year (previous year: 24.2)	16.4	Significant improvement as a result of the advanced replacement of the installed base with franking systems from the PostBase family.
Improvement indicator	Slight improvement year on year (previous year: 0.09)	0.12	Increase largely due to proactive quality measures in the wake of new product launches.

* Assuming constant exchange rates for foreign currencies.

6.2 Business Performance in 2017

As planned, fiscal year 2017 was shaped by the implementation of the ACT strategy and FP FIT measures; focusing on the interim targets set for fiscal year 2020, FP increased the pace again significantly. Exogenous and unexpected factors led to additional challenges and had a negative impact on business performance and earnings development.

In fiscal year 2017, the FP Group again increased its revenue and recorded a slight improvement in EBITDA as planned, adjusted for currency effects. Adjusted free cash flow was up year on year. In terms of revenue, the company particularly benefited from the success of the PostBase franking system on a number of markets, as well as from the expansion of the Mail Services business on the German market. Negative exchange rate effects impacted both revenue and EBITDA. Free cash flow reflected the positive operating performance, the planned reduction in investments in leased products and the solid development of working capital. Free cash flow adjusted for investments in finance lease assets and M&A was also influenced by non-recurring payments from the conclusion of two mutual tax agreement procedures. The Management Board judges the business performance in fiscal year 2017 to have been generally positive.

7. Report on Post-Balance Sheet Date Events

Information on significant events after the end of the reporting period can be found in section V of the notes to the consolidated financial statements.

8. Risk and Opportunity Report

Risk and Opportunity Management System

The risk and opportunity management system of the FP Group serves to identify and seize or limit opportunities and risks at an early stage. The policy of the FP Group regarding risks and opportunities is aimed at securing the company's long-term existence and continuously improving competitiveness.

Risk and opportunity management is an integral part of the value-oriented management and existing structures of the FP Group in order to identify and assess any indications of these risks and opportunities at an early stage. It is derived from the strategic objectives. Detailed market and competition analyses and forecast scenarios, together with intensive examination of relevant value and cost drivers, serve to determine opportunities. A system to monitor risk has been set up in line with section 91(2) AktG (German Stock Corporation Act). This system is also used for the early detection of risks that may be a threat to the continued existence of the FP Group. The FP Group regards risk management as a continuous and consistent process.

In addition to this, risks identified during the course of the year that have a high probability of occurring and significant potential to cause damage are immediately brought to the attention of the Management Board by means of the reporting lines (ad-hoc notification). The early warning system for risks and opportunities is evaluated by the auditor as part of the annual audit to ensure that it is suitable for identifying, assessing and communicating any risks that may potentially endanger the existence of the company in a timely manner.

Organisation

On behalf of the Management Board, the risk coordinator monitors the implementation of a uniform risk strategy and methodology and the identification, analysis and evaluation of opportunities and risks, as well as subsequent realisation of opportunities and management of risks. He is supported by the report recipients. All report recipients form a committee that regularly communicates on the identification, analysis and evaluation of opportunities and risks. They assess all the reported information, whereby the following areas of responsibility are defined, broken down by risk types:

Risk type

I Market-related risks
II Operational risks
III Financial risks
IV Regulation, law and compliance
V Reputational and brand risks
VI Environmental and sustainability risks

Report officers are appointed to monitor, assess and report opportunities and risks. They comprise the following group of people: managing directors of domestic and foreign companies, divisional heads and representatives within the management systems implemented.

The report officers ascertain the opportunities and risks for their subject area and are responsible for realising opportunities and avoiding risks. They are invited by the risk coordinator every six months to report on opportunities and risks in their field. The report officers work out potential suitable measures for dealing with risks in their subject area, which are assessed by the report recipients and resolved upon by the Management Board.

The Management Board has overall responsibility for the risk and opportunity management system of the FP Group. The Management Board is informed about the current risk situation of the FP Group by the risk coordinator, and if necessary orders any further action to be taken. After the Management Board has approved the Group risk report, it is presented to the Supervisory Board.

Compliance Management System

The Management Board is responsible for compliance with the law and internal policies, and ensures compliance with these throughout the Group companies. Questions of compliance are regularly discussed between the Supervisory Board or the Chairman of the Supervisory Board and the Management Board. The corporate culture of the FP Group is characterised by trust and mutual respect, and by the will to adhere strictly to laws and internal regulations. Nonetheless, statutory violations due to individual misconduct can never be completely ruled out. Employees and third parties have the opportunity to report misconduct at the company. Owing to the organisational effort involved, the Group has not introduced a system that allows users to give information under protection (whistleblower system). The company does its utmost to minimise this risk as far as possible, to uncover misconduct and to deal with it systematically. Compliance with legal and ethical regulations and principles is of central importance. Regulations and principles are set out, together with the responsible handling of insider information, in the compliance policy. They provide all employees with guidance regarding corporate integrity in business. Executives and employees receive compliance policy training.

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

The accounting-related internal control system is an integral component of a comprehensive company-wide control and risk management system. The objective of the internal control system as far as the accounting process is concerned is to implement adequate controls to sufficiently ensure that financial statements comply with the regulations. The internal control system at the FP Group is predominantly supported by a functioning internal management system based on efficient processes, along with process-integrated, organisational security measures such as access restrictions in IT or payment guidelines. Process-integrated controls reduce the probability of errors and support the detection of errors that have already occurred.

The Supervisory Board provides advice on risk management and monitors the effectiveness of the risk management system, the internal control system and the accounting process, and also monitors the financial statements auditing and its impartiality.

The main 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 compiles the consolidated financial statements of the FP Group. This process is preceded by the financial reporting of the Group companies included in the consolidated financial statements. Both processes are monitored by means of a stringent internal control system, which ensures both true and fair accounting and compliance with the relevant legal stipulations. Cross-segment key functions are managed centrally and the individual subsidiaries possess a defined degree of autonomy when preparing their financial statements.

Key regulations and instruments in the preparation of the consolidated financial statements are:

- accounting guidelines at Group level;
- a clearly-defined division of labour and allocation of responsibilities among the segments involved in the accounting process;
- involvement of external experts as far as necessary, to measure pension obligations, for example;
- use of suitable IT financial systems and the application of detailed authorisation concepts to ensure that authority is granted in line with the task while complying with principles of separation of roles;
- checks implemented within the system and further process checks on accounting in the companies; consolidation in the context of the consolidated financial statements and of other relevant processes at Group and company level;
- consideration of the risks recorded and evaluated in the risk management system in the annual financial statements, as far as is required under current accounting rules.

The management of the Finance segment, namely the top management, is responsible for enacting these regulations and for using the instruments of the Group companies in the various countries. The consolidated financial statements are the responsibility of the member of the Management Board of Francotyp-Postalia Holding AG who is in charge of finance. The member of the Management Board is supported in this task by the Vice President Finance FP Group, the Head of Accounting & Taxes, the Head of Controlling & MIS and the Head of Treasury / M&A.

The FP Group guarantees that its annual and consolidated financial statements strictly comply with local and international accounting standards by employing qualified specialist staff, ensuring effective and regular additional training and adhering to the peer-review principle.

The annual financial statements of all major Group companies that are consolidated are audited.

The duty of all subsidiaries to report their business figures to Francotyp-Postalia Holding AG (FP Holding) on a monthly basis in a standardised reporting format means that plan / actual variances during the year are detected in good time, to enable appropriate action to be taken quickly.

Risk Management System with Regard to Financial Instruments

The FP Group has centralised financial management, whereby FP Holding coordinates the consolidated financial requirements, secures liquidity and monitors currency, interest rate and liquidity risks across the Group. The goal of financial risk management is to limit financial risks from changes in market prices, exchange rates and interest rates through finance-oriented activities. Derivative financial instruments are used exclusively for the purpose of hedging underlying transactions. Currency risks result from the Group's international activities, specifically in the US and UK. FP Holding identifies these risks in cooperation with the Group companies and uses appropriate measures to manage them, e.g. entering into forward currency transactions. Interest rate risks result from medium-term financial liabilities. In order to manage interest rate risks, FP Holding did not conclude any new interest rate derivatives in fiscal year 2017. The purpose of liquidity planning is to identify liquidity exposure at an early stage and to minimise it throughout the Group. A monthly rolling liquidity forecast is used to monitor and manage liquidity. For further information on risks from financial instruments, including currency and interest rate risks and the corresponding hedging activities, please refer to the disclosures in the notes to the consolidated financial statements in section IV. (21) Financial instruments.

Risk Matrix of the FP Group

An inventory of all legal, business, operational, financial and IT risks and opportunities at the FP Group is drawn up twice a year, and the risks that have been reported are evaluated by the report recipients.

The identified risks are then assessed in accordance with their potential for damage and their probability of occurrence in order to determine whether they are material and could constitute a threat to the continued existence of the company. These risks are recorded separately and placed under further observation. To diagnose which risks may be material, all risks are subdivided into five different categories (1 to 5) according to their probability of occurrence and the amount of damage they could potentially cause.

The risk assessment process was amended during the reporting year. To differentiate the risk management system more clearly from the monitoring system in accordance with section 91(2) AktG (German Stock Corporation Act), the risk groups were redefined in the year under review. The FP Group's risk matrix is divided into minor risks (risk group C, risk indicator ≤ 3), latent risks (risk group B, risk indicator > 3 and < 10) and material risks (risk group A, risk indicator ≥ 10). Material risks include the sub-area of key risks (risk group A1, risk indicator ≥ 15), which could be a threat to the continued existence of the company. The definition used to estimate the probability of occurrence of risks was also amended in the year under review.

The new risk group for material risks (A) comprises risks for which the probability of occurrence before a suitable countermeasure is taken has been estimated as at least "unlikely (qualitative) / 20% to 39% (quantitative)" (classes 2 to 5) and the amount of potential damage has been estimated as at least "minor = impact of damage 5% to 7% of planned Group EBITDA" (classes 2 to 5). If we multiply the probability of occurrence class by the amount of damage class and the product shows a risk indicator of 10 or above, this is a material risk (A). A risk indicator of 15 or above defines a key risk (A1), which indicates that the company's continued existence could be under threat. This report provides information on the material risks identified.

Explanation of Classes for Probability of Occurrence and Amount of Damage

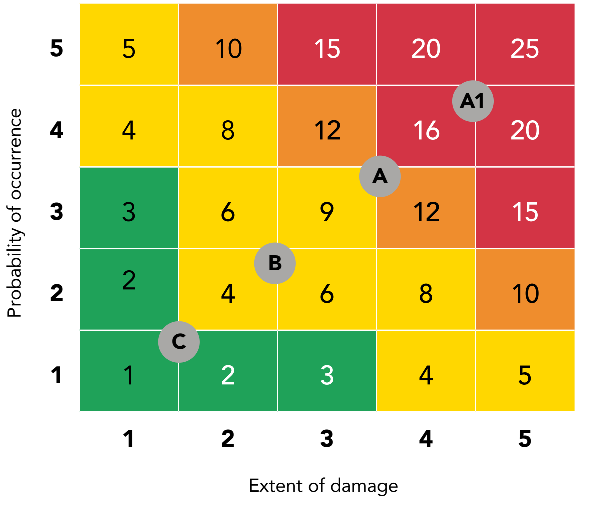
EVALUATION OF THE EXTENT OF DAMAGE

		2017
Category	Description (qualitative)	Extent of damage (quantitative)
1	Very low	Damage of less than 5% of forecast EBITDA
2	Low	Damage of between 5% and 7% of forecast EBITDA
3	Medium	Damage of between 7% and 15% of forecast EBITDA
4	High	Damage of between 15% and 35% of forecast EBITDA
5	Very high	Damage of more than 35% of forecast EBITDA

EVALUATION OF THE PROBABILITY OF OCCURRENCE

		2017		Old
Category	Description (qualitative)	Probability of occurrence (quantitative)	Description (qualitative)	Probability of occurrence (quantitative)
1	Very unlikely	0 to 19%	Unlikely	On average every five years at most
2	Unlikely	20 to 39%	Possible	On average every three to five years
3	Likely	40 to 59%	Medium	On average every one to two years
4	Very likely	60 to 79%	Likely	Annually
5	Almost certain	80 to 99%	Unavoidable	Monthly

RISK MATRIX OF THE FP GROUP



Meaning of risk indicators

Key risks A1	≥ 15 – risks jeopardise the company's success and the company as a going concern. Risk-mitigating measures must be implemented.
Material risks A	≥ 10 – Increased risk / risks jeopardise the company's success and possibly the company as a going concern. Urgent recommendation to implement risk-mitigating measures.
Latent risks B	> 3 and < 10 – Risk above residual risk. It should be tracked. Recommended to implement individual measures / manage risks on a selective basis.
Minor risks C	≤ 3 – Risk is in the area or residual risk. Current no need for action. No further measures are necessary / risk should be accepted.

A total of 11 individual material risks (A) had been identified for the FP Group as at the reporting date. Seven of these are key risks (A1), the occurrence of which would probably threaten the continued existence of the Group.

8.1 Risks Faced by the FP Group

8.1.1 Market-related risks

Changes in customer needs as a result of the digital transformation

Since the middle of the last decade, volumes of letter mail have been declining on all markets, although no longer at such a rapid rate; at the same time, there is an increase in the number of packets and parcels being shipped. More secure e-mail solutions are replacing conventional mail services and the digital transformation of the economy is advancing. In the Germany Sales and International Sales segments, the FP Group sells franking systems and provides consumables. These activities generate a significant proportion of the Group's recurring revenue. In the light of these changes in customer behaviour, demand for franking systems and consumables could fall or could evolve in favour of smaller franking systems more quickly than expected. The FP Group limits this risk with intensive market observation and customer surveys and by deriving corresponding measures.

Intense competition on the market for postal services

Deutsche Post AG introduced an "infrastructure discount" at the start of 2018. Anyone wishing to receive the infrastructure discount has to fulfil certain conditions. For customers of Deutsche Post AG and consolidators with part-performance contracts, the part-performance discount was reduced by 3 percentage points on 1 January 2018. In exchange, Deutsche Post AG is granting the infrastructure discount in the same amount, to which certain conditions apply. These include, among other things, transportation of letters where part delivery services are possible, layout adjustment (placing of franking ID above the franking line in data processing) and, upon delivery, submission of the delivery list for the part service. Prompt implementation of these adjustments represents a challenge for both service providers and franking machine manufacturers. FP looked at this issue in good time and adjusted its franking systems accordingly, as well as software and machines in the Mail Services and Software segments. Nevertheless, we cannot yet foresee how customers will respond to the change that has been announced. The FP Group is limiting this risk primarily by cooperating intensively with its customers. Their willingness to switch providers will be reduced by a closer bond and by the possibility of passing on the discount cut to customers.

Successful implementation of strategic projects and measures

The projects and measures drawn up in connection with ACT are crucial to the achievement of the growth targets defined for 2020 and 2023. The FP Group will not only implement defined strategic projects in 2017 and 2018 in all segments, but will simultaneously create the basis for success. There are risks involved in running both phases in parallel, as resources may be limited and no priorities have been set. The FP Group is countering this risk with strict project management based on performance indicators and clear monitoring of costs and efficiency.

8.1.2 Operational risks

Cross-border / interdepartmental IT risks

The business processes of the FP Group that are supported by information technology are exposed to IT security risks. There is a risk of network and system failures, for example with regard to the FP Repository, and of external attacks and data losses due to human error. The company counters these potential IT risks by using modern hardware and software that meets current security standards. In order to handle business processes securely, a global IT assessment was conducted in 2016, from which the improvement measures for the next three years to make the FP Group fit for the future were derived. The project was continued in 2017 and possible adjustments to IT systems were examined. The FP Group further minimises these risks by implementing an information security management system (ISMS) and by raising staff awareness of how all information that is relevant to the business should be handled. In addition, the FP Group runs several physically separate data centres covering different parts of the IT landscape redundantly, optimally minimising the risk of a complete system failure. With the use of postal server systems such as FrankIT, IBIP, Orchid, etc., the IT segment is constantly obliged to meet requirements based on various standards such as BSI basic protection, ISO 27001, NIST 800-34 or COBIT 4.1. It is also compulsory to take a business continuity management (BCM) process into account as well as an information security management system. A risk management process within IT has been established reflecting the BSI standard 100-3 for the operation of sensitive postal server systems. Regular audits and security certificates document and inform customers of FP's standard of security.

Employee adjustment risk

The company's success depends to a significant degree on the commitment, motivation and abilities of its employees. There is a risk of employees not sufficiently adjusting to technological or other changes, including some that cannot be foreseen. In addition, on the employment market there is great demand for specialists in the areas of sales and research and development, particularly those with expertise in digital technologies and trends. The FP group limits these risks which impact all segments by professionalising the analysis of requirements and with extensive internal communication. Other measures include active change management, strengthening managers and employees by targeting the development of appropriate skills and establishing a culture of feedback and learning from mistakes.

Cost risks arising from De-Mail contracts

The performance of the De-Mail business continued to fall short of expectations in the year under review. Moreover, the low volume of mail meant that customer agreements for which provisions for anticipated losses had been recognised in the previous year were unprofitable. Measures to cut costs and improve efficiency were therefore continued in 2017, and a sale was also examined as one of several options for divesting these agreements in the short to medium term.

Regulations stipulate that all of the technical and staff infrastructure used to serve De-Mail customer agreements, a few of which are due to run until 2020, must be maintained, even if insufficient profits are achieved from ongoing or renegotiated contracts. In the short to medium term this leads to the risk that the associated high costs may have to be borne by the FP Group. To reduce short to medium-term risks, the FP Group is paying a great deal of attention to improving the earnings situation of De-Mail customer agreements through further appropriate measures.

8.1.3 Financial risks

Currency risk

The FP Group's procurement costs accrue predominantly in euro as the company has its production facilities in Germany. Currency risks arise when revenue is realised in other currencies such as the US dollar or pound sterling. Any rise in the euro against other currencies therefore has an adverse effect on consolidated revenue, earnings and the cash flow reported in euro. While the FP Group prepares its consolidated financial statements in euro, a range of subsidiaries of the FP Group draw up their financial statements in other currencies, meaning that the corresponding items need to be converted into euro when consolidated. The FP Group is therefore exposed to risks that may arise as a result of fluctuation of the relative values of the benchmark currencies, in particular between the euro and the US dollar. The FP Group limits these currency risks by concluding currency hedging transactions and by purchasing in the US dollar region. The currency risk does not impact the Sales Germany segment.

Depreciation risks

The FP Group assesses each year whether there are any signs of impairment on assets that are relevant in accordance with IAS 36 (particularly intangible assets and property, plant and equipment). Processes are also in place at the FP Group to monitor the value of balance sheet assets on an ongoing basis and in particular to identify triggering events as the basis for implementation of impairment tests relating to specific causes. If such signs are found, an impairment test is carried out. Any impairment is in principle recognised in income. Although impairment would not have any impact on the FP Group's EBITDA, it would affect consolidated net income and equity.

As part of the clarification of the irregularities reported in the Mail Services segment in fiscal year 2017, plans for the business were reviewed and adjusted. The recoverable amount determined in the annual impairment test of the cash-generating unit (CGU) freesort, to which goodwill of EUR 5.9 million is allocated, has declined since 31 December 2016, but remains greater than the carrying amount of the CGU. The accelerated realignment of the Mail Services product segment by the FP Group as part of ACT is improving the recoverability of the cash-generating unit.

Potential impact of Brexit on future net assets, financial position and results of operations

In the FP Group's view, the process of the UK's withdrawal from the European Union (EU) could increase uncertainty for businesses and consumers, reduce investment in the UK, entail risks for the financial market and in general lead to greater uncertainty about the future of the EU. A further massive decline in confidence in the economy, increasing caution with regard to investment decisions and significant depreciation of the pound sterling, in particular if caused by disorganised and delayed exit negotiations, could have the potential to significantly damage the company's future net assets, financial position and results of operations. FP is constantly monitoring the withdrawal process in order to initiate and implement local and Group-wide measures. The risk does not impact the Sales Germany segment.

8.1.4 Regulation, law and compliance

Repayment obligation resulting from irregularities in the Mail Services segment

In the second quarter of 2017, the FP Group discovered deviations and occasional irregularities due to employee misconduct in the internal recording and billing of letter volumes in the time-critical consolidation business; customer bills were not affected. On the basis of current information, FP assumes that there is an obligation to return payments and that there will be a future outflow of resources for consulting costs. In this context, the FP Group recognised provisions of EUR 0.2 million as at the reporting date. Clarification of the matter is currently still ongoing and could result in further repayment obligations for the FP Group with estimated potential damages of EUR 0.6 million and further legal consequences. The FP Group does not currently anticipate that an obligation for the potential damages. In the second half of 2017, the company reviewed efficiency, quality and process stability in the Mail Services and Software segments in the interests of our customers and partners and implemented measures to avoid the reported risks.

Lawsuit in connection with advertising by fax in the US
A lawsuit filed against our subsidiary in the US is pending before the US District Court for the Eastern District of Missouri (case no. 4:14-cv-01161-HEA). In the putative class action it is claimed that Francotyp-Postalia Inc. had violated the Telephone Consumer Protection Act of 1991 by faxing unsolicited advertising. It has not yet been clarified whether the approach in question (advertising by fax) is covered by the statutory provisions. The US District Court for the Eastern District of Missouri suspended the action on 17 February 2015 until a decision is reached by the Federal Communications Commission and the United States Court of Appeals for the D.C. Circuit on the application and validity of the Telephone Consumer Protection Act of 1991. This decision is currently pending. The outcome of the lawsuit filed against Francotyp-Postalia Inc. is still unknown and could lead to potential damages of up to an estimated EUR 1.0 million. FP assumes that there is currently no obligation. The FP Group limits this risk with support from lawyers throughout the lawsuit.

8.1.5 Overall statement on the Group's risk situation

The table below provides an overview of the FP Group's risk situation as at the reporting date and of changes in risks compared with the previous year. "Patent law risk" and "contractual risk" were no longer classed as material risks during fiscal year 2017.

No risks are currently discernible that will lead to permanent, significant impairment of the net assets, financial position or results of operations of the FP Group when the possible extent of damage and probabilities of occurrence are taken into account. Overall, the risks are manageable; from today's viewpoint, the Group's continued existence is not under any threat. The FP Group does not currently anticipate that the risk situation will change fundamentally. From an organisational viewpoint, the company has laid all the necessary foundations to ensure that it is informed of potential new risk situations at an early stage and can react quickly.

OVERVIEW ON RISKS IN THE FP GROUP

	Extent of damage	Probability of occurrence	Risk group	Trend [1]
Market-related risks				
Changes in customer needs as a result of the digital transformation	5	3	A1	→
Intense competition on the market for postal services	5	3	A1	→
Successful implementation of strategic projects and measures	4	4	A1	↗
Operational risks				
Cross-border IT risks	4	4	A1	→
Employee adjustment risk	4	4	A1	→
Cost risks arising from De-Mail contracts	2	5	A	↗
Financial risks				
Currency risk	4	4	A1	→
Depreciation risks	4	4	A1	↗
Potential impact of Brexit on future net assets, financial position and results of operation	3	4	A	↗
Regulation, law and compliance				
Repayment obligation resulting from irregularities in the Mail Services segment	4	3	A	↗
Lawsuit in connection with advertising by fax in the US	3	4	A	→

1) Development of risk quotient year on year.

↗ Increased / new risk
→ Unchanged risk
↘ Lower risk

8.2 Opportunities for the FP Group

The FP Group qualitatively determined opportunities for fiscal year 2017. As in the previous year, they were not quantified for management purposes or displayed in an opportunity matrix.

With the ACT strategy, details of which were published at the end of 2016, the FP Group has once again subjected its opportunities in a changing market to a fundamental review and reassessment (cf. section on Strategy).

FP can further expand its existing customer base of around 200,000 companies by exploiting the segment shift that is becoming apparent in business with franking systems. At the same time, with each existing customer and each new customer there is an opportunity to accompany them through the digitalisation process and offer them digital communication products in addition to traditional mail processing. Overall, this leads to better customer retention and higher, sustainably profitable growth per customer.

The ACT strategy takes these opportunities into account. It comprises the three components of Attack, Customer Journey and Transformation. It is supported by the ongoing FP FIT measures to increase efficiency and implementation expertise in all areas, with the four priorities of finance, HR, sales and digitalisation.

In line with the development of ACT projects and FP FIT measures that have already been commenced and are ongoing, these opportunities have been taken into account in strategic Group planning, the forecast for 2018 and medium-term targets for the period up to 2020. The FP Group has also set long-term targets for the period up to 2023 as part of ACT.

To meet expectations of the FP Group, the company must press ahead with continuous growth and implement the change associated with ACT even more quickly, by recognising new opportunities at an early stage and successfully exploiting them.

The following section will therefore focus on future trends or events that could lead to positive deviations from the forecast for 2018 and medium-term targets if they develop more positively than assumed in the forecast.

8.2.1 Market opportunities

Despite a decline in the average number of postal consignments delivered worldwide, there are a number of countries where the postal market is growing. Unlike the competition, the FP Group focuses on systems for smaller and medium volumes of correspondence and is thus meeting the changed demand. This in principle means that opportunities exist for the FP Group to share in this growth (attack). However, concentration on small and medium volumes of mail also opens up opportunities for the FP Group in established postal markets. This particularly applies to markets in which the FP Group is not yet present or strongly represented. Market studies conducted in connection with ACT have shown that the FP Group has major growth opportunities in the US and France in particular. With this in mind, the FP Group is gradually building up its presence on the franking machine market in France and is primarily winning customers with PostBase. However, the company also sees potential in its traditional markets of the US and Germany, especially due to the shift towards the A segment. This may result in opportunities for the FP Group that go beyond the operational framework already identified and would allow it to introduce franking systems more quickly than planned to traditional and new markets and to gain more customers for FP systems.

Digitalisation is advancing in many areas, but more slowly than experts expected. The FP Group has unequivocally defined this development as a market opportunity and has launched associated strategic projects within the Customer Journey component of the ACT strategy. The FP Group can benefit from this trend in established markets and in Germany in particular, by providing advice and support to companies in the digitalisation of their business processes and reorganising processes on request.

At the same time, the company is focusing on digital technologies in order to benefit from the trend towards increasing digital transformation in the medium and long term. It is becoming apparent that the expertise available within the FP Group (cf. section on Research and Development) can be used for new services that go well beyond franking systems or digital products and services as part of the Customer Journey. This involves developments relating to the Internet of Things (IoT). To identify new opportunities that arise from this and allow the FP Group to exploit them, a project group has been formed to sound out opportunities for franking system technology in the field of IoT for the FP Group. The first promising talks have highlighted the potential. The FP Group has valid opportunities here to establish itself in a new business field, which are not yet reflected in this form in the forecast for 2018 or the medium-term targets.

8.2.2 Product opportunities

The FP Group's innovative products are the guarantor for the company's success. The continuous development of the franking systems along with new solutions for digital and hybrid mail transmission will contribute to this. Thanks to the PostBase family, the FP Group has a modern and high-performance product range in the core business, enabling it to continue growing in this area. The FP Group also sees opportunities for positive business development in the infrastructure discount announced by Deutsche Post AG, as FP can generate added value for customers here as a "first mover".

Furthermore, ACT opens up additional opportunities in the development of new products and services in the field of franking systems. Market opportunities in fiscal year 2017 were assessed and corresponding development projects set up within the FP Product Roadmap and FP Parcel Shipment projects. They have the potential to generate further added value for the Group beyond the opportunities that have already been determined, particularly if the markets continue to develop as they currently are.

At the same time, the company is continuing to market software solutions such as FP Sign, a new platform-based solution for the secure, confidential and legally binding digital signing of contracts and exchange of documents. By expanding its solutions expertise beyond Germany, FP can secure further options in the digital transaction management market. The FP Group would be able to establish itself on the international market as a provider of encryption and archiving software for electronic communication and the optimisation of all processes relating to inbound and outbound mail thanks to its comprehensive solution portfolio.

8.2.3 Selling opportunities

Its current market share of approximately 11% of the franking systems installed worldwide gives the FP Group a stable basis, which is to be further strengthened in line with the ACT strategy. Targeted sales measures have already been initiated and implemented in this context (Marketing & Sales Plus) in order to expand the customer base. To reach a large number of customers and increase its market penetration, the company is making more use of telesales and leasing services, for example. The discoverFP customer portal was developed as an additional distribution channel in fiscal year 2017. The worldwide roll-out is planned for fiscal year 2018. Suitable sales channels will also need to be established for selling the new software products and solutions, and will have to evolve further in the direction of customer advice to accompany projects. This will allow the company to drive forward continuous growth in the customer base and generate additional revenue with each individual customer as part of the Customer Journey.

A key assumption for the expansion of the customer base is that the FP Group's brand awareness will increase significantly. The area of brand management was therefore restructured in fiscal year 2017 and provided with appropriate staff. The combination of improved brand awareness and the development and strengthening of sales could lead to success more quickly than expected and exceed the assumptions on which current forecasts are based.

8.2.4 Opportunities arising from the FP FIT measures

The company began to implement various excellence measures as early as fiscal year 2016. These included, among others, the establishment of new functions in the finance department for tax and treasury. In fiscal year 2017, these initial measures were followed by the establishment of a global IT organisation, starting a project to develop a Group ERP / CRM strategy, as well as further measures in Human Resources and the Marketing and Sales measures described. As part of the ACT strategy launched successfully in 2016, the FP Group is stepping up its projects and measures to enhance efficiency and is aiming to improve the Group's performance sustainably and in the long term. Focusing on the interim targets set for fiscal year 2020, FP is increasing the pace again significantly in order to be able to exploit all opportunities that may help it achieve its goals. In addition to the numerous projects and measures already under way, the FP Group is rolling out the "Structure & Organisation" project with the aim of reducing complexity within the Group and significantly increasing the Group's clout and agility. In addition, efficient and stable organisational structures were implemented to provide strong support for the transformation of the ACT growth strategy in a cost-efficient manner The underlying considerations, assumptions and calculations have been incorporated into the forecast for fiscal year 2018. This project offers the unique opportunity to open up additional potential that has not yet been analysed or leveraged.

8.2.5 Opportunities as a result of currency effects

The FP Group's international orientation in its business activities means that not only risks may arise due to foreign currency effects, but also opportunities. Positive foreign currency effects can result from items in the statement of financial position and floating transactions in foreign currencies. Positive results can also arise from all cash flow that is not listed in euro.

Every FP company has opportunities in connection with exchange rate fluctuations if it concludes transactions with international contract partners that result in future cash flows.

To be able to take advantage of any opportunities that arise, the FP Group has set up its own Treasury division.

8.2.6 Other opportunities

Compensation claims resulting from irregularities in the Mail Services segment

In connection with the irregularities in the internal recording and billing of letter volumes in the time-critical consolidation business reported in fiscal year 2017, the FP Group found that it had suffered financial damage as a result of breaches of duty by individuals extending beyond the reporting period. As a consequence, FP asserted damages claims against employees of around EUR 1.7 million on 14 February 2018 as part of wrongful dismissal proceedings that are currently still ongoing. The fidelity insurer has also been informed about the breaches of duty and the damages incurred. If the claims are upheld, this could have a one-time positive effect on the company's financial position and results of operations and result in FP exceeding the forecast for 2018 and / or its medium-term goals.

Sale of De-Mail contracts

The performance of the De-Mail business has so far fallen short of expectations. In the short to medium term there is a risk that the high costs for maintaining all of the technical and staff infrastructure as required by regulations may need to be borne by the FP Group, as a few customer contracts are scheduled to run until the end of 2020 and it may not be possible to generate adequate profit contributions from ongoing or renegotiated contracts. To reduce short to medium-term cost risks, the FP Group is working on several potential courses of action, including a sale of the De-Mail customer agreements. If this is successful, it could have a positive impact on the FP Group's financial position and results of operations and result in FP exceeding its medium-term goals.

8.2.7 Overall statement on opportunities

As in the previous year, opportunities and risks are balanced.

9. Report on Expected Developments

	2018 forecast
Revenue	Slight increase on 2017
EBITDA (adjusted for non-recurring expenses)	Slight increase on 2017
Free cash flow (adjusted)*	Positive, well below previous year
Quality indicator	Slight improvement on 2017
Improvement indicator	Slight improvement on 2017

* Adjusted for investments in finance lease assets and M&A.

The planning and all subsequent statements are based on the level of knowledge available at the start of 2018. The FP Group wishes to point out that the planning information stated may differ from the values actually reached at a later date.

The forecast for macroeconomic conditions is based on information provided by the International Monetary Fund (IMF).

The following premises also apply, and are the fundamental assumptions for the ACT strategy:

- Positive macroeconomic development on key FP markets
- Continuity of political, economic and tax conditions in the US
- Stability in the European Economic Area
- Smooth progress of negotiations for the UK's departure from the European Union, especially stable development in the pound sterling exchange rate
- Stable development of exchange rates for foreign currencies
- Moderate downturn or stagnation in mail volumes on traditional markets
- Gaining market share in the franking system business
- Expansion of the Mail Services business, assuming that the introduction of the "infrastructure discount" by Deutsche Post AG on 1 January 2018 has no significant impact on the FP Group's revenue
- Expansion of the software business

9.1 Expected Macroeconomic and Microeconomic Conditions

The International Monetary Fund (IMF) anticipates robust development for the global economy this year. It forecasts slightly higher growth in global gross domestic product (GDP) compared with 2017. The IMF expects solid, but slightly slower growth rates for the eurozone and Germany in 2018. In the US, the FP Group's most important foreign market, GDP growth is expected to increase significantly.

TABLE OF EXPECTED GDP GROWTH IN 2018
(according to IMF)

World	+3.9%
United States	+2.3%
Eurozone	+1.9%
Germany	+1.8%

The economic climate has an influence on future industry growth and therefore also on the future business performance of the FP Group. Companies are more inclined to invest in a positive economic climate, which could have a positive impact on the franking and inserting business. In a robust economy, companies are more willing to innovate, which is favourable for the software business in particular. At the same time, it could benefit from the ongoing digitalisation of the economy. Even if the relocation of mail communication to digital channels is likely to continue in the years to come, franking systems remain a key element of mail processing.

9.2 Expected Business Performance of Francotyp-Postalia

The FP Group's strategy is based on growth in the franking business and on the digital markets. With regard to franking systems, the company will continue to enhance its activities in the world's most attractive markets, the US and France, in 2018. In addition, there is to be continued improvement in the overall competitive position. The Group has created the right conditions for this; with the complete PostBase family, it can keep offering the industry's most up-to-date product range for the particularly interesting A segment and the B segment. The company is also improving its competitive position in various countries by expanding the leasing business in order to boost sales and retain customers. At the same time, the company is enhancing its portfolio with software solutions. The FP Group presented one of the new products, FP Sign, at CeBIT in March 2017. In the Mail Services segment, the sorting centres throughout Germany are beginning to be upgraded into digitalisation hubs for inbound mail in order to combine logistics and IT services.

In addition to the numerous projects and measures already under way, the FP Group will roll out the ACT project "Structure & Organisation" in 2018. The goal is to reduce complexity in the FP Group and to make the FP Group considerably more dynamic and agile. In addition, efficient and stable organisational structures were implemented to provide strong support for the transformation of the ACT growth strategy in a cost-efficient manner This requires comprehensive measures that will lead to expenses and investments in 2018, the year of implementation. The first positive effects on adjusted results are expected during 2018. This project will include company structures, locations, general processes and procedures and IT systems throughout the Group. These additional measures offer the unique opportunity to open up additional potential that has not yet been analysed or leveraged.

9.3 Expected Development of Performance Indicators

For fiscal year 2018, the FP Group anticipates a slight increase in revenue. Here, the company anticipates positive development in all three divisions.

In 2018 it will accelerate the implementation of numerous ACT projects and measures and will also roll out the "Structure & Organisation" project. FP is thus making the organisation fit for the future, which in fiscal year 2018 will lead to non-recurring expenses of between EUR 6.0 million and EUR 8.0 million. Adjusted for these expenses, the FP Group also expects a slight year-on-year increase in EBITDA.

Following substantial investments in the US lease market in the period from 2012 to 2015, the FP Group is anticipating a slight decline in depreciation and amortisation for 2018. Owing to growing investment in ACT and new products, the company expects free cash flow for 2018 to be positive but well below the previous year when adjusted for M&A and investments in finance lease assets, and before payments in connection with the "Structure & Organisation" project.

The anticipated development of financial performance indicators for fiscal year 2018 is based on the assumption of constant exchange rates.

The non-financial performance indicators are likely to improve slightly in 2018. A slight positive development compared to the previous year's figure is expected for both the quality indicator and the improvement indicator.

10. Takeover-Related Disclosures

10.1 Explanatory Report by the Management Board on Disclosures in Accordance with Sections 289a (1), 315a (1) German Commercial Code (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.

Direct or indirect investments in capital exceeding 10% of the voting rights
Internationale Kapitalanlagegesellschaft mbH, headquartered in Düsseldorf, Germany, informed us on 15 January 2016 that it had exceeded the threshold of 10% of voting rights in Francotyp-Postalia Holding AG on 12 January 2016. Internationale Kapitalanlagegesellschaft mbH held 10.16% of the voting rights (1,641,732 voting rights) on that date, which were attributable to it in accordance with section 22 of the German Securities Trading Act (WpHG), old version.

Until 12 October 2017, 3R Investments Ltd, based in Cyprus, held 10.3% of Francotyp-Postalia Holding AG's share capital. This equated to 1,680,000 shares. These voting rights were attributable to Tamlino Import & Advisory LP, Limassol, Cyprus, Tamlino Investments Ltd., Limassol, Cyprus, and Klaus Röhrig, in each case in accordance with section 21(1) German Securities Trading Act (WpHG), old version, and section 22(1) sentence 1, no. 1 WpHG, old version, as an indirect stake. In a message dated 17 October 2017, 3R Investments announced that its stake had dropped below the 10% threshold.

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

Control of voting rights of employee shareholders
There are no controls over voting rights.

Statutory regulation in the Articles of Association on appointing and dismissing Management Board members and amending the Articles of Association
In accordance with article 6(2) of the Articles of Association of Francotyp-Postalia Holding AG, the Supervisory Board is responsible for determining the number of Management Board members, appointing them, and revoking their appointment. In accordance with article 6(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.

The Articles of Association stipulate in article 23(1) that the Annual General Meeting passes resolutions by a simple majority of the votes cast, and, where the statute requires a majority of capital in addition to a majority of votes, by a simple majority of capital represented at the time the resolution is passed, insofar as the law or the Articles of Association do not require a larger majority. Abstentions count as votes not cast. Furthermore, in accordance with article 15(2) of the Articles of Association, the Supervisory Board can make amendments to the Articles which relate only to wording.

Powers of the Management Board with regard to the possibility to issue or buy back shares
Authorisations for authorised and contingent capital
On 11 June 2015, the Annual General Meeting of FP Holding adopted resolutions to create new authorised capital (Authorised Capital 2015 / I) of EUR 8,080,000 and to cancel the existing authorisation of the Management Board to increase share capital (Authorised Capital 2011) with a corresponding amendment of the Articles of Association. With the approval of the Supervisory Board, the share capital of the company can be increased on one or more occasions by up to a total of EUR 8,080,000 by issuing new bearer shares against cash and / or non-cash contributions up to 10 June 2020. Shareholders have subscription rights to the new shares. In accordance with section 186(5) of the German Stock Corporation Act (AktG), the new shares can also be purchased by one or more banks or a syndicate of banks, with the obligation to offer these to shareholders for subscription.

The Management Board is authorised, with the approval of the Supervisory Board, to disapply shareholders' subscription rights on one or more occasions.

On 11 June 2015, the Annual General Meeting also resolved to contingently increase the share capital of the company by an amount of up to EUR 6,464,000 by issuing up to 6,464,000 new bearer shares, each accounting for a pro rata amount of share capital of EUR 1.00 (Contingent Capital 2015 / I).

The contingent capital serves to grant shares to the holders or creditors of warrant or convertible bonds, profit participation certificates or participating bonds (or combinations of these instruments) that are issued by the company or one of its direct or indirect Group companies as defined by section 18 AktG up to 10 June 2020. This is only carried out to the extent that options or conversion rights from the above bonds are utilised or option or conversion obligations arising from these bonds are met, unless other means of settling the obligation are used. New shares are issued at the option or conversion price to be determined based on the above authorisation. The new shares participate in profits from the beginning of the fiscal year in which they arise as a result of options or conversion rights being exercised or conversion obligations being fulfilled.

The Management Board is authorised, with the approval of the Supervisory Board, to determine the further details for the implementation of the contingent capital increase. The Supervisory Board is authorised to amend the wording of the Articles of Association in accordance with the implementation of the contingent capital increase.

On 11 June 2015, the Annual General Meeting resolved to adjust Contingent Capital 2010 / I. The contingent capital was reduced by EUR 388,500, as the 2010 stock option plan was reduced by 388,500 options to 656,500 options. Article 4(5) of the Articles of Association on Contingent Capital 2010 was amended as follows: "The share capital of the company is contingently increased by up to EUR 656,500 through the issue of up to 656,500 new bearer shares."

On 11 June 2015, the Annual General Meeting resolved to contingently increase the share capital of the company by up to EUR 959,500 by issuing up to 959,500 bearer shares (Contingent Capital 2015 / II). The contingent capital increase is exclusively intended to serve subscription rights granted up to 10 June 2020 on the basis of the authorisation of the Annual General Meeting of 11 June 2015 in accordance with the 2015 stock option plan. The contingent capital increase will only be implemented to the extent that the bearers of the issued subscription rights exercise their rights to subscribe to shares in the company and the company does not grant any treasury shares to serve subscription rights. The new shares participate in profits from the beginning of the fiscal year in which subscription rights are exercised.

In 2017, the FP Group exercised the adjusted Contingent Capital 2010 / I and increased the share capital by 86,100 shares to 16,301,456 no-par value bearer shares.

By way of resolution of the Annual General Meeting on 11 June 2015, the Management Board was authorised, with the approval of the Supervisory Board, to issue, on one or more occasions and in full or in partial amounts, warrant or convertible bonds, profit participation certificates, participating bonds or combinations of these instruments (collectively referred to as "bonds") with a total nominal amount of up to EUR 200,000,000 up to 10 June 2020, and to grant the bearers or creditors (collectively referred to as "bearers") of the respective bonds options or conversion rights to acquire bearer shares of the company accounting for a total pro rata amount of share capital of up to EUR 6,464,000 in accordance with the further conditions of the bonds and to establish the corresponding option or conversion obligations. The bonds and the options and conversion rights / obligations can be issued with a duration of up to 30 years or as perpetual instruments. Bonds can also be issued in whole or in part against contributions in kind.

The individual issues can be divided into different types of bonds with equal rights. The Management Board is authorised, with the approval of the Supervisory Board, to disapply shareholders' subscription rights to bonds.

The Annual General Meeting of Francotyp-Postalia Holding AG on 10 June 2015 authorised the Management Board, with the approval of the Supervisory Board, to acquire treasury shares up to a total of 10% of the share capital at the time of this resolution. The shares acquired under this authorisation, together with other treasury shares held by the company or attributable to it in accordance with sections 71d and 71e of the German Stock Corporation Act (AktG), must not account for more than 10% of the share capital at any time. The authorisation can be exercised in full or in part, and on one or more occasions. The authorisation remains in effect until 10 June 2020. The authorisation of the Management Board to acquire and use purchased treasury shares resolved by the Annual General Meeting on 1 June 2010 ended when the new authorisation became effective.

Contingent capital increase and 2010 and 2015 stock option plans
For further explanation, please refer to the disclosures in the notes to the consolidated financial statements in section IV. (16) Equity.

Authorisation to acquire treasury shares
On 11 June 2015, the Annual General Meeting authorised the company to purchase treasury shares in the amount of up to 10% of the share capital existing at the time of the Annual General Meeting's resolution and to use these shares for any purposes permitted by law up to 10 June 2020.

The shares may also – disapplying the pre-emptive rights of shareholders in the context of business combinations or in the case of company acquisitions or investments – be offered and transferred to these entities, provided that the company acquisition or the investment is in the company's best interest and the amount to be paid for the treasury shares is not disproportionately low. Treasury shares can also be issued or sold in exchange for cash payments to third parties or individual members of the Management Board for introduction on a foreign stock market on which the shares were not authorised for trading until this date. This can be done in place of a cash bonus at a price that is not significantly below the stock market price at the time of sale. Treasury shares can also be used or redeemed to serve the 2010 and 2015 stock option plans.

On 9 October 2017, the Management Board resolved and announced the implementation of a share buyback programme. The buyback programme started on 13 October 2017 and ended on 12 January 2018. In the future, the treasury shares are to be used to service subscription rights that have been or will be issued and exercised under stock option plans. This allows the company to avoid issuing new shares and diluting the stakes of shareholders. The purpose of the stock options is to ensure a lasting link between the interests of management and executives and the interests of the shareholders in a long-term increase in enterprise value. The chances of a long-term return are closely linked to the company's performance.

The share buyback took place in accordance with the safe harbour regulations of Articles 5, 14 and 15 of the Market Abuse Regulation in conjunction with the provisions of Commission Delegated Regulation (EU) 2016 / 1052 of 8 March 2016 supplementing Regulation (EU) No. 596 / 2014 of the European Parliament and the Council with technical regulatory standards for the conditions that apply to buyback programmes and stabilisation measures ("Delegated Regulation").

Shares in Francotyp-Postalia Holding AG were purchased at market prices in accordance with trading conditions pursuant to Art. 3 of Commission Delegated Regulation (EU) 2016 / 1052 of 8 March 2016. In particular, shares in Francotyp-Postalia Holding AG were not acquired at a price above that of the last independently conducted acquisition or (if higher) above that of the highest current independent offer on the stock exchange on which the purchase took place. Moreover, Francotyp-Postalia Holding AG did not acquire more than 25% of the average daily stock turnover on the stock exchange on which the purchase took place in a single trading day. The average daily stock turnover was calculated on the basis of the average daily trading volume during the 20 trading days before the respective purchase date.

Francotyp-Postalia Holding AG appointed a bank to purchase shares in Francotyp-Postalia Holding AG. The bank decided independently and without any influence from Francotyp-Postalia Holding AG on the time at which to acquire shares in accordance with Article 4 (2b) of Commission Delegated Regulation (EU) 2016 / 1052 of 8 March 2016. Francotyp-Postalia Holding AG thus had no influence on the bank's decisions in this respect. In particular, the bank had an obligation to comply with the trading conditions of Article 3 of Commission Delegated Regulation (EU) 2016 / 1052 of 8 March 2016 and the guidelines set out in this share buyback programme.

By 31 December 2017, a total of 351,168 shares had been purchased at an average price of EUR 4.6478.

Significant agreements of the parent company subject to a change of control following a takeover offer
A key agreement of the parent company Francotyp-Postalia Holding AG, which falls under the condition of a change of control following a takeover offer, is the current syndicated loan agreement, which includes a right of termination in the event of a change of control. No further agreements have been entered into with either third parties or subsidiaries.

Compensation agreement on the part of the parent company in the event of a takeover offer
No such agreements were in place as at 31 December 2017.

10.2 Group's Declaration on Corporate Governance in Accordance with Section 315d of the German Commercial Code (HGB) in Conjunction with Section 289f HGB

The declaration on corporate governance in the FP Group contains the information required in accordance with section 315d HGB in conjunction with section 289f HGB and is published on the homepage of the FP Group (http://www.fp-francotyp.com/FP/unternehmen/investoren/corporate-governance).

10.3 Non-Financial Group Declaration in Accordance with Section 315b of the German Commercial Code (HGB)

With regard to non-financial information, please refer to the comments in our separate non-financial report, which is available online at https://www.fp-francotyp.com/nachhaltigkeitsbericht

11. Remuneration Report

The report follows the recommendations of the German Corporate Governance Code (GCGC) and includes details in accordance with the requirements of the German Commercial Code (HGB), the German Accountancy Standard (GAS) and the International Financial Reporting Standards (IFRSs). The remuneration report forms part of the management report. For the purposes of clarity and comparability, all amounts in the remuneration report are shown in thousands of euro (EUR thousand).

11.1 General Remuneration System

The remuneration of members of the Management Board is set at an appropriate level by the Supervisory Board based on performance assessments. The criteria for determining the appropriate level of remuneration include the duties of the Management Board member in question, his or her personal performance, the economic situation, the success and the future prospects of the company as well as the customariness of remuneration taking into consideration the peer group and the remuneration structure that otherwise prevails in the company. In the process, the Supervisory Board takes into consideration the development of Management Board remuneration in relation to the remuneration of management as a whole and of the personnel over time, whereby the Supervisory Board determines for the purposes of the comparison how management and the relevant personnel are defined.

The total remuneration of the Management Board comprises the following components:

- Monetary remuneration components (fixed / variable)
- Pension commitments
- Other commitments in the event of the termination of employment
- Fringe benefits

From 1 January 2018, total remuneration for one member of the Management Board includes the additional components of a bonus commitment for sustainable development of "earnings per share" and an interest via virtual company shares.

11.2 Fixed Components

11.2.1 Fixed remuneration

Basic remuneration is paid out every month in the form of a salary. The basic remuneration of Rüdiger Andreas Günther amounts to EUR 400,000 per year. Thomas Grethe's and Sven Meise's basic remuneration amounts to EUR 265,000 per year.

11.2.2 Fringe benefits

Fringe benefits include payments in kind or the monetary value of payments in kind and other fringe benefits such as the provision of a company car, contributions to insurance policies, accommodation and moving costs.

11.3 Variable Components

11.3.1 Variable remuneration

The short-term variable remuneration component depends on the free cash flow generated and the EBITA obtained after taking into account any bonus payments payable by the company. The value of the bonus depends largely on the level of achievement as measured against the targets and the specifications from the budget for the respective fiscal year (12 months) agreed by the Supervisory Board.

Payment of the long-term bonus depends on the long-term growth of the company and is based on the relevant fiscal years during the entire term of the contract. An overall assessment is made after the contract has expired. This involves settling the credit balance accrued during the period of the contract against the malus components accrued. The total amount paid out may not be negative. If the calculation results in a negative figure, then the long-term bonus paid out is zero. The basic requirement for attaining a credit balance is firstly to achieve at least 90% of the budget for the fiscal year (12 months) agreed by the Supervisory Board. Apart from that, the credits and the malus components are collected according to the achievement of two long-term goals. The long-term goals to be achieved are agreed individually for each Management Board member.

For the CEO / CFO, the first long-term goal is an average annual growth rate for the 2016, 2017, 2018 and 2019 fiscal years of at least 10% for EBIT (earnings before interest and taxes) accumulated across freesort, IAB and Mentana-Claimsoft and in such areas that are integrated into the FP Group's Software and IT Service divisions by way of acquisition during the contractual term. The Supervisory Board shall define targets as it reasonably sees fit for each Management Board member's second long-term goal for the coming fiscal year at the latest in its last meeting in the preceding fiscal year.

The arrangement for the CSO targets an average annual growth rate for the 2016 and 2017 fiscal years of at least 3% for EBIT accumulated across the entire franking machine segment and for the number of FP franking machines installed in relation to the market as a whole (world) according to post office statistics.

For the CDO, the first long-term goal is an average annual growth rate for the 2016 and 2017 fiscal years of at least 10% for EBITDA accumulated across freesort, IAB and Mentana-Claimsoft and in such areas that are integrated into the FP Group's Software and IT Service divisions by way of acquisition during the contractual term. Companies leaving the Group must be accounted for accordingly. The second long-term goal is average annual growth for the 2016 and 2017 fiscal years of at least 3% for EBIT (earnings before interest and taxes) of the FP Group.

The recognised long-term bonus is due in the month following the month in which the annual accounts are finalised for the last month of the employment contract term. Ahead of the payment of the expected long-term bonus, each member of the Management Board receives an individual annual advance payment. The Management Board member is obliged to promptly refund to the company any difference between the advance payments and the defined long-term bonus.

11.3.2 Long-term share-based remuneration

Long-term share-based remuneration is granted in the form of vested stock options. The Annual General Meeting of Francotyp-Postalia Holding AG on 11 June 2015 resolved to issue pre-emptive rights to members of the management boards of affiliated companies as defined in section 15 AktG and to executives of the FP Group, whereby these pre-emptive rights entitle the holders to subscribe to stock options up to a maximum of the statutory limit of 10% of the share capital (2015 stock option plan). For further explanation, please refer to the disclosures in the notes to the consolidated financial statements in section IV. (16) Equity.

11.4 Commitments in Connection with the Cessation of Activity in the Management Board

If the appointment to the Management Board is revoked in accordance with section 84(3) AktG or the member of the Management Board resigns his or her position, their employment contract shall be terminated. If the appointment is revoked for good cause that is not covered by section 626 German Civil Code (BGB) for the summary cancellation of the contract of employment, the contract of employment shall end at the end of the statutory notice period according to section 622(1)(2) BGB or three months from the end of the month in which the Board member is notified of the appointment being revoked.

In the case of Mr Günther's Management Board contract, in the event of his contract being revoked this member of the Management Board is also entitled to a lump sum of 1.5 times the annual remuneration due on the day of the legal termination, but not exceeding the remuneration entitlement for the remainder of the contract. If his appointment is revoked, Mr Meise's contract provides for a lump sum of half his annual remuneration due on the day of the legal termination, but not exceeding the remuneration entitlement for the remainder of the contract.

In the event of premature termination of the employment contract without good cause, payments including fringe benefits may not exceed the value of six months' remuneration, one year's remuneration or one and a half years' remuneration (severance pay cap) and may not remunerate more than the remaining term of the service contract.

11.5 Remuneration of Members of the Management Board and Supervisory Board in Fiscal Year 2017

11.5.1 Remuneration of members of the Management Board

Please see the disclosures in the notes to the consolidated financial statements in section V. Total remuneration of the Management Board and the Supervisory Board for information on the total remuneration of the Management Board according to GAS 17.

The following presentation of Management Board remuneration complies with the recommendations of the German Corporate Governance Code (GCGC). As a result, the benefits granted in the year under review and the maximum and minimum achievable values are also indicated.

RÜDIGER ANDREAS GÜNTHER, CEO / CFO, 11.01.2016–31.12.2017

in EUR thousand	2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration	400	400	400	400
Additional benefits	45	19	19	19
Total	445	419	419	419
Short-term variable remuneration	220[1]	348[1]	0	348
Long-term variable remuneration				
SOP Tranche 2015 (GCGC)	12	35	35	35
Long-term bonus	180[2]	180[2]	0[3]	180
Total	412	563	35	563
Pension cost	19	20	20	20
Total remuneration	**876**	**1,002**	**474**	**1,002**

1) This amount comprises payments made in the amount of EUR 228 thousand, utilisation of provisions in the amount of EUR 220 thousand and additions to provisions of EUR 340 thousand. The previous year's figure resulted from recognition of a provision in the amount of EUR 220 thousand.
2) As in the previous year, the amount is the result of an addition to provisions in the amount of EUR 180 thousand.
3) An overall assessment is made after the contract has expired. This involves settling the credit balance accrued during the period of the contract against the malus components accrued. The total amount paid out at the end of the period of the contract may not be negative. If the calculation results in a negative figure, then the long-term bonus paid out is zero.

THOMAS GRETHE, CSO, 15.06.13–31.12.17

in EUR thousand	2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration	293	265	265	265
Additional benefits	16	20	20	20
Total	309[1]	285[1]	285	285
Short-term variable remuneration	10	113	0	113
Long-term variable remuneration				
SOP Tranche 2015 (GCGC)	14	14	14	14
Long-term bonus	11[2]	42[2]	0[3]	42
Total	35	169	14	169
Pension cost	21	22	22	22
Total remuneration	**365**	**476**	**321**	**476**

1) This amount comprises payments made in the amount of EUR 63 thousand, utilisation of provisions in the amount of EUR 50 thousand and additions to provisions of EUR 100 thousand. The previous year's figure comprised income relating to other periods of EUR 40 thousand from the reversal of a provision and the creation of a provision of EUR 50 thousand.
2) This amount results from recognition of a provision in the amount of EUR 42 thousand. The previous year's figure comprised income relating to other periods of EUR 31 thousand from the reversal of a provision and the creation of a provision EUR 42 thousand.
3) An overall assessment is made after the contract has expired. This involves settling the credit balance accrued during the period of the contract against the malus components accrued. The total amount paid out at the end of the period of the contract may not be negative. If the calculation results in a negative figure, then the long-term bonus paid out is zero.

SVEN MEISE, MANAGEMENT BOARD MEMBER RESPONSIBLE FOR R&D, IT AND DIGITAL SOLUTIONS, 01.02.15–31.12.17

in EUR thousand	2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration	233	265	265	265
Additional benefits	26	26	26	26
Total	259	291	291	291
Short-term variable remuneration	42[1]	117[1]	0	117
Long-term variable remuneration				
SOP Tranche 2015 (GCGC)	12	12	12	12
Long-term bonus	41[2]	42[2]	0[3]	42
Total	95	171	12	171
Pension cost	21	22	22	22
Total remuneration	**375**	**484**	**325**	**484**

1) This amount comprises payments made in the amount of EUR 62 thousand, utilisation of provisions in the amount of EUR 45 thousand and additions to provisions of EUR 100 thousand. The previous year's figure comprised income relating to other periods of EUR 3 thousand from the reversal of a provision and the creation of a provision of EUR 45 thousand.
2) As in the previous year, this amount results from recognition of a provision in the amount of EUR 42 thousand (previous year: EUR 41 thousand).
3) An overall assessment is made after the contract has expired. This involves settling the credit balance accrued during the period of the contract against the malus components accrued. The total amount paid out at the end of the period of the contract may not be negative. If the calculation results in a negative figure, then the long-term bonus paid out is zero.

FP does not operate an annually recurring stock option plan but a regular multi-annual stock option plan.

The following cash outflows are associated with Management Board remuneration:

	Rüdiger Andreas Günther, CEO & CFO, 11.01.2016–31.12.2017		Thomas Grethe, CSO, 15.06.2013–31.12.2017		Sven Meise, CDO, 01.02.2015–31.12.2017	
in EUR thousand	2016	2017	2016	2017	2016	2017
Fixed remuneration	400	400	293	265	233	265
Additional benefits	45	19	16	20	26	26
Total	445	419	309	285	259	291
Short-term variable remuneration	0	228	0	63	24	62
Long-term variable remuneration						
Long-term bonus	0	90	18	21	0	21
Other	0	0	0	0	0	0
Total	0	318	18	84	24	83
Pension cost	19	20	21	22	21	22
Total remuneration	**464**	**757**	**348**	**391**	**304**	**396**

Of the share-based payment granted in fiscal years 2015 and 2016 from the 2015 stock option plan, EUR 243 thousand (312,500 options) related to the Management Board. No further options were granted under this 2015 stock option plan in the reporting year. The exercise periods for the options are in fiscal year 2019 and 2020.

The amounts stated in the above tables as pension cost are subsidies for pensions and part of the fixed remuneration paid to Management Board members.

The additional benefits essentially consist of the value of the use of a company car and a blanket amount for moving expenses as determined in compliance with tax law.

As in the previous year, provisions of only insignificant amounts were recognised for pension obligations to active Management Board members (2017: EUR 4 thousand; 2016: EUR 3 thousand).

EUR 1,121 thousand was set aside for pension obligations to former Management Board members of Francotyp-Postalia Holding AG as at 31 December 2017 (previous year: EUR 1,141 thousand). EUR 17 thousand (previous year: EUR 32 thousand) was added to provisions in the 2017 reporting year, of which EUR 1 thousand for service cost and EUR 16 thousand for interest cost.

11.5.2 Remuneration of the Supervisory Board

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

In addition to the reimbursement of cash expenses and any VAT incurred in relation to Supervisory Board work, each member of the Supervisory Board receives fixed remuneration of EUR 30 thousand per fiscal year, payable in the last month of the fiscal year. From fiscal year 2009, the fixed remuneration for the Chairman is 150% of the remuneration for a normal Supervisory Board member, while for the Deputy Chairman it is 125%.

The fixed remuneration of the Supervisory Board for fiscal year 2017 amounted to EUR 113 thousand (previous year: EUR 113 thousand). The total amount is divided into EUR 45 thousand for Mr Klaus Röhrig, EUR 38 thousand for Mr Robert Feldmeier and EUR 30 thousand for Mr Botho Oppermann.

11.6 Share Ownership of the Management Board and Supervisory Board

As the total ownership of all Management Board and Supervisory Board members exceeds 1% of the shares issued by the company, FP lists the total ownership separately according to the Management Board and Supervisory Board:

SHAREHOLDER

	Number of shares	%
(Direct)		
Rüdiger Andreas Günther	19,887	0.12
Sven Meise	1,916	0.01
Botho Oppermann (Supervisory Board member)	300,000	1.84
(Indirect)		
Klaus Röhrig (Chairman of the Supervisory Board) via 3R Investments Ltd.	130,000	0.80
Klaus Röhrig (Chairman of the Supervisory Board) via Active Ownership Fund SICAV-FIS SCS	1,550,000	9.51

12. Francotyp-Postalia Holding AG (Condensed Version – HGB)

Francotyp-Postalia Holding AG (FP Holding) is the parent company of the FP Group and has its headquarters in Berlin, Germany. Its business address is Prenzlauer Promenade 28, 13089 Berlin.

As an expert in secure mail business and digital communication processes, FP Holding indirectly offers businesses and authorities innovative solutions for secure communication via its subsidiaries and second-tier subsidiaries. FP Holding is able to cover all dispatch channels relating to mail – from franking and inserting physical letters, mail consolidation to hybrid mail and the fully digital, secure and traceable dispatch of documents.

Sales take place in Germany and abroad via subsidiaries and a dense network of dealers in around 40 countries.

FP Holding largely performs the tasks of a traditional management holding company. As it has no operating business itself, the financial position of the company depends on the results of the subsidiaries. The main key figures relevant to FP Holding are income from investments and the net profit / loss for the year.

Quantitative information on non-financial performance indicators is currently not applied for management purposes.

FP Holding's annual financial statements are prepared in line with the German Commercial Code (HGB). The consolidated financial statements comply with International Financial Reporting Standards (IFRSs). This results in some differences with regard to recognition and measurement methods. This mainly relates to intangible assets, provisions, financial instruments, lease transactions and deferred taxes.

12.1 Income Situation

INCOME SITUATION

in EUR million	2017	2016
Revenue	2.6	2.4
Other operating income	1.4	2.3
Cost of materials	0.5	0.8
Staff costs	6.2	4.8
Other operating expenses and amortisation, depreciation and write-downs	5.6	5.7
Income from investments	8.6	5.3
Net interest income	0.2	0.5
Taxes on income and earnings	–2.6	0.4
Earnings after taxes	–2.1	–0.4
Net profit / loss	**–2.3**	**–0.4**

12.1.1 Revenue

The increase in FP Holding's revenue in fiscal year 2017 resulted from higher Group operating expenses, despite there being no change in the service activities rendered by FP Holding.

12.1.2 Other operating income

Other operating income in the year under review essentially comprised income relating to other periods from the reversal of provisions and, as in the previous year, income from receipt of a wage subsidy.

12.1.3 Cost of materials

The decline in the cost of materials from purchased services in the reporting year resulted mainly from a year-on-year reduction in legal and consulting costs.

12.1.4 Staff costs

The increase in staff costs in fiscal year 2017 was essentially due to higher provisions for bonuses and the recruitment of new employees in connection with the further professionalisation of FP Holding in line with the FP Group's ACT strategy.

12.1.5 Other operating expenses and amortisation, depreciation and write-downs

The slight decline in the reporting year was mainly due to a reduction in legal and consulting costs to EUR 0.3 million and a drop in material and service costs to EUR 0.4 million. On the other hand, there was an increase of EUR 0.1 million in write-downs on intangible assets.

12.1.6 Income from investments

The significant increase of income from investments in fiscal year 2017 is due primarily to higher profit transfers on the basis of a year-on-year improvement in operating performance and higher profit distributions from foreign affiliates.

12.1.7 Net interest income

The decline in net interest income in the year under review was essentially due to non-recurring interest expenses resulting from ongoing tax audits; the significant year-on-year reduction in other bank interest and expenses that are similar to interest had a positive impact.

12.1.8 Taxes on income and earnings

Expenses from taxes on income and earnings of EUR 2.6 million (previous year: income of EUR 0.4 million) resulted primarily from tax charges for previous years in connection with ongoing audits and the adjustment of deferred taxes through profit and loss due to corrections to tax accounting in previous years.

12.1.9 Net profit / loss

FP Holding generated a net loss of EUR −2.3 million in the year under review, compared with EUR −0.4 million in the previous year, largely owing to a significant increase in expenses from taxes on income and earnings.

12.2 Financial Position

LIQUIDITY ANALYSIS

in EUR million	1.1.–31.12.2017	1.1.–31.12.2016
Cash flow from operating activities	−2.5	−3.7
Cash flow from investing activities	−0.3	−0.4
Free cash flow	−2.8	−4.2
Cash flow from financing activities	2.8	3.2
Change in cash and cash equivalents	**−0.1**	**−0.9**

The slight positive change in cash flow from operating activities in fiscal year 2017 is mainly due to an increase of EUR 5.2 million in tax provisions and other provisions.

The cash flow from financing activities increased largely as a result of a higher balance of incoming and outgoing payments of liabilities to banks of EUR 5.5 million (previous year: EUR 4.6 million), while at the same time there was a higher dividend payment of EUR 2.6 million (previous year: EUR 1.9 million).

FP Holding was able to meet its payment obligations at all times in fiscal year 2017.

12.3 Net Assets

CONDENSED STATEMENT OF FINANCIAL POSITION OF FP HOLDING

in EUR million	2017	2016
Non-current assets	76.7	76.6
Current assets	42.1	38.3
Prepaid expenses and deferred tax assets	2.5	1.7
Assets	**121.2**	**116.7**
Shareholders' equity	64.7	71.0
Provisions	8.8	6.0
Liabilities and deferred tax liabilities	47.7	39.7
Liabilities	**121.2**	**116.7**

12.3.1 Non-current assets

Non-current assets remained at more or less the same level as in the previous year in fiscal year 2017.

12.3.2 Current assets

The increase in current assets resulted in particular from the rise in intra-Group receivables (EUR 4.8 million). This increase was linked to intra-Group financing for subsidiaries.

12.3.3 Equity

Equity declined in the reporting year due to the net loss of EUR −2.3 million and as a result of the EUR 2.6 million dividend payment (in 2017 for 2016). In the share buyback program a total of 351,168 treasury shares were acquired in fiscal year 2017. The nominal amount of the shares is openly deducted from equity. The difference of the purchase price is offset against capital reserves. The equity ratio fell from 60.9% to 53.4%.

12.3.4 Provisions

The increase in provisions in fiscal year 2017 is due to a rise of EUR 2.0 million in provisions for taxes, largely owing to expected additional tax payments from ongoing audits, and an increase (+ EUR 0.8 million) in other provisions, mainly due to higher provisions for bonuses.

12.3.5 Liabilities and deferred tax liabilities

The increase in liabilities and deferred tax liabilities in the reporting year is mainly due to an increase in liabilities to banks of EUR 5.5 million, due primarily to the utilisation of available credit facilities.

12.4 Comparison of the Actual / Forecast Business Performance of FP Holding

The forecast for fiscal year 2017 envisaged a slight increase in income from investments and a slightly larger net loss. The predicted increase in the net loss was due to an anticipated rise in income from profit transfers with a decline in other operating income and higher staff costs.

In fiscal year 2017, FP Holding generated income from investments of EUR 8.6 million and thus surpassed the forecast. The significant increase is due primarily to higher profit transfers on the basis of a year-on-year improvement in operating performance and higher profit distributions from foreign affiliates. As expected, FP Holding recorded a year-on-year drop in other income in the reporting year and an increase in staff costs. As expenses from taxes on income and earnings were higher than planned, FP Holding sustained a net loss of EUR −2.3 million in the year under review, which was larger than forecast.

12.5 Overall Statement on Business Performance

As planned, fiscal year 2017 was shaped by the implementation of the ACT strategy and FP FIT measures; focusing on the interim targets set for fiscal year 2020, FP increased the pace again significantly. Exogenous and unexpected factors led to additional challenges and had a negative impact on operational business performance and earnings development.

As a result of the FP FIT measures aimed at further professionalisation of administrative areas of the Group, particularly to further enhance security, quality and performance in the processes involved in reporting and the preparation of financial statements, to expand the tax and treasury department and in the areas of corporate marketing and brand management, structure and organisation and global IT, FP Holding's position as the management holding company was strengthened again significantly in fiscal year 2017.

12.6 Risks and Opportunities

The business performance of FP Holding is largely subject to the same risks and opportunities as the FP Group. FP Holding's share in the risks of the investments and subsidiaries is basically in proportion to its level of ownership. Risks and opportunities are outlined in the "Risk and Opportunity Report". Additional financial burdens may also arise from investments as a result of legal or contractual contingent liabilities (particularly financing).

12.7 Forecast

Because of FP Holding's links with the Group companies, we refer to our statements in the report on expected developments in the Group management report, which particularly reflect the expectations for the parent company. FP Holding expects income from investments to increase slightly and the net loss to be significantly reduced in fiscal year 2018. The predicted reduction in the net loss, despite a decline in other income and a slight rise in staff costs, is mainly due to an improvement in net interest income and a substantial reduction in expenses from taxes on income and earnings.

These plans are based on the level of knowledge available at the start of 2018. The FP Group wishes to point out that the planning information stated may differ from the values actually reached at a later date.

13. Responsibility Statement by Legal Representatives in Accordance with Section 315(1) Sentence 5 and Section 289(1) Sentence 5 German Commercial Code (HGB)

To the best of our knowledge and in accordance with the applicable reporting principles for the consolidated financial statements, we assure that the consolidated financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group, and that the management report of the company and the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Berlin, 21 March 2018

Rüdiger Andreas Günther
CEO

Thomas Grethe
Management Board member

Sven Meise
Management Board member

CONSOLIDATED FINANCIAL STATEMENT

Please note that there may be rounding differences compared with exact mathematical figures (monetary units, percentages, etc.).

Consolidated Statement of Comprehensive Income for the Period from 1 January to 31 December 2017

in EUR thousand	III and IV Notes	1.1.–31.12.2017	1.1.–31.12.2016
Revenue	(1)	206,343	202,969
Increase/decrease in inventories of finished goods and work in progress		523	155
		206,866	203,124
Other own work capitalised	(2)	10,839	11,391
Other income	(3)	4,774	3,771
Cost of materials	(4)		
a) Expenses for raw materials, consumables and supplies		35,218	35,647
b) Cost of purchased services		67,662	60,872
		102,880	96,519
Staff costs	(5)		
a) Wages and salaries		50,406	49,050
b) Social security contributions		7,795	7,569
c) Expenses for pensions and other benefits		1,024	800
		59,225	57,419
Amortisation, depreciation and write-downs	(10)	19,060	17,487
Other expenses	(6)	34,058	37,125
Net interest income	(7)		
a) Interest and similar income		2,126	1,348
b) Interest and similar expenses		1,909	1,563
		217	–215
Other financial result	(7)		
a) Other financial income		855	3,787
b) Other finance costs		1,258	3,695
		–403	92
Income taxes	(8)	–2,422	–3,414
Consolidated net income		**4,649**	**6,199**

in EUR thousand	III and IV Notes	1.1.–31.12.2017	1.1.–31.12.2016
Other comprehensive income			
Foreign currency translation of financial statements of foreign entities		–4,293	–517
of which taxes		–16	19
Provisions for pensions and partial retirement obligations in accordance with IAS 19 (rev. 2011)		211	–1,207
of which taxes		102	–495
Cash flow hedges – effective part of changes to fair value		487	–249
of which taxes		–210	108
Cash flow hedges – reclassified to profit or loss		–161	0
of which taxes		70	0
Other comprehensive income after taxes		–3,756	–1,973
Total comprehensive income		**893**	**4,226**
Consolidated net income, of which:		4,649	6,199
Consolidated net income attributable to the shareholders of FP Holding		4,649	5,857
Consolidated net income attributable to non-controlling interests		0	342
Total comprehensive income, of which		893	4,226
Total comprehensive income attributable to the shareholders of FP Holding		893	3,884
Total comprehensive income attributable to non-controlling interests		0	342
Earnings per share (basic in EUR):	(9)	0.29	0.36
Earnings per share (diluted in EUR):		**0.28**	0.36

Consolidated Statement of Financial Position as at 31 December 2017

ASSETS

in EUR thousand	IV Notes	31.12.2017	31.12.2016
NON-CURRENT ASSETS			
Intangible assets	**(10)**		
Intangible assets including customer lists		21,578	22,117
Goodwill		8,494	8,494
Development projects in progress and advance payments		5,074	4,265
		35,146	34,876
Property, plant and equipment	**(10)**		
Land, land rights and buildings		2,784	3,044
Technical equipment and machinery		4,659	4,729
Other equipment, operating and office equipment		4,274	4,348
Leased products		18,384	23,807
Finance lease assets		1,208	3,103
Advance payments and assets under construction		446	315
		31,755	39,346
Other assets			
Associates	(21)	36	36
Other equity investments	(21)	163	163
Finance lease receivables	(11, 21)	11,234	9,375
Other non-current assets		153	149
		11,587	9,723
Tax assets			
Deferred tax assets	(18)	1,386	866
Current tax assets		2,446	0
		3,832	866
		82,320	**84,811**
CURRENT ASSETS			
Inventories	**(12)**		
Raw materials, consumables and supplies		3,892	5,187
Work in progress		747	552
Finished goods and merchandise		5,994	5,457
		10,633	11,196
Trade receivables	**(13, 21)**	**18,684**	**18,966**
Other assets			
Finance lease receivables	(11, 21)	4,037	3,169
Income taxes receivable	(18)	5,813	6,480
Derivative financial instruments	(21)	110	86
Other current assets	(14, 21)	13,271	15,557
		23,230	25,292
Securities	**(21)**	**676**	**679**
Cash and cash equivalents	**(15, 21)**	**34,234**	**26,394**
		87,457	82,527
		169,777	**167,338**

LIABILITIES

in EUR thousand	IV Notes	31.12.2017	31.12.2016
EQUITY	**(16)**		
Issued capital		16,301	16,215
Capital reserves		34,746	34,620
Stock option reserve		1,318	1,179
Treasury shares		–1,625	0
Loss carried forward		–17,543	–20,794
Consolidated net income after minority interests		4,649	5,857
Total other equity		–4,887	–1,131
		32,959	35,946
NON-CURRENT LIABILITIES			
Provisions for pensions and similar obligations	(17)	16,528	17,054
Other provisions	(19)	1,139	991
Financial liabilities	(20, 21)	43,138	37,530
Other liabilities	(20, 21)	70	110
Deferred tax liabilities	(18)	1,576	572
		62,450	56,257
CURRENT LIABILITIES			
Tax liabilities	(18)	5,091	3,635
Provisions	(19)	7,965	7,969
Financial liabilities	(20, 21)	412	911
Trade payables	(20, 21)	11,210	10,612
Other liabilities	(20, 21)	49,689	52,008
of which telepostage EUR 27,281 thousand (previous year: EUR 28,119 thousand)			
		74,367	75,135
		169,777	**167,338**

Consolidated Cash Flow Statement for the Period from 1 January to 31 December 2017

in EUR thousand	III and IV Notes	1.1.–31.12.2017	1.1.–31.12.2016
1. Cash flow from operating activities			
Consolidated net income		4,649	6,199
Net income tax recognised in profit or loss	(8)	2,422	3,414
Net interest income recognised in profit or loss	(7)	–217	214
Amortisation, depreciation and write-downs on non-current assets	(10)	19,060	17,487
Decrease (–)/increase (+) in provisions and tax liabilities	(17, 18, 19)	–400	–314
Loss (+)/gain (-) on the disposal of non-current assets		711	120
Decrease (+)/increase (-) in inventories, trade receivables and other assets not attributable to investing or financing activities (without finance lease)	(12, 13, 14)	3,221	471
Decrease (+) / increase (-) in receivables from finance lease		–2,727	–4,148
Decrease (-)/increase (+) in trade payables and other liabilities[1] not attributable to investing or financing activities	(20)	–3,836	–731
Other non-cash income		293	–376
Interest received	(7)	2,126	1,348
Interest paid	(7)	–1,794	–1,290
Income taxes received	(8)	1,011	1,458
Income taxes paid	(8)	–3,265	–1,722
Cash flow from operating activities		21,253	22,129
2. Cash flow from investing activities			
Payments for the capitalisation of development costs	(2, 10)	–5,088	–4,413
Payments for capitalised interest for development costs		–51	–168
Proceeds from disposals of non-current assets	(10)	0	85
Payments for investments in intangible assets	(10)	–1,758	–2,309
Payments for investments in property, plant and equipment	(10)	–8,578	–9,962
Payments for the acquisition of non-controlling interests		0	–800
Cash flow from investing activities		–15,474	–17,567

1) Postage credit balances managed by the FP Group of EUR 10,820 thousand (previous year: EUR 8,418 thousand) are deducted from cash and other liabilities. Securities held as current assets are included in cash and cash equivalents in the amount of EUR 676 thousand (previous year: EUR 679 thousand).

in EUR thousand	III and IV Notes	1.1.–31.12.2017	1.1.–31.12.2016
3. Cash flow from financing activities			
Dividend payments to minority interests		0	–1,470
Payments for distributions to shareholders	(16)	–2,606	–1,923
Bank loan repayments	(20)	–6	–33,127
Repayments of finance lease liabilities	(20)	–1,175	–1,675
Proceeds from the assumption of finance lease liabilities	(20)	353	0
Proceeds from the sale of treasury shares	(16)	0	410
Proceeds for the purchase of treasury shares		–1,625	0
Proceeds from the issue of new shares	(20)	212	138
Proceeds from the assumption of bank loans		5,938	36,914
Cash flow from financing activities		1,091	–733
Cash and cash equivalents[1]			
Change in cash and cash equivalents	V.	6,870	3,829
Change in cash due to currency translation		–1,434	–1,102
Cash at beginning of period	V.	18,655	15,928
Cash at end of period	**V.**	**24,091**	**18,655**

1) Postage credit balances managed by the FP Group of EUR 10,820 thousand (previous year: EUR 8,418 thousand) are deducted from cash and other liabilities. Securities held as current assets are included in cash and cash equivalents in the amount of EUR 676 thousand (previous year: EUR 679 thousand).

Consolidated Statement of Changes in Equity for the Period from 1 January to 31 December 2017

in EUR thousand	Issued capital	Capital reserves	Stock option reserve	Treasury shares	Consolidated net income	Total other equity: Currency translation adjustment	Total other equity: Net investments in foreign operations	Total other equity: Adjustment due to IAS 19	Total other equity: Difference amount from acquisition of shares of other shareholders	Total other equity: Reserve from hedging transactions	Equity attributable to FP Holding	Non-controlling interests	**Total**
IV Notes (16)[1]													
As at 1.1.2016	**16,160**	**34,937**	**1,046**	**–810**	**–18,871**	**3,425**	**178**	**–2,352**	**0**	**0**	**33,713**	**1,519**	**35,232**
Consolidated net income 1.1.–31.12.2016	0	0	0	0	5,857	0	0	0	0	0	5,857	342	6,199
Foreign currency translation of financial statements of foreign entities	0	0	0	0	0	–471	–46	0	0	0	–517	0	–517
Adjustment of provisions for pensions and early retirement according to IAS 19	0	0	0	0	0	0	0	–1,177	0	0	–1,177	–30	–1,207
Cash flow hedges	0	0	0	0	0	0	0	0	0	–249	–249	0	–249
Other comprehensive income 1.1.–31.12.2016	0	0	0	0	0	–471	–46	–1,177	0	–249	–1,943	–30	–1,973
Total comprehensive income 1.1.–31.12.2016	0	0	0	0	5,857	–471	–46	–1,177	0	–249	3,914	312	4,226
Distributions	0	0	0	0	–1,923	0	0	0	0	0	–1,923	–1,470	–3,393
Stock option settlement	55	–317	133	810	0	0	0	0	0	0	681	0	681
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	–439	0	–439	–361	–800
As at 31.12.2016	**16,215**	**34,620**	**1,179**	**0**	**–14,937**	**2,954**	**132**	**–3,529**	**–439**	**–249**	**35,946**	**0**	**35,946**
As at 1.1.2017	**16,215**	**34,620**	**1,179**	**0**	**–14,937**	**2,954**	**132**	**–3,529**	**–439**	**–249**	**35,946**	**0**	**35,946**
Consolidated net income 1.1.–31.12.2017	0	0	0	0	4,649	0	0	0	0	0	4,649	0	4,649
Foreign currency translation of financial statements of foreign entities	0	0	0	0	0	–4,257	–36	0	0	0	–4,293	0	–4,293
Adjustment of provisions pensions and early retirement according to IAS 19	0	0	0	0	0	0	0	211	0	0	211	0	211
Cash flow hedges	0	0	0	0	0	0	0	0	0	326	326	0	326
Other comprehensive income 1.1.–31.12.2017	0	0	0	0	0	–4,257	–36	211	0	326	–3,756	0	–3,756
Total comprehensive income 1.1.–31.12.2017	0	0	0	0	4,649	–4,257	–36	211	0	326	893	0	893
Distributions	0	0	0	0	–2,606	0	0	0	0	0	–2,606	0	–2,606
Stock option settlement	86	126	139	0	0	0	0	0	0	0	351	0	351
Acquisition of non-controlling interests	0	0	0	–1,625	0	0	0	0	0	0	–1,625	0	–1,625
As at 31.12.2016	**16,301**	**34,746**	**1,318**	**–1,625**	**–12,894**	**–1,303**	**96**	**–3,318**	**–439**	**77**	**32,959**	**0**	**32,959**

1) The changes in equity are explained in the notes to the consolidated financial statements in the following sections.

NOTES

I. General Information

General Information on the Company

Francotyp-Postalia FP Holding, headquartered in Berlin (hereinafter also referred to as "FP Holding"), is entered in the commercial register of the Charlottenburg Local Court under HRB 169096 B.

The international FP Group has a history dating back 95 years and is an expert in the secure mail business and digital communication processes. Its business activities focus on products and services for efficient mail processing, the consolidation of business mail and digital solutions for businesses and authorities.

The Management Board of Francotyp-Postalia Holding AG approved the consolidated financial statements for submission to the Supervisory Board on 21 March 2018. It is the responsibility of the Supervisory Board to examine the consolidated financial state-ments and to state whether it adopts them.

Declaration of Compliance

FP Holding has prepared its consolidated financial statements as at 31 December 2017 in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, as applicable in the EU, and the supplementary provisions in accordance with section 315e(1) of the German Commercial Code (HGB).

Accounting Principles

Francotyp-Postalia FP Holding acts as the parent company under which the FP Group is consolidated. The fiscal year is the calendar year for all Group companies.

The consolidated financial statements and the Group management report for the year ending 31 December 2017 were submitted to and published in the electronic Federal Gazette.

The consolidated financial statements have been prepared in euro. For the purposes of clarity and comparability, all amounts are shown in thousands of euro (EUR thousand) unless otherwise stated. The commercial rounding of individual items and percentages can result in minor arithmetic differences.

Consistency of Accounting Policies and Adjustments to Disclosures in the Notes for the Previous Year

Apart from the exceptions described below, the accounting policies applied are the same as in the previous year.

Tax income and expense from deferred and current income tax were netted in the income statement for the first time in the 2016 fiscal year.

Adoption of New and Revised IFRSs

The FP Group applies new and revised IFRSs only from the date on which they become effective. The FP Group's commentary on the new or revised IFRSs in accordance with IAS 8.28 is as follows.

Standard	Note	Impact on the consolidated financial statements
Amendments to IAS 7 – Disclosure Initiative	The amendments improve information about changes in liabilities arising in a company. The company discloses information on changes in financial liabilities where incoming and outgoing payments are shown in the cash flow statement in cash flow from financing activities. The relevant financial liabilities are also included in the disclosures (e.g. assets from hedging transactions). Changes from financing cash flows, changes arising from acquiring or disposing of companies, the effects of changes in foreign exchange rates, changes in fair values and other changes are disclosed. The disclosures are presented in the form of a reconciliation between the opening and closing balances in the statement of financial position.	In section V, the Group presents the changes between the opening and closing balances of the affected financial liabilities in a reconciliation.
Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	The amendments clarify the recognition of deferred tax assets for unrealised losses for debt instruments measured at fair value.	No material impact
Improvements to IFRS 2014–2016	With the Annual Improvements to IFRSs (2014–2016), three IFRSs were amended, of which only the following was applicable in 2017: IFRS 12 clarifies that the disclosure requirements pursuant to IFRS 12 also apply to an entity's interests in subsidiaries, joint ventures or associates classified as held-for-sale in accordance with IFRS 5. An exception here is the disclosure requirements pursuant to IFRS 12.B10-B16 (financial information).	No material impact

The Group is not planning early adoption of the following new or amended standards and interpretations that become effective in subsequent fiscal years. Unless stated otherwise, their impact on the consolidated financial statements of the FP Holding is currently being examined.

IAS 8.30, HAS BEEN ENDORSED BY THE EU

Standard	Note	Impact on the consolidated financial statements
IFRS 9 Financial Instruments	Published in July 2014, IFRS 9 replaces the existing guidelines of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised guidelines for the classification and measurement of financial instruments, including a new model of expected credit losses to calculate impairment on financial assets, and new general accounting rules for hedges. It also includes the guidelines for the recognition and derecognition of financial instruments from IAS 39. The Group is required to apply IFR 9 Financial Instruments from 1 January 2018.	The Group intends to apply the fully retrospective method for the transition. Although the changeover to the new standard is largely complete and the effects are currently being analysed, they cannot yet be determined reliably. However, we expect higher valuation allowances due to the new model for recognising credit losses.

The following overview shows the original classification in accordance with IAS 39 and the provisional classification in accordance with IFRS 9 for each group of financial assets and liabilities as at 31 December 2017.

Figures in EUR thousand	Note	Classification according to IAS 39	Classification according to IFRS 9	Carrying amounts according to IAS 39	Carrying amounts according to IFRS 9
Securities	21	HfT	Fair value with change in value in financial result	676	676
Asset derivatives with a hedging relationship	21	n/a	n/a	110	110
Asset derivatives without a hedging relationship	21	HfT	Fair value with change in value in financial result	0	0
Equity investments and associates	21	AfS	OCI option: fair value with change in value in financial result or other comprehensive income	199	199
Trade receivables	13	LaR	Amortised cost	18,684	18,649
Other financial assets	21	LaR	Amortised cost	6,812	6,799
Finance lease receivables	11	n/a	n/a	15,721	15,692
Cash and cash equivalents	15	LaR	Amortised cost	34,234	34,234
Liabilities to banks	20	OL	Amortised cost	42,847	42,847
Trade payables	20	OL	Amortised cost	11,210	11,210
Other financial liabilities	21	OL	Amortised cost	32,040	32,040
Finance lease liabilities	21	n/a	n/a	703	703
Liabilities derivatives with a hedging relationship	21	n/a	n/a	0	0
Liability derivatives	21	HfT	OCI option: fair value with change in value in financial result or other comprehensive income	2,215	2,215

See note 21 for the classification of categories according to IAS 39.

Receivables and liabilities from finance leases are not allocable to any measurement category according to IAS 39.2 (b). The are recognised according to IAS 17.

In the FP Group the key areas for the scope of the IFRS 9 impairment requirements are recognised trade receivables, finance lease receivables and other financial assets. In the FP Group there are no material other non-current financial assets in the form of debt instruments (e.g. originated loans) for which the more complex 3-stage impairment model is mandatory.

IFRS 9 does not specify a single method for calculating expected credit losses. For trade receivables with a duration under one year (i.e. without significant financing components), the simplified approach must be applied. For trade receivables with a duration over one year (i.e. with significant financing components), in accordance with IFRS 9 either the general or simplified approach may be applied. Thus the trade receivables are recognised in line with the simplified approach. On the basis of historical data, the Group calculated the following default figures:

TRADE RECEIVABLES, FINANCE LEASE RECEIVABLES AND OTHER FINANCIAL ASSETS

in EUR thousand	**2017**	2016	2015	2014	2013
Revenue	206,343	202,969	191,056	170,307	168,918
Expenses from derecognition	398	305	236	237	558
Default ratio	0.19%	0.15%	0.12%	0.14%	0.33%

Based on the average historical default rates on the portfolios of trade receivables, finance lease receivables and other financial assets as at the reporting date, this results in an expected default on receivables of EUR 77 thousand.

For cash the Group has calculated the expected credit losses on the basis of quoted CDS spreads. On money market accounts these figures are to be calculated using a holding period of one day. On a simplified basis this is done by dividing the CDS spread by 365 days. With an assumed CDS of 20 basis points, this results in insignificant amounts for the Group.

Standard	Note	Impact on the consolidated financial statements
IFRS 15 Revenue from Contracts with Customers including Amendments to IFRS 15 and Clarifications to IFRS 15	IFRS 15 Revenue from Contracts with Customers sets out a comprehensive framework for determining whether, how much and when revenue should be recognised. It replaces the existing guidance on the recognition of revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 establishes a five-step model to account for revenue arising from all contracts with customers. In addition, the standard contains new, more extensive requirements regarding qualitative and quantitative disclosures on revenue to be made in the financial statements. IFRS 15 is effective for the first time for reporting periods beginning on or after 1 January 2018. Early adoption is permitted, but is not applied.	The analysis of the impact across the Group on the consolidated financial statements of applying IFRS 15 is largely complete. The FP Group generates its revenue primarily from selling franking and inserting machines and rendering services. As a rule, revenue from sales is recognised at a point in time. In contrast, separately concluded service agreements must be recognised over time, which largely matches the current practice under IAS 18. However, installation services sold in connection with the service agreements are currently likewise recognised over time – here, the Group expects minor changes from the switch to recognition at a point in time. Sale and service agreements are often concluded at the same time, so they have to be conflated and analysed according to IFRS 15 as multiple-element arrangements. The transaction price must be allocated on the basis of the relative stand-alone selling prices (SASPs). These SASPs form the basis for revenue recognition. The Group expects no material deviations between the prices previously taken as a basis and the SASPs as per IFRS 15. The Group has decided to apply the modified retrospective method. In summary, besides the requirement to make more extensive disclosures on the Group's revenue from contracts with customers, the Group does not expect the application of IFRS 15 to have a material impact on the net assets, financial position and results of operations. From initial application, the Group expects an addition to retained
IFRS 16 Leases	IFRS 16 introduces a single accounting model according to which leases are to be recognised on the lessee's statement of financial position. A lessee recognises a right-of-use asset, which shows his right to the use of the underlying asset and a liability from the leasing relationship which shows his obligation to make lease payments. There are exceptions for short-term leases and leases for assets with low value. Accounting at the lessor is similar to the current standard, i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces the existing guidance on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. The disclosure requirements for lessees and lessors have become considerably more extensive in IFRS 16 compared to IAS 17. The standard is effective for the first time for reporting periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers when applying IFRS 16 for the first time or before. Early adoption is permitted, but is not applied.	As at 31 December 2017, the Group had payment obligations as a lessee from non-cancellable leases of EUR 748 thousand. IAS 17 requires the recognition of neither a RoU asset nor a lease liability for these payments. Instead, note (23) contains the necessary disclosures. A provisional assessment indicates that these agreements meet the definition of a lease and the Group would therefore have to carry the corresponding amounts in the statement of financial position. It can be assumed that the application of IFRS 16 will have a considerable influence on the consolidated financial statements. The Group is just beginning to investigate the effects. A reliable estimate of the size of the impact cannot be made until this investigation is complete. In particular, analyses must still determine which extension or termination options exist, to what extent exemptions and options will be utilised and which incremental borrowing rates will be used. In the case of finance leases with the Group as lessee, assets and liabilities are already recognised. For these cases and for leases with the Group as lessor, the Group does not expect the application of IFRS 16 to have a material impact on the consolidated financial statements. However, the Group expects the requirement to make more extensive disclosures on the Group's leases to affect all areas (lessor and lessee).

Standard	Note	Impact on the consolidated financial statements
Improvements to IFRS 2014–2016	With the Annual Improvements to IFRSs (2014–2016), three IFRSs were amended, of which the following two amendments are not applicable until 2018: IAS 28 clarifies that the option on how to measure an investment in an associate or joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity is available on an investment-by-investment basis. Furthermore, the limited options in IFRS 1 Appendix E (IFRS 1.E3–E7) are cancelled for those applying IFRS for the time.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.

IAS 8.30, ENDORSEMENT BY THE EU IS STILL PENDING

Standard	Note	Impact on the consolidated financial statements
Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions	The amendments relate to the consideration of exercise conditions in the measurement of cash-settled share-based payment transactions, the classification of share-based payment transactions which provide for a net settlement of taxes to be withheld and modifications of payment transactions from "cash settled" to "equity settled". Subject to EU endorsement, the modifications are effective for payment transactions granted or changed in reporting periods beginning on or after 1 January 2018. Earlier adoption is allowed. Retroactive application is only possible without the use of later, better knowledge.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.
Amendments to IFRS 9 – Prepayment Features with Negative Compensation	The amendments constitute a limited adjustment of the assessment criteria relevant for the classification of financial assets. Under certain circumstances, prepayment features with negative compensation may be recognised at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss. Subject to EU endorsement, the amendments must be applied for the first time as at 1 January 2019.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.

Standard	Note	Impact on the consolidated financial statements
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments address a noted inconsistency between the requirements of IFRS 10 and IAS 28 (2011) in the case of a sale or contribution of assets to an associate or joint venture. According to IFRS 10, a parent company must recognise the profit or loss from the sale of a subsidiary in full in the income statement if it loses control of the subsidiary. In contrast, the currently applicable IAS 28.28 requires that the gains and losses on sale transactions between an investor and an investment accounted for using the equity method – be it an associate or joint venture – be recognised only to the extent of unrelated investors' interests in this entity. In the future, the full gain or loss from a transaction is only to be recognised if the assets sold or contributed constitute a business as defined in IFRS 3. This applies regardless of whether the transaction is designed as a share or asset deal. If the assets do not constitute a business, however, the gain or loss may only be recognised pro rata. The IAS B has deferred the initial application date of the amendments indefinitely.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.
Amendment to IAS 28 – Long-term Interests in Associates and Joint Ventures	The amendments include clarification that IFRS 9 is applicable to long-term interests in associates and joint ventures not accounted for according to the equity method. Subject to EU endorsement, the amendments must be applied for the first time as at 1 January 2019.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.
IFRIC 22 Foreign Currency Transactions and Advance Consideration	IFRIC 22 addresses an application issue regarding IAS 21 The Effects of Changes in Foreign Exchange Rates. It clarifies at what time the exchange rate is to be calculated for the translation of transactions that include the receipt or payment of advance consideration in a foreign currency. Decisive for the determination of the exchange rate for the underlying asset, income or expense is the date at which the asset or liability resulting from the advance consideration is initially recognised. Subject to EU endorsement, the interpretation is effective for the first time for reporting periods beginning on or after 1 January 2018. Earlier adoption is permitted.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.
IFRIC 23 Uncertainty over Income Tax Treatments	The tax treatment of certain circumstances and transactions can depend on future recognition by the tax authorities or courts. IAS 12 Income Taxes governs how current and deferred taxes are to be accounted for. IFRIC 23 complements the IAS 12 requirements with regard to accounting for uncertainties over the income tax treatment of circumstances and transactions. Subject to EU endorsement, the interpretation is effective for the first time for reporting periods beginning on or after 1 January 2019. Earlier adoption is permitted.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.

Standard	Note	Impact on the consolidated financial statements
Improvements to IFRS 2015–2017	With the Annual Improvements to IFRSs (2015–2017), four IFRSs were amended. In IFRS 3, it is clarified that an entity has to apply the principles for successive business combinations when it obtains control of a business that was previously a joint operation. The interest it previously held must be remeasured. In IFRS 11, it is clarified that when an entity obtains joint control of a business that was previously a joint operation, the entity does not remeasure previously held interests in that business. The amendments to IAS 12 clarify that all income tax consequences of dividend payments are to be recognised in the same way as the income based on the dividends. Finally, the amendments to IAS 23 clarify that, if an entity has borrowed generally for the acquisition of qualifying assets, the costs of borrowing specifically for the acquisition of qualifying assets do not have to be included in the calculation of the capitalisation rate until completion. Subject to EU endorsement, the amendments are effective for the first time for reporting periods beginning on or after 1 January 2019. Earlier adoption is permitted.	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.
Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement	The amendments to IAS 19 demand that in the case of a change, curtailment or settlement of a defined benefit plan, the current service cost and the net interest for the remaining current financial year are to be recalculated using the current actuarial assumptions used for the necessary remeasurement of the net liability. Net interest for the remainder of the financial year is then determined on the basis of the remeasured net liability. Subsequently in the case of a plan change, curtailment or settlement in accordance with IAS 19.99–112 it is mandatory that the past service cost, or the gain or loss on settlement is recognized and measured. In doing so, account should not be taken of effects from the asset ceiling. Only subsequently may a company determine the impact of the asset ceiling after a plan change, curtailment or settlement and recognize each change of the effect. The amendments are effective for the first time for reporting periods beginning on or after 1 January 2019. Earlier adoption is permitted	The Group is currently examining the potential impact. Material effects on the consolidated financial statements are not expected.

Consolidated Group

The consolidated financial statements of FP Holding include all companies which can be controlled by FP. The FP Holding controls a company if it is exposed to variable returns from its investment and has rights to these and the ability to affect these returns through its power over the company. If control ends, these companies are deconsolidated.

The consolidated group changed in fiscal year 2017. The consolidated group was expanded to include FP Produktionsverwaltung GmbH, Wittenberge, Germany, which is the general partner GmbH of the former FP Produktionsgesellschaft mbH, Wittenberge, Germany, whose legal form was changed to GmbH & Co. KG. In addition, FP Finance B.V., Zoetermeer, Netherlands, was founded in the reporting year.

In addition to Francotyp-Postalia FP Holding, the 2017 consolidated financial statements of the FP Group include eleven (previous year: ten) German and ten (previous year: nine) foreign subsidiaries (see following list on page 116).

Companies Controlled But Not Consolidated and Associates

In the reporting year, the number of non-consolidated companies declined. The subsidiary, Francotyp-Postalia Asia Pte. Ltd., Singapore was deleted from the commercial register on 4 December 2017. The total operating earnings of the subsidiaries not consolidated amount to around 1.4% (previous year: −1.4%) of consolidated operating earnings. As in the previous year, the estimated effect of the consolidation of the companies on the Group's total assets is around 0.5% (previous year: 0.5%) of the Group's total assets.

LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 313 HGB[1, 2]

No.	Name and registered office of the company	31.12.2017 Share in %[3]
	Consolidated companies	
1	Francotyp-Postalia FP Holding, Berlin, Germany	
2	Francotyp-Postalia GmbH, Berlin, Germany	100.00
3	freesort GmbH, Langenfeld, Germany	100.00
4	internet access GmbH lilibit Berlin Gesellschaft für Kommunikation und Digitaltechnik, Berlin, Germany	100.00
5	FP Direkt Vertriebs GmbH, Berlin, Germany	100.00
6	Francotyp-Postalia Vertrieb und Service GmbH, Berlin, Germany	100.00
7	FP Hanse GmbH, Hamburg, Germany	100.00
8	FP InovoLabs GmbH, Berlin, Germany	100.00
9	Francotyp-Postalia Unterstützungseinrichtung GmbH, Berlin, Germany	100.00
10	FP Produktionsgesellschaft mbH & Co. KG, Wittenberge, Germany	100.00
11	FP Produktionsverwaltung GmbH, Wittenberge, Germany	100.00
12	Mentana-Claimsoft GmbH, Fürstenwalde, Germany	100.00
13	Francotyp-Postalia N.V./S.A., Antwerp, Belgium	99.97
14	Francotyp-Postalia GmbH, Vienna, Austria	100.00
15	Ruys Handelsvereniging B.V., Zoetermeer, Netherlands	100.00
16	FP Finance B.V., Zoetermeer, Netherlands	100.00
17	Italiana Audion s. r. l, Milan, Italy	100.00
18	Francotyp-Postalia Ltd., Dartford, UK	100.00
19	Francotyp-Postalia Inc., Addison, Illinois, USA	100.00
20	Francotyp-Postalia Canada Inc., Concord, Canada	100.00
21	Francotyp-Postalia Sverige AB, Bromma, Sweden	100.00
22	Francotyp-Postalia France SARL, Nanterre, France	100.00

No.	Name and registered office of the company	31.12.2017 Share in %[3]
	Companies not included in consolidation	
23	FP Data Center Inc., Osaka, Japan	49.00
24	Nippon Postalia-Francotyp Co. Ltd, Tokyo, Japan	24.01
25	FP Systems India Private Limited, Mumbai, India	99.998
26	FP Direct Ltd., Dartford, UK	100.00

1) Four equity investments (previous year: five equity investments) not material to the financial position and results of operations of the Group were not consolidated, and were instead accounted for at amortised cost as associates or other equity investments under other non-current assets in accordance with IAS 39.
2) For Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb und Service GmbH, FP Hanse GmbH, FP Direkt Vertriebs GmbH, FP InovoLabs GmbH, Mentana-Claimsoft GmbH and Francotyp-Postalia Unterstützungseinrichtung GmbH, it was decided to make full use of the exemptions provided by section 264(3) HGB in conjunction with section 325 HGB. FP Produktionsgesellschaft mbH & Co. KG likewise made use of the exemptions provided by section 264b HGB in conjunction with section 325 HGB. These companies are also exempt from the obligation to prepare a 2017 management report in accordance with section 264(3) HGB in conjunction with section 289 HGB or section 264b HGB. The corresponding resolutions were submitted to the operator of the electronic Federal Gazette, the respective announcement was arranged.
3) Including directly and indirectly attributable shares.

Consolidation Principles

Acquisition accounting is performed in accordance with the principles of IFRS 3 (2008). All unrecognised gains and losses of the acquiree are identified upon first-time consolidation and all identifiable intangible assets are reported separately. All assets and liabilities are thus remeasured at fair value. The cost of the equity investments is then offset against the remeasured, pro rata equity. Any surplus is capitalised as goodwill. Incidental costs of acquisition incurred in business combinations are expensed.

Currency Translation

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

Foreign currency transactions in the financial statements of FP Holding and its German subsidiaries are translated at the exchange rates in effect at the transaction dates. Foreign currency monetary items are reported using the closing rate as at the end of the reporting period. Foreign exchange differences are recognised in the consolidated statement of comprehensive income of the Group company in question and reported under finance costs.

The foreign companies of the FP Group are independent units and prepare their annual financial statements in their own national currency. Their assets and liabilities are translated into euro using the closing rate when preparing the consolidated financial statements. The equity of the subsidiaries that do not prepare their accounts in euro is translated at the historical rate. The effects of the foreign currency translation of equity are recognised in other comprehensive income. The items of the consolidated statement of comprehensive income are translated at weighted average rates for the year. Foreign currency translation differences arising from different exchange rates for items in the statement of financial position and the consolidated statement of comprehensive income are shown in other comprehensive income. If Group companies are deconsolidated, the foreign currency translation difference in question is reversed to profit or loss.

Currency translation differences from monetary items that are part of a net investment in a foreign operation are recognised in other comprehensive income at Group level in accordance with IAS 21.15 in conjunction with IAS 21.32. In the event of a subsequent disposal of the respective net investment or the repayment of loans, the equity amounts in question are taken to profit or loss.

	Closing rate		Average rate	
1 EUR =	**31.12.2017**	31.12.2016	**2017**	2016
US dollar (USD)	1.1989	1.0554	1.1297	1.1071
Pound sterling (GBP)	0.8873	0.8554	0.8768	0.8196
Canadian dollar (CAD)	1.5028	1.4170	1.4648	1.4662
Swedish krona (SEK)	9.8321	9.5835	9.6352	9.4685

Accounting Policies

In preparing the 2017 consolidated financial statements, the Management Board applied the going concern principle to all companies included in the consolidated financial statements. The accounting was therefore prepared under the going concern assumption.

Revenue and other operating income are recognised when service is rendered or goods are delivered, i.e. when risk has transferred to the customer. Other conditions are the probability that the economic benefits associated with the transaction will flow to the Group, and the amount of the income and the related expenses can be measured reliably. Revenue is reported net of trade discounts and rebates. Revenue from operating leases is recognised over the term of performance; for agreements with flat-rate payment, such as service contracts, revenue is recognised on a straight-line basis over the term of the agreement.

Government grants as defined by IAS 20.7 are recognised when the underlying conditions for it have been met and it is reasonably assured that the grant will be received. IAS 20 distinguishes between property-related grants for non-current assets and grants related to income.

Grants for non-current assets are deducted from the carrying amount of the asset and recognised in profit or loss over the term of the depreciable asset at a reduced depreciation amount. If they are grants for internally generated assets, the grants reduce own work capitalised and the carrying amount by the same amount.

Grants that compensate the Group for expenses incurred are recognised in profit or loss in the periods in which the expenses are recognised.

Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the company and the amount of the income can be measured reliably. Interest expenses are recognised in the period in which they arise net of any transaction costs and discounts using the effective interest method.

Goodwill represents the excess of the cost of acquisitions over the Group's share in the fair value of the net assets of the acquiree at the respective dates. The respective goodwill is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is tested at the level of cash-generating units.

Negative goodwill from capital consolidation is recognised in profit or loss in other operating income in accordance with IFRS 3.

The recoverability of purchased intangible assets is calculated in accordance with IAS 36. Here, the present value of cash flows relating solely to the asset being measured is calculated. The discount rate for the cash flows after tax is based on the concept of the weighted average cost of capital (WACC).

Customer relationships capitalised in the context of purchase price allocation are measured using an earnings-based approach, whereby the value of customer relationships is shown by discounting the resulting cash flows. The cost of revenue generation is deducted from any revenue anticipated from customer relationships.

Except for capitalised development costs, the costs of internally generated intangible assets are recognised in profit or loss in the period in which they are incurred.

Development costs for internally generated intangible assets are capitalised if their production is technically so advanced that they can be used or sold, the Group has the intention to complete the asset and use or sell it, the FP Group is able to use or sell the intangible asset, the nature of benefits can be demonstrated, the technical and financial resources are available to complete the asset and the expenditure attributable to the intangible asset during its development can be measured reliably. Development costs include all costs directly attributable to the development process. Grants received for development costs are deducted from the carrying amount. Borrowing costs that can be directly attributed to the development project are capitalised for the production period as part of the cost. They are recognised solely in connection with capitalised development costs. The amount of capitalised borrowing costs is determined from the weighted average of the borrowing costs applicable to the borrowings granted by lenders.

From the start of commercial production of the corresponding products, capitalised development costs are written down over the period of their expected use. An impairment test is performed annually during the development phase and after capitalisation. Impaired capitalised development work is written down.

As in the previous year, straight-line depreciation is essentially based on the following useful lives:

Intangible assets	Useful life
Industrial property rights (including licenses, software, internally generated intangible assets, customer lists)	1 to 10 years
Internally generated intangible assets	2 to 6 years
Goodwill	15 years

Property, plant and equipment is measured at cost less depreciation due to use and amortisation. Their cost includes the purchase price, incidental costs and subsequent costs of acquisition. Reductions in the purchase price are deducted. Financing costs are included for the period of production whenever qualifying assets are concerned. Costs for the maintenance and repair of property, plant and equipment are expensed as incurred. Processing costs for property, plant and equipment are recognised as a subsequent cost in accordance with the criteria of IAS 16.12 et seq. if these costs increase the future benefit of the property, plant and equipment (IAS 16.10). Straight-line depreciation is recognised for finite-lived property, plant and equipment. When property, plant and equipment is shut down, sold or given up, the profit or loss from the difference between the sales proceeds and the residual carrying amount is recognised under other operating income or expenses.

As in the previous year, straight-line depreciation is essentially based on the following useful lives:

Property, plant and equipment	Useful life
Buildings	2 to 25 years
Technical equipment and machinery	2 to 19 years
Operating and office equipment	1 to 23 years
Leased products	3 to 8 years
Finance lease assets	9 years

Impairment on intangible assets and property, plant and equipment is recognised in accordance with IAS 36 if the recoverable amount, i.e. the higher of the asset's value in use and its fair value less costs to sell, has fallen below the carrying amount. If the recoverable amount of an individual asset cannot be estimated, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount and the carrying amount are then also compared at the level of the cash-generating unit. If the reasons for impairment losses recognised in previous years no longer apply, the write-downs are reversed; this does not apply to goodwill.

In the measurement of inventories, a simplified measurement method was applied in the form of average prices.

Inventories are measured at the lower of cost and net realisable value. The cost of raw materials, consumables and supplies and merchandise comprises the purchase price and incidental costs less purchase price reductions. The cost of finished goods and work in progress includes the direct costs and the overheads attributable to the production process, including appropriate depreciation of production facilities assuming normal capacity utilisation. Financing costs are not included for the period of production as there are no qualifying assets. Net realisable value is the estimated selling price in the ordinary course of business less the costs still required to complete and sell the assets.

Impairment losses in inventories are shown in the cost of materials whenever merchandise, raw materials, consumables and supplies are concerned and in changes in inventories whenever they pertain to finished goods and work in progress.

Financial instruments are contracts that give rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. In accordance with IAS 32, they include on the one hand primary financial instruments such as trade receivables and payables and financial receivables and liabilities. On the other, they also include derivative financial instruments used to hedge the risks of changes in exchange rates and interest rates.

Financial assets and financial liabilities are shown in the consolidated statement of financial position from the time at which the Group becomes party to the contractual provisions of the instrument.

The fair value option is not applied.

Financial assets are divided into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Classification is dependent on the purpose for which the financial asset was acquired. The management determines the classification of financial assets on first-time recognition and reviews their classification as at the end of each reporting period.

On first-time recognition, financial instruments are measured at fair value plus transaction costs, if appropriate. Amortised cost using the effective interest method is used for the subsequent measurement of loans and receivables.

Available-for-sale financial assets are non-derivative financial assets that are categorised as available for sale. In the Group these include the other equity investments.

After first-time measurement, financial assets held for sale are measured at fair value. The fair value is generally the market value or listed price. If there is no active market, the fair value is calculated using actuarial methods such as discounting the estimated future cash flows using the market interest rate or using recognised option pricing models, and then verified by confirmation from the banks that handle the transactions.

Unrealised gains or losses are recognised in other comprehensive income. If such a financial asset is derecognised or impaired, the amounts previously recognised in other comprehensive income are reclassified to profit or loss. Objective indications are taken into account to determine whether an impairment loss must be recognised. Such indications include, for instance, the economic environment, the legal situation, the durability and extent of losses in value, and the like. If the fair value of an equity instrument cannot be reliably determined, as in the above cases, they are measured at cost.

Because of the wide range of possible outcomes, measurement of the fair value does not result in increased benefit when making decisions. The Company is not planning to sell the investments.

Cash transactions with financial assets are recognised at the settlement date for the first time. Derivatives are accounted for at the trade date (date of purchase or sale).

The assets at fair value through profit and loss category includes units held for trading in a capital appreciation fund that predominantly invests in interest-bearing securities, money market instruments and demand deposits.

Impairment on trade receivables is recognised if there is objective evidence that the amounts due are not fully recoverable (e.g. opening of insolvency proceedings or significant delays in payment by the debtor).

Bank balances have been partially pledged in connection with postal funds managed.

Securities	Measurement category	Initial measurement	Subsequent measurement	Measurement change
Derivative financial instruments	At fair value through profit or loss	Fair value	Fair value	Financial result
Equity investments and associates	At fair value through profit or loss	Fair value	Fair value	Financial result
Trade receivables	Available-for-sale financial assets	Fair value	Amortised cost [1]	Other income and other expenses
Other financial assets	Loans and receivables	Fair value	Amortised cost	Other income and other expenses
Cash and cash equivalents	Loans and receivables	Fair value	Amortised cost	Other income and other expenses
Liquide Mittel	Loans and receivables	Fair value	Fair value	Financial result

1) There is no quoted price on an active market for investments. The assets are carried at cost, as the measurement of fair value is not expected to materially improve the presentation of the financial statements.

Financial Liabilities and Equity Instruments

Financial liabilities are divided into the following categories:

- financial liabilities at amortised cost and
- financial liabilities at fair value through profit or loss

On first-time recognition, financial instruments are measured at fair value plus transaction costs, if appropriate. The effective interest method is used to calculate the amortised cost.

Financial liabilities at amortised cost are initially measured at fair value less any transaction costs directly attributable to borrowing. The loans are not designated as at amortised cost. After first-time recognition, interest-bearing loans are measured at amortised cost.

Financial liabilities measured at fair value through profit and loss include financial liabilities held for trading and other financial liabilities that are classified at fair value through profit and loss on first-time recognition. Financial liabilities are classified as held for trading if they are acquired with a view to subsequent disposal in the near future. Financial liabilities measured at fair value through profit and loss also include liabilities from derivatives transactions. Gains and losses from financial liabilities held for trading are recognised in profit or loss.

Finance lease liabilities are measured at the present value of lease payments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The issued capital was classified as equity, whereby the costs (net of any related income tax benefit) directly attributable to the acquisition of treasury shares are deducted from equity.

Amounts otherwise contributed to equity by shareholders are shown in the capital reserves. Expenses directly incurred by the issue of new shares in the earlier IPO of FP Holding were deducted from capital reserves in accordance with IAS 32.35.

The stock option reserve reflects the amounts recognised in staff costs for the 2010 and 2015 stock option programmes. This is based on the fair value of the options expected to vest, which is distributed over their term.

When the Group acquires treasury shares, these are deducted from equity. The purchase, sale, issue or cancellation of treasury shares is not recognised in profit or loss.

Provisions for pensions and similar obligations are recognised using the projected unit credit method based on actuarial principles. This process not only considers the pensions and vested benefits known at the end of the reporting period, but also the expected future increases in pensions and salaries when estimating relevant influencing factors. These benefits earned in return for work performed are discounted using the interest rate at the end of the period. Plan assets are deducted from these defined benefit obligations at fair value. This gives rise to the net liability for defined benefit obligations, which is recognised as a provision.

Securities	Measurement category	Initial measurement	Subsequent measurement	Measurement change
Derivative financial instruments	At fair value through profit or loss	Fair value	Fair value	Financial result
Interest-bearing liabilities	Financial liabilities measured at amortised cost	Fair value incl. directly attributable transaction costs	Amortised cost	Financial result
Trade payables	Financial liabilities measured at amortised cost	Fair value	Amortised cost	Other income and other expenses
Other financial liabilities	Financial liabilities measured at amortised cost	Fair value	Amortised cost	Other income and other expenses

The net liability is calculated at the end of each reporting period on the basis of actuarial opinions prepared by qualified actuaries.

The interest rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Currencies and terms consistent with the post-employment benefit obligations are taken into account in selecting the relevant bonds.

At Italiana Audion s.r.l., Milan, Italy, Francotyp-Postalia GmbH, Vienna, Austria, and Francotyp-Postalia France SARL, Nanterre, France, provisions are recognised for pension obligations that become due when employees leave the company as prescribed by the legal provisions in the respective countries. The FP Group recognises these expenses in a similar way as those for defined benefit plans.

Contributions under defined contribution plans are expenses in the period in which the payments in question are rendered. Multi-employer plans that classify as defined benefit plans and for which, at the same time, there is not sufficient information on how to allocate the benefit obligations and plan assets to the FP Group, are treated as defined contribution plans.

Termination benefits are granted if an employment relationship is terminated before the employee reaches pension age or if an employee voluntarily leaves the company in return for severance pay. The Group recognises severance pay if it is evidently obliged to terminate the employment of current employees according to a formal plan that cannot be revoked, or if it is evidently obliged to pay severance whenever an employee leaves voluntarily.

Provisions for semi-retirement are measured at the respective present value of the outstanding settlement amounts and top-up amounts (accrued pro rata in the vesting period). In accordance with IAS 19.102 et seq., the provisions are netted against plan assets measured at fair value in the form of insurance used to cover semi-retirement commitments.

The Group recognises a provision for profit-sharing and bonuses when there is a contractual obligation or a constructive obligation as a result of past business practices.

Provisions for warranty expenses are recognised when the products in question are sold in accordance with the management's best estimate of the expenses necessary to fulfil the Group's obligation.

Accounting for leases in which Francotyp-Postalia is the lessor

Leases in which beneficial ownership is retained are operating leases. The leased assets are reported under non-current assets in property, plant and equipment, while the lease instalments are reported as revenue.

The leases for franking and inserting machines, for which the German FP companies in particular and, to some extent, FP companies in the UK, Italy and the US are the lessor, qualify as finance leases. Property, plant and equipment that is leased under finance leases is not recognised in the line item "Property, plant and equipment". It is reported under "Receivables from finance leases". The relevant requirements are met if the risks and rewards substantially lie with the lessee. Under a finance lease, a receivable is capitalised in the amount of the present value of the minimum lease payments at the inception of the lease. The lease instalments received are divided into a repayment portion and an interest portion. The repayment portion reduces receivables in other comprehensive income. The interest portion is recognised in profit or loss. For finance leases, the market interest rate is calculated by reference to similar leases.

Leases for franking and inserting machines at the other FP companies are predominantly classified as operating leases because economic ownership is retained.

Both new and used machinery is leased under finance leases.

Accounting for leases in which Francotyp-Postalia is the lessee

Economic ownership of the printers, photocopiers, franking, sorting and inserting machines used by the FP Group is partially assigned to the legal entities. They satisfy the conditions for a lessee under finance leases. The leased assets are reported under non-current assets as "Finance lease assets".

Some properties, motor vehicles and office equipment are used under operating leases.

Judgements and Estimates

When preparing the consolidated financial statements, certain items require judgements and estimates to be made for the recognition, measurement and reporting of recognised assets and liabilities and of income and expenses. The actual figures can differ from the estimates. Key areas for exercising judgement are:

Leases are classified based on certain criteria that usually – individually or in combination – indicate a finance lease. However, these criteria are not conclusive and are more of an indicative nature.

A certain degree of discretion with a potentially significant impact on the consolidated financial statements is exercised in the accounting treatment of grants as regards the estimated probabilities of future benefits in connection with compliance with grant conditions. Please also see the comments in section III, note 2.

Deferred tax assets are recognised for all unutilised tax loss carryforwards to the extent that it is likely that there will be future taxable profit available against which the losses can actually be used. The calculation of the amount of deferred tax assets requires significant management discretion based on the expected timing and amount of future taxable income together with future tax planning strategies.

Key assumptions in the context of estimates and sources for estimation uncertainty include:

Impairment on trade receivables includes specific valuation allowances and portfolio-based valuation allowances. The specific valuation allowances reflect individual and specifically discernible risks, whereas general methods are used to calculate portfolio-based valuation allowances. The maturities of receivables are also taken into account.

Development costs

Estimates are required whenever a development project reaches certain milestones in a current project. In order to assess whether the amounts to be capitalised are actually recoverable, the management makes assumptions regarding the forecast future cash flows from assets, the applicable discount rates and the period when the forecast future cash flows generated by the assets will be received.

Remeasurement of intangible assets in accounting for business combinations

Estimates are required for the remeasurement of fair values for intangible assets in accounting for business combinations in accordance with IFRS 3 (2008). The intangible assets of purchased entities must be identified in purchase price allocation and carried at fair value; they are separated from any (negative) goodwill.

Goodwill

In order to establish possible impairment of goodwill, the value in use of the asset or the fair value of the cash-generating units must be calculated. The calculation requires an estimate of future cash flows from the cash-generating unit and a suitable discount rate to calculate present value.

The recoverable amount of all cash-generating units with goodwill is derived on the basis of the respective value in use. If this is found to be higher than the carrying amount of the cash-generating unit, there is no need to determine the fair value less costs to sell.

Value in use is determined on the basis of discounted cash flows, which, in turn, are based on cash flow forecasts derived from financial planning by the management. The figures used in these assumptions are based on external analyses of the postal market and on management experience. Financial planning consists of earnings planning, the statement of financial position and the statement of cash flows and is prepared in detail for the first three years on the basis of sales planning, and then extrapolated using general assumptions for the next two years of planning. Perpetual maturity is assumed after the fifth year of planning.

In accordance with IAS 36, the discount rates were derived using a growth rate for cash flows after the end of the five-year planning period. The discount rates are based on the concept of the weighted average cost of capital (WACC).

The recoverable amount is initially derived based on the discounting of cash flows using the costs of capital after taxes. The costs of capital before taxes are then calculated iteratively.

The basic assumptions on which the calculation of value in use of the cash-generating units are based, are subject to estimation uncertainty affecting EBIT and thus the cash flows to be discounted and the discount rate:

- Mail volume: The future development of cash flows is dependent on the number of customers or the number of dispatches processed. The figures used are based on the evaluation of market potential and current customer contacts.
- Gross profit margins: The gross profit margins used are based on currently realisable figures and management experience.
- Discount rate: Assumptions on the individual components of WACC and the long-term growth rate.

Pensions and other post-employment benefits

The actuarial valuation is based on assumptions regarding interest rates, future wage and salary increases, mortality and future pension increases.

Provisions

The calculation of provisions for potential losses from contracts, warranties and legal disputes requires a great degree of management estimates.

Expenses for warranties are incurred in connection with subsequent improvements.

Legal disputes often involve complex legal issues, hence they entail considerable uncertainty. The estimate of expected expenses also includes the anticipated litigation costs. The FP Group regularly evaluates the current status of proceedings, also with the assistance of external lawyers.

For restructuring costs, a provision is made at the level of expected direct expenses.

The calculation of provisions for audit risks requires a great degree of management estimates due to the large number of legal provisions and tax audits, especially as a result of cross-border transactions.

Calculation of fair value

A number of accounting policies and disclosures require the Group to determine the fair value of financial and non-financial assets and liabilities.

As far as possible, the Group uses observable market data to determine the fair value of an asset or liability. Based on the inputs used in the measurement methods, the fair values are assigned to different levels of the fair value hierarchy:

- Level 1: Quoted (unadjusted) prices on active markets for identical assets or liabilities.
- Level 2: Measurement parameters other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Measurement parameters for assets or liabilities not based on observable market data.

If the inputs used to determine the fair value of an asset or liability can be classified into different levels of the fair value hierarchy, the fair value measurement in its entirety is assigned to the level of the fair value hierarchy based on the lowest input factor that is material overall for measurement of fair value.

The Group recognises reclassifications between different levels of the fair value hierarchy as at the end of the reporting period in which the change occurred.

II. Segment Reporting

Based on the segments defined on the basis of internal management, Francotyp-Postalia is divided into the four segments Production, Sales Germany, International Sales and Central Functions. The segments report according to local accounting standards.

The Production segment essentially includes traditional product business, which consists of the development, manufacture and distribution of franking machines, and also inserting machines and after-sales business for foreign trading partners. The segment is also home to central corporate areas such as procurement, Group management and parts of accounting as well as the management of the international dealer network. In the year under review, there was only one production site in Wittenberge.

Sales Germany bundles and manages German sales teams. This segment leverages synergies and optimises the processing of the individual companies' customer potential.

The International Sales segment is responsible for the global distribution of franking and inserting machines via its own subsidiaries on the key markets.

The Central Functions segment includes Francotyp-Postalia FP Holding (separate financial statements). Revenue was generated from services for other Group companies in the reporting year.

The "Group reconciliation" column eliminates transactions between and within segments and shows adjustments in local accounting to IFRS. Detailed information on this can be found in "Reconciliation to segment information".

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

SEGMENT INFORMATION 2017

	A	B	C	D		
in EUR thousand	Production	Sales Germany	International Sales	Central Functions	Group reconciliation	**Total**
Revenue	88,089	117,962	88,810	2,462	–90,981	206,343
with third parties	4,908	113,254	88,663	0	–482	206,343
inter / intra-segment revenue	83,181	4,707	148	2,462	–90,499	0
EBITDA	11,024	4,500	20,549	–8,195	–1,563	26,316
Amortisation, depreciation and write-downs	1,637	2,235	15,787	276	–875	19,060
Net interest income	–1,496	–377	1,666	162	263	217
of which interest expense	1,791	403	304	1,562	–2,150	1,909
of which interest income	295	26	1,970	1,724	–1,887	2,126
Other financial result	3,772	2,198	4	8,592	–14,969	–403
Consolidated earnings before taxes and profit transfer	11,664	4,086	6,432	282	–15,394	7,071
Net tax income	–113	–903	–106	–2,576	–1,276	–2,422
Profit transfer	–8,296	–46	0	0	8,342	0
Net income	3,255	3,137	6,326	–2,294	–5,775	4,649
Segment assets	124,828	66,452	112,795	121,128	–255,428	169,776
Investment	5,270	2,421	11,142	335	–3,696	15,473
Segment liabilities	120,671	39,413	70,378	56,448	–150,092	136,818

SEGMENT INFORMATION 2016

in EUR thousand	A Production	B Sales Germany	C International Sales	D Central Functions	Group reconciliation	Total
Revenue	87,045	116,833	85,880	2,365	–89,154	202,969
with third parties	4,872	112,245	85,707	0	145	202,969
inter/intra-segment revenue	82,173	4,588	173	2,365	–89,299	0
EBITDA	7,039	8,646	18,598	–6,582	–479	27,223
Amortisation, depreciation and write-downs	1,488	2,388	15,731	134	–2,254	17,487
Net interest income	–1,437	–520	868	524	351	–215
of which interest expense	1,839	528	294	1,254	–2,352	1,563
of which interest income	402	7	1,162	1,778	–2,001	1,348
Other financial result	1,321	1,530	0	5,382	–8,141	92
Consolidated earnings before taxes and profit transfer	5,434	7,267	3,735	–810	–6,015	9,611
Net tax income	–49	124	79	416	–3,985	–3,414
Profit transfer	–5,386	–50	0	0	5,435	0
Net income	0	7,343	3,814	–394	–4,564	6,199
Segment assets	115,577	63,629	114,948	116,671	–243,486	167,338
Investment	3,161	1,243	12,573	412	–536	16,852
Segment liabilities	114,037	37,528	70,581	45,672	–136,426	131,392

in EUR thousand	Production	Sales Germany	International Sales	Central Functions	Group reconciliation	Total
2017	A	B	C	D		
Utilisation of the provision for restructuring	0	0	0	0	0	0
Income from the reversal of provisions	232	1,382	0	539	–2,154	0
2016	A	B	C	D		
Utilisation of the provision for restructuring	0	–771	0	0	0	–771
Income from the reversal of provisions	232	704	10	267	–1,213	0

ASSETS BY REGION 2017

in EUR thousand	31.12.2017	Current	Non-current
Germany	197,953	81,917	116,036
USA and Canada	48,926	25,954	22,962
Europe (not including Germany)	178,325	60,355	117,970
Other regions	0	0	0
	425,204		
Effects of IFRS remeasurement	31,957		
Effects of write-downs on customer relationships	–240		
Effects of write-downs on internally generated software	0		
Effects at consolidation level (including elimination of intragroup balances)	–287,145		
Assets according to financial statements	169,776		

ASSETS BY REGION 2016

in EUR thousand	31.12.2016	Current	Non-current
Germany	295,877	101,720	194,157
USA and Canada	55,679	22,785	32,894
Europe (not including Germany)	59,269	25,997	33,272
Other regions	0	0	0
	410,825	150,502	260,323
Effects of IFRS remeasurement	37,436		
Effects of write-downs on customer relationships	–95		
Effects of write-downs on internally generated software	0		
Effects at consolidation level (including elimination of intragroup balances)	–280,827		
Assets according to financial statements	167,338		

The FP Group generates revenue from transactions with a very broad customer base. The share of revenue generated with each third-party customer or group of companies that are considered to be a single third-party customer is less than 10% of the revenue of the FP Group.

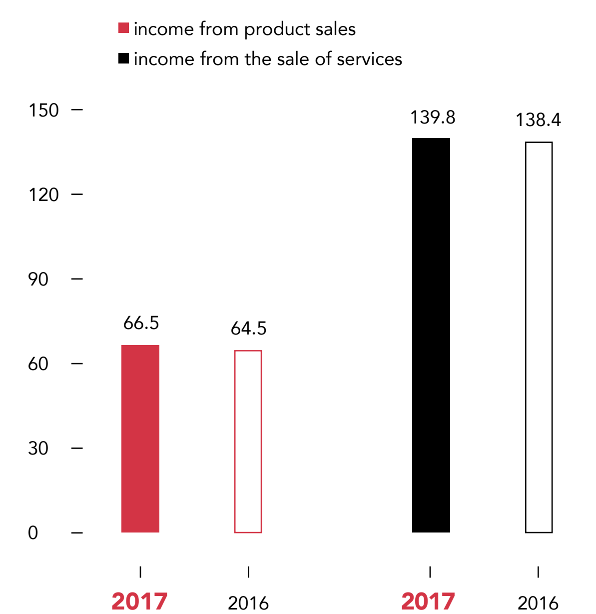
III. Notes to the Consolidated Statement of Comprehensive Income

(1) revenue

in EUR thousand	2017	2016
Franking	34,980	32,650
Inserting	7,443	7,067
Other	1,273	1,401
Product sales income	43,696	41,118
Mail Services	65,724	62,834
Service/customer service	18,559	19,699
Equipment hire	33,216	32,748
Consumables	22,818	23,395
Teleporto	9,044	8,973
Software	13,286	14,202
Recurring revenue	162,647	161,851
Total	206,343	202,969

Adding revenue from the sale of consumables to income from product sales, the FP Group generated income of EUR 66,514 thousand from the sale of goods in 2017 (previous year: EUR 64,513 thousand). Income of EUR 139,829 thousand (previous year: EUR 138,456 thousand) was generated from the sale of services (including equipment hire).

INCOME FROM THE SALE OF GOODS OR SERVICES
(in EUR thousand)



The regional breakdown of revenue is as follows (regional allocation of revenue according to customer's domicile):

in EUR thousand	2017	2016
Germany	112,846	111,873
USA	46,109	43,524
Europe (not including Germany or UK)	25,652	24,562
UK	15,501	17,159
Other	6,235	5,851
Total	**206,343**	**202,969**

(2) Own Work Capitalised

in EUR thousand	2017	2016
Capitalised development costs	5,139	4,581
Rental machinery	5,474	6,436
Other	226	374
Total	**10,839**	**11,391**

Of the capitalised development costs, EUR 934 thousand related to the FP Portal, EUR 552 thousand to next generation meter PostBase Phase I, EUR 466 thousand to SBI-Stabiler operation of postal infrastructure and EUR 1,342 thousand (previous year: TEUR 1,000 thousand) to the development of additional national variants (including PostBase Mini and PostBase ONE).

In the previous year EUR 800 thousand related to PostBase 90 / 2.0, EUR 907 thousand to PostBase dynamic scales and EUR 579 thousand to CentorMail Plus.

Work performed by the enterprise and capitalised for rental machinery and finance lease assets relates to internally generated leased products. The finance lease assets are refinanced.

The "Other" item essentially includes franking machines sold to and used by VS GmbH and freesort GmbH (EUR 104 thousand) and software developments of EUR 122 thousand.

(3) Other Income

in EUR thousand	2017	2016
Derecognition of liabilities	2,784	1,177
Cost subsidies and grants	882	1,440
Usage fees	394	201
Book gains from the sale of non-current assets	292	25
Prior-period income	170	362
Commission income	33	50
Impairment losses on receivables	17	13
Damages	11	67
Other income	191	436
Total	**4,774**	**3,771**

The derecognition of liabilities of EUR 2,784 thousand (previous year: EUR 1,195 thousand) essentially relates to expired liabilities, EUR 2,756 thousand (previous year: EUR 1,144 thousand) of which are teleporto obligations. Cost subsidies and grants include state subsidies of EUR 857 thousand (joint scheme for improving regional economic structures) for investments in connection with the establishment of FP Holding's head office in Berlin (previous year: EUR 1,388 thousand). This income was recognised on the basis of the award dated 23 June 2014. It is linked to the creation of 193 permanent jobs and eligible investments in non-current assets. This item also includes subsidies for the employment of disabled persons of EUR 4 thousand (previous year: EUR 26 thousand).

Income relating to other periods of EUR 170 thousand (previous year: EUR 362 thousand) result primarily from credit notes.

(4) Cost of Materials

in EUR thousand	2017	2016
Expenses for raw materials, consumables and supplies	35,218	35,647
Cost of purchased services	67,662	60,872
of which postage fees	57,758	54,240
Total	**102,880**	**96,519**

(5) Staff Costs

in EUR thousand	2017	2016
Wages and salaries	50,406	49,050
Social security contributions	7,795	7,569
of which defined contribution plans (Germany)	2,318	2,280
of which defined contribution plans (non-Germany)	499	482
Expenses for pensions and other benefits	1,024	800
of which defined benefit plans	309	156
Total	**59,225**	**57,419**

Expenses for pensions and other benefits include defined contribution plans involving several employers. As the pension funds in question cannot provide sufficient information on the pension obligations and plan assets for the Group's subsidiary, these plans are treated as defined contribution plans. All employers in the industry are required to participate in this type of pension for their employees. The pension commitment to employees is fully funded by plan assets of the joint plan. To ensure financing, the contributions payable are determined by the pension institution. The contributions are based on employees' pay. Contributions of a similar amount are expected in 2018. According to the insurance provider, as in the previous year, the pension plans have surplus assets at the end of 2017.

(6) Other Expenses

in EUR thousand	2017	2016
Rents / leases	5,282	5,402
Professional fees, consulting	4,331	5,351
Sales commission	3,657	3,938
Marketing	3,209	3,151
Staff-related costs	2,548	1,838
Packaging and freight	2,524	2,488
Repairs and maintenance	2,372	2,180
Travel expenses	1,811	1,707
Messaging and postage	1,473	1,532
Purchased IT services	1,446	1,382
Motor vehicle costs	535	608
Prior-period expenses	306	327
Additions to other provisions	185	1,574
Other	4,379	5,647
Total	**34,058**	**37,125**

Key changes in fiscal year 2017 related to third-party and consulting fees of EUR 4,331 thousand after EUR 5,351 thousand in the previous year.

The reduction was due to the fact that the costs incurred in the previous year for preparing the Group strategy and other future projects were no longer incurred in the reporting year. In connection with contractual risks, EUR 185 thousand (previous year: EUR 1,574 thousand) was transferred to other provisions for uncertain obligations.

(7) Financial Result

in EUR thousand	2017	2016
Other interest receivable and similar income	2,126	1,348
of which from finance leases	1,565	1,081
of which from bank balances	33	44
of which from third parties	528	223
Interest and similar expenses	1,909	1,563
of which from bank liabilities	911	1,038
of which interest on the net liability for pension obligations	243	364
of which from finance leases	43	107
Other	713	54
Net interest income	217	–215
Other financial income	855	3,787
Other finance costs	1,258	3,695
Total	**–186**	**–123**

As in the previous year, other financial income and other finance costs essentially result from foreign currency translation. It also includes expenses and income from the development of currency hedges (realised income of EUR 108 thousand and EUR 402 thousand expenses from the fair value measurement of currency swaps) of EUR 294 thousand (previous year: expenses of EUR 2,440 thousand). This development is primarily due to exchange rate effects affecting the measurement of statement of financial position items at the reporting date.

(8) Taxes

in EUR thousand	2017	2016
Current tax expense	1,870	2,082
of which prior-period	–394	215
Deferred tax expenses	551	1,332
of which occurrence and reversal of temporary differences	50	121
of which utilisation of loss and interest carryforwards and capitalisation of new loss carryforwards	612	1,211
of which due to change in tax rates	–112	0
Income taxes	**2,421**	**3,414**

In 2017, the ongoing German Group audit from 2009 to including 2012 continued. In November 2017, a final meeting took place. The audit reports were sent to the audited companies in 2018. Account has been taken of the resulting tax risks as at the reporting date.

Deferred taxes were measured using tax rates enacted or substantively enacted by the end of the reporting period. Combined income tax rates consisting of corporation tax, the solidarity surcharge and trade tax were used for the German corporations. As was the case in the previous year, the German tax rates were between 28.43% and 30.18%.

Country-specific tax rates of 19.00% to 38.35% (previous year: 17.00% to 38.50%) were calculated for the foreign companies. The reduction of the tax rate in the USA from 2018 resulted in deferred tax assets of EUR 112 thousand.

The change in deferred taxes recognised in other comprehensive income as an expense totalled EUR 37 thousand in 2017 (previous year: EUR 368 thousand).

in EUR thousand	2017	2016
Consolidated net income before taxes	**7,071**	**9,613**
Forecast tax expense (30.18%)	2,134	2,901
Tax rate differences	–561	–165
Tax effect of non-deductible expenses and tax-free income	553	375
Current and deferred income tax for previous years	106	215
Change in recognition/non-recognition of deferred taxes assets on loss carryforwards and deductible temporary differences	39	–88
Other deviations	151	176
Income taxes	**2,421**	**3,414**
Tax expense in %	**34.2**	**35.5**

(9) Earnings per Share

Based on an approval resolution passed at 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 carry out a programme to buy back shares of the company. 370,444 treasury shares were acquired in total.

After treasury stock was completely depleted in connection with fulfilling the subscription rights from the 2010 stock option plan, the share capital was increased by EUR 86,100 and Contingent Capital 2010/I utilised (see note 16. Contingent Capital 2010/I).

On 9 October 2017, the Management Board resolved and announced the implementation of a share buyback programme on the basis of the approval resolution passed at the Annual General Meeting of the company on 11 June 2015. The buyback programme started on 13 October 2017 and ran until January 2018. In the future, the treasury shares are to be used to service subscription rights that have been or will be issued and exercised under stock option plans. In total, up to 475,000 shares were to be acquired at a maximum total price of EUR 3 million.

351,168 shares were acquired in the reporting year. As at 12 January 2018, Francotyp-Postalia Holding AG held 398,493 shares.

	2017	2016
Ordinary shares outstanding as at 1 January	16,215,356	16,160,000
Effect of treasury shares	–351,168	0
Shares issued current year	86,100	55,356
Weighted average ordinary shares (basic) as at 31 December	**16,249,218**	**16,062,792**
Effect of issued stock options	217,210	237,065
Weighted average ordinary shares (diluted) as at 31 December	16,466,428	16,299,857
Consolidated net income (shareholders of FP Holding)	4,649	5,857
Basic result (in EUR/share)	**0.29**	**0.36**
Diluted result (in EUR/share)	**0.28**	**0.36**

IV. Notes to the Consolidated Statement of Financial Position

(10) Non-Current Assets Total

The development in individual items of non-current assets in the reporting period and the previous year is shown in the statement of changes in non-current assets at the end of the notes (annex to the notes).

The customer relationships in Sweden and Germany were reviewed using the residual value method in accordance with IAS 36 as at 30 September 2017 and no impairment was identified. For customer relationships in Sweden, using a WACC of 6.69% a recoverable amount of EUR 3,820 thousand was determined (previous year: EUR 3,443 thousand). No triggering event was identified before 31 December 2017, so there was no impairment as at 31 December 2017. For customer relationships in Germany, using a WACC of 6.26% a recoverable amount of EUR 16,394 thousand was determined as at 30 September 2017. No triggering event was identified before 31 December 2017, so there was no impairment as at 31 December 2017.

For the customer relationship in the United Kingdom acquired in the previous year, using a WACC of 6.40% a recoverable amount of EUR 4,751 thousand was identified as at 30 September 2017. The customer list in Canada also acquired in the previous year was measured at EUR 6,156 thousand as at 30 September 2017 using a WACC of 6.68%. As there was no triggering event in the period up to 31 December 2017, so there was no impairment on the two customer lists as at 31 December 2017.

	2017	2016
Research and development costs	9,129	9,286
of which expenses	3,990	4,705
of which capitalised	5,139	4,581

In the reporting year, EUR 51 thousand (previous year: EUR 168 thousand) borrowing costs were capitalised. An average capitalisation rate of 1.74% (previous year: 1.59%) was applied.

Goodwill of EUR 8,494 thousand (previous year: EUR 8,494 thousand) breaks down as EUR 5,851 thousand (previous year, EUR 5,851 thousand) to the freesort cash-generating unit and EUR 2,643 thousand (previous year: EUR 2,643 thousand) to the IAB cash-generating unit and is allocated to the Sales Germany segment. The cumulative impairment losses for the reported goodwill amounts to EUR 12,500 thousand for freesort (previous year: EUR 12,500 thousand) and EUR 1,275 thousand for IAB (unchanged year-on-year).

2017

	freesort	IAB
Recoverable amount CGU	17,652	25,854
Carrying amount	15,477	6,093
Difference	2,175	19,761
Impairment	0	0
Threshold figure EBIT [1]	86.4%	2.2%
EBITDA margin trend	Slightly rising	Rising
Growth rate perpetual maturity	1.0%	2.0%
Basic assumptions		
Revenue growth range	2.5–2.9%	2.3–14.3%
Gross margins [2]	1.8–3.7%	6.9–10.7%
Discount rate (WACC)	7.03%	7.03%
Discount rate before taxes	9.55%	8.98%

1) Recoverable amount equal to the carrying amount of the cash-generating unit
2) EBITDA as % of revenue

2016

	freesort	IAB
Recoverable amount CGU	24,560	14,057
Carrying amount	12,254	5,915
Difference	12,306	8,142
Impairment	0	0
Threshold figure EBIT [1]	40.5%	31.7%
EBITDA margin trend	slightly rising	rising
Growth rate perpetual maturity	1.0%	2.0%
Basic assumptions		
Revenue growth range	3.0–6.0%	5.5–13.3%
Gross margins [2]	3.4–4.3%	6.2–11.9%
Discount rate (WACC)	6.75%	10.10%
Discount rate before taxes	10.16%	22.28%

1) Recoverable amount equal to the carrying amount of the cash-generating unit
2) EBITDA as % of revenue

The sensitivity of the main calculation parameters, with all other parameters remaining constant, is as follows:

30.09.2017

	freesort		IAB	
Discount rate	7.03%	8.03%	7.03%	8.03%
Impairment	–	–	–	–
Fluctuation in planned EBIT	100%	90%	100%	90%
Impairment	–	–	–	–
Growth rate	1.0%	0.0%	2.0%	0.0%
Impairment	–	–	–	–

The FP Group finances property, plant and equipment (sorting and franking machines, printers and leased assets) partially on the basis of finance leases.

Capitalised own work of EUR 10,840 thousand (previous year: EUR 11,391 thousand) was recognised in manufacturing costs under property, plant and equipment in the reporting period.

(11) Finance Lease Receivables

31.12.2017

in EUR thousand	Total	Remaining term		
		up to 1 year	1–5 years	More than 5 years
Future minimum lease payments	19,226	5,719	11,991	1,516
Finance charges	3,955	1,682	1,977	295
Receivables from finance leases (present value)	**15,271**	**4,037**	**10,014**	**1,221**
of which FP Vertrieb und Service GmbH	630	342	288	0
of which Francotyp-Postalia Ltd.	11,185	2,591	7,393	1,201
of which Italiana Audion s.r.l.	1,920	639	1,262	19
of which FP France SARL	1,078	282	796	0
of which FP Inc., Illinois, USA	206	57	149	0
of which FP Canada	252	126	126	0

31.12.2016

in EUR thousand	Total	Remaining term		
		up to 1 year	1–5 years	More than 5 years
Future minimum lease payments	17,033	4,700	11,636	697
Finance charges	4,489	1,531	2,762	196
Receivables from finance leases (present value	12,544	3,169	8,874	501
of which FP Vertrieb und Service GmbH	982			
of which Francotyp-Postalia Ltd.	8,617			
of which Italiana Audion s.r.l.	1,841			
of which FP France SARL	818			
of which FP Inc., Illinois, USA	286			

There are no non-guaranteed residual values for the benefit of the lessor as at the end of the reporting period. In accordance with IAS 17.7, the value of gross investments is therefore equal to the stated future lease payments of EUR 19,226 thousand (previous year: EUR 17,033 thousand). After deducting finance charges of EUR 3,955 thousand (previous year: EUR 4,489 thousand), this results in net investments of EUR 15,271 thousand (previous year: EUR 12,544 thousand), which, as the difference between gross and net investment, is equal to the unearned finance income. There were no allowances for uncollectible minimum lease payments receivable or contingent rents recognised as income as at the end of the reporting period (nor in the previous year).

31.12.2017

in EUR thousand	Total	Remaining term		
		up to 1 year	1–5 years	More than 5 years
Future minimum lease payments under non-cancellable operating leases	54,851	25,889	28,898	64

31.12.2016

in EUR thousand	Total	Remaining term		
		up to 1 year	1–5 years	More than 5 years
Future minimum lease payments under non-cancellable operating leases	57,513	28,896	28,465	152

(12) Inventories

in EUR thousand	31.12.2017	31.12.2016
Raw materials, consumables and supplies	3,892	5,187
Work in progress	747	552
Finished goods and goods for resale	5,994	5,457
Total	**10,633**	**11,196**

Impairment losses on inventories amount to EUR 2,029 thousand (previous year: EUR 1,809 thousand) and are reported under "Cost of materials" in the consolidated statement of comprehensive income. In the reporting period, utilisation of inventories amounted to EUR 35,218 thousand (previous year: EUR 35,647 thousand) in the consolidated statement of comprehensive income.

(13) Trade Receivables

in EUR thousand	31.12.2017	31.12.2016
Trade receivables – Germany	7,778	7,385
Trade receivables – abroad	10,906	11,581
Total trade receivables	**18,684**	**18,966**

A gross amount of EUR 20,483 thousand (previous year: EUR 20,809 thousand) was reported under trade receivables as at 31 December 2017.

VALUATION ALLOWANCES

in EUR thousand	
As at 01.01.2016	**1,485**
Foreign currency effects	8
Charge for the year (impairment loss)	2,010
Utilised	1,660
Unused amounts reversed	0
As at 31.12.2016	**1,843**
Foreign currency effects	–104
Charge for the year (impairment loss)	2,081
Utilised	2,016
Unused amounts reversed	4
As at 31.12.2017	**1,800**

Additions to allowance accounts are recognised under other operating expenses.

A specific allowance for impairment losses is recognised if the customer displays considerable financial difficulties or there is an increased likelihood of insolvency. The relevant expenses are recognised on an allowance account.

If the case of proven uncollectability, the receivable is derecognised. There is a reversal if the credit standing improves.

MATURITY STRUCTURE

in EUR thousand	Face amount Total	Of which not past due	Of which trade receivables past due		
			0 to 60 days	61 to 120 days	>120 days
31.12.2017					
Gross carrying amount	20,483	12,010	5,689	1,285	1,499
Impairment	1,800	393	298	356	753
31.12.2016					
Gross carrying amount	20,809	12,425	5,202	1,605	1,577
Impairment	1,843	231	315	610	687

Based on historical payment performance and an analysis of the credit standing of the customers, the Group assumes that the past due, not impaired receivables and also receivables which are not past due will be paid in full and that no impairment is required.

By way of factoring, one Group company transferred for consideration trade receivables to HypoVereinsbank AG allowing the Group to generate liquidity more quickly. In the factoring process, HypoVereinsbank AG bears the risk of default of the debtor for the receivables it buys (del credere risk). The FP Group undertakes to collect the payments of the debtor by way of cashless payments through accounts named by the bank. In addition to the receivables sold, the FP Group ceded all claims from the

a) agreements underlying the receivables with the debtors, in particular the collection or return of goods supplied and
b) from possible insurance in respect to the ceded receivables and transferred goods

With the sale of the receivables no material rights and obligations remain at the FP Group. For this reason the relevant receivables are derecognised.

On the other hand, as at 31 December 2017, the Group received cash and cash equivalents at the level of the carrying amount of the derecognised receivables (EUR 1,000 thousand; previous year: EUR 727 thousand).

The bank receives forfeiting interest in return for buying the receivables and a forfeiting fee in return for assuming the del credere risk. In 2017, the two cost elements resulted in an expense of EUR 11 thousand (previous year: EUR 5 thousand). In addition, the FP Group undertook to reimburse to the bank all court, legal and own costs that the bank incurs should debtors justifiably dispute their payment obligation. No costs in this connection were incurred.

Vis-à-vis the bank, the seller of the receivables assumes liability for all damage and detriment that could occur if assigning the bought receivables should prove to be ineffective or if third parties should assert rights to the receivables bought.

(14) Other Current Assets

in EUR thousand	31.12. 2017	31.12.2016
Deferred payments	4,870	5,183
Creditors with debit balances	4,303	3,882
Receivables from other taxes	1,742	2,431
Miscellaneous financial assets	2,356	4,059
Total	**13,271**	**15,555**

The deferred payments are essentially prepayments to dealers of Francotyp-Postalia Inc., Addison, Illinois, USA, for the conclusion of long-term customer agreements.

Receivables from other taxes relate primarily to VAT prepayments in Germany of EUR 1,671 thousand (previous year: EUR 2,112 thousand).

Miscellaneous financial assets relate primarily to prepayments of EUR 959 thousand (previous year: EUR 759 thousand), franchise fees EUR 610 thousand (previous year: EUR 809), deposits EUR 300 thousand (previous year: EUR 213 thousand) and receivables from trading partners of EUR 30 thousand (previous year: EUR 676 thousand).

(15) Cash and Cash Equivalents

in EUR thousand	31.12. 2017	31.12.2016
Bank balances	33,436	25,775
Checks and cash on hand	798	619
Total	**34,234**	**26,394**

EUR 10,820 thousand (previous year: EUR 8,418 thousand) of bank balances are restricted. This relates to telepostage received from customers that can be accessed by customers at any time. A corresponding amount is included under other liabilities.

(16) Shareholders' Equity

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

The share capital is divided into 16,301,456 no-par value bearer shares with pro rata rights to the company's profits. Each share grants one vote at the Annual General Meeting and one dividend entitlement to the bearer of the share. The share capital is fully paid in.

Share buyback programme

Based on an approval resolution passed at the Annual General Meeting of the company on 16 October 2006, the Management Board of Francotyp-Postalia FP Holding resolved on 20 November 2007 to carry out a programme to buy back shares of the company in order to be able to acquire companies or equity investments in companies using treasury shares as acquisition currency.

A total of 370,444 shares were acquired in the period from November 2007 to April 2008, which were deducted from equity (reserve for treasury shares) on the face of the statement of financial position at cost (EUR 1,829 thousand) in accordance with IAS 32.33.

After treasury stock was completely depleted in connection with fulfilling the subscription rights from the 2010 stock option plan, in 2017 the share capital was increased by EUR 86,100 and Contingent Capital 2010 / I utilised.

On 9 October 2017, the Management Board resolved and announced the implementation of a share buyback programme. The buyback programme started on 13 October 2017 and ran until January 2018. In the future, the treasury shares are to be used to service subscription rights that have been or will be issued and exercised under stock option plans. In total, up to 475,000 shares were to be acquired at a maximum total price of EUR 3 million.

351,168 shares were acquired in the reporting year. As at 12 January 2018, Francotyp-Postalia FP Holding held 398,493 treasury shares.

The development in the number of shares outstanding can be seen in the following reconciliation:

	Number of shares outstanding
Capital reserves	16,160,000
Treasury shares	−163,944
As at 31.12.2015	**15,996,056**
Number of shares (31.12.2015)	16,160,000
Capital increase (Contingent Capital 2010 / I)	55,356
As at 31.12.2016	**16,215,356**
Number of shares (31.12.2016)	16,215,356
Buyback of treasury shares	−351,168
Capital increase (Contingent Capital 2010 / I)	86,100
As at 31.12.2017	**15,950,288**

At the Annual General Meeting on 11 June 2015, the Management Board was authorised, with the approval of the Supervisory Board, to acquire treasury shares up to a total of 10% of the share capital at the time of this resolution. The shares acquired under this authorisation, together with other treasury shares held by the company or attributable to it in accordance with the sections 71d and 71e of the German Stock Corporation Act, (AktG) must not account for more than 10% of the share capital at any time. The authorisation can be exercised in full or in part, and on one or more occasions. The authorisation remains in effect until 10 June 2020. The authorisation of the Management Board to acquire and use purchased treasury shares resolved by the Annual General Meeting on 1 June 2010 ended when the new authorisation became effective.

CAPITAL RESERVES

Development in EUR thousand		
2006	IPO; 2,700,000 shares at EUR 19.00	48,600
	less expenses of the IPO after tax	–2,892
2011	net accumulated losses offset against capital reserves	–12,527
2012	cash contributions; 1,460,000 shares at EUR 2.66	3,884
	less contribution to subscribed capital and expenses of the capital increase after tax	–1,625
2014–2016	share subscription from the 2010 stock option plan	–820
2017	share subscription from the 2010 stock option plan	126
As at 31.12.2017		**34,746**

AUTHORISATIONS FOR AUTHORISED AND CONTINGENT CAPITAL

in EUR thousand	
Contingent Capital 2010/I	515
Authorised Capital 2015/I	8,080
Contingent Capital 2015/I	6,464
Contingent Capital 2015/II	960

Contingent Capital 2010/I

On 11 June 2015, the Annual General Meeting resolved to adjust Contingent Capital 2010/I. The contingent capital was reduced by EUR 388,500, as the 2010 stock option plan was reduced by 388,500 options to 656,500 options. Article 4(5) of the Articles of Association on Contingent Capital 2010 was amended as follows: "The share capital of the company is contingently increased by up to EUR 656,500 through the issue of up to 656,500 new bearer shares."

Authorised Capital 2015/I

With the approval of the Supervisory Board, by way of resolution of the Annual General Meeting on 11 June 2015, the share capital of the company can be increased on one or more occasions by up to a total of EUR 8,080,000 by issuing new bearer shares against cash or non-cash contributions by 10 June 2020. Shareholders have subscription rights to the new rights. In accordance with section 186(5) of the German Stock Corporation Act (AktG), the new shares can also be purchased by one or more banks or a syndicate of banks, with the obligation to offer these to shareholders for subscription.

The Management Board is authorised, with the approval of the Supervisory Board, to disapply shareholder's subscription rights on one or more occasions.

Contingent Capital 2015/I

On 11 June 2015, the Annual General Meeting also resolved to contingently increase the share capital of the company by an amount of up to EUR 6,464,000 by issuing up to 6,464,000 new bearer shares, each accounting for a pro rata amount of share capital of EUR 1.00.

The contingent capital serves to grant shares to the holders or creditors of warrant or convertible bonds, profit participation certificates or participating bonds (or combinations of these instruments) that were issued by the company or one of its direct or indirect Group companies as defined by section 18 AktG by 10 June 2020. This is only carried out to the extent that options or conversion rights from the above bonds are utilised or option or conversion obligations arising from these bonds are met, unless other means of settling the obligation are used. New shares are issued at the option or conversion price to be determined based on the above authorisation. The new shares participate in profits from the beginning of the fiscal year in which they arise as a result of options or conversion rights being exercised or conversion obligations being fulfilled.

The Management Board is authorised, with the approval of the Supervisory Board, to determine the further details for the implementation of the contingent capital increase. The Supervisory Board is authorised to amend the wording of the Articles of Association in accordance with the implementation of the contingent capital increase.

Contingent Capital 2015/II

On 11 June 2015, the Annual General Meeting resolved to contingently increase the share capital of the company by up to EUR 959,500 by issuing up to 959,500 bearer shares. The contingent capital increase is exclusively intended to serve subscription rights granted up to 10 June 2020 on the basis of the authorisation of the Annual General Meeting on 11 June 2015 in accordance with the 2015 stock option plan. The contingent capital increase will only be implemented to the extent that the bearers of the issued subscription rights exercise their rights to subscribe to shares in the company and the company does not grant any treasury shares to serve subscription rights. The new shares participate in profits from the beginning of the fiscal year in which subscription rights are exercised.

Bonds

By way of resolution of the Annual General Meeting on 11 June 2015, the Management Board was authorised, with the approval of the Supervisory Board, to issue, on one or more occasions and in full or in partial amounts, warrant or convertible bonds, profit participation certificates, participating bonds or combinations of these instruments (collectively referred to as "bonds") with a total nominal amount of up to EUR 200,000,000 by 10 June 2020, and to grant the bearers or creditors (collectively referred to as "bearers") of the respective bonds options or conversion rights to acquire bearer shares of the company accounting for a total pro rata amount of share capital of up to EUR 6,464,000 in accordance with the further conditions of the bonds and to establish the corresponding option and conversion obligations. The bonds and the options and conversion rights/obligations can be issued with a duration of up to 30 years or as perpetual instruments. Bonds can also be issued in whole or in part against contributions in kind.

The individual issues can be divided into different types of bonds with equal rights. The Management Board is authorised, with the approval of the Supervisory Board, to disapply shareholders' subscription rights to bonds.

Contingent Capital increase and 2010 stock option plan

(i) Contingent capital increase of up to EUR 1,045,000.00 by issuing up to 1,045,000 no-par value bearer shares […],

(ii) to members of the Management Board of the company, to members of the management boards of affiliated companies as defined in section 15 AktG […] and to executives of the FP Group […] to issue subscription rights that entitle the bearers to subscribe to a maximum of 1,045,000 shares against payment of the exercise price.

The stock option plan exclusively allows for settlement in equity instruments, primarily by treasury shares and secondarily by way of a contingent capital increase.

The Annual General Meeting on 11 June 2015 resolved that 200,000 options under the 2010 stock option plan will no longer be issued.

Contingent Capital increase and 2015 stock option plan

(iii) Contingent capital increase of up to EUR 959,500.00 by issuing up to 959,500 no-par value bearer shares […],

(i) to members of the Management Board of the company, to members of the management boards of affiliated companies as defined in section 15 AktG […] and to executives of the FP Group […] to issue subscription rights that entitle the bearers to subscribe to a maximum of 959,000 shares against payment of the exercise price.

The company can elect to use treasury shares to serve the subscription rights under the 2015 stock option plan instead of new shares if this is covered by a separate resolution to authorise passed by the Annual General Meeting.

The purpose of both stock option plans, in accordance with item 1.3 of the respective stock option plan, is "a lasting link between the interests of management and executives and the interests of the shareholders in a long-term increase in enterprise value."

In accordance with item 2.2 of the respective stock option plan, each stock option grants the right to acquire one share in Francotyp-Postalia FP Holding.

31.12.2016

Date of grant	Number of instruments (EUR k)	Contractual term of the option after award date	Securitisation	Premium at award
01.09.2010	900,000	10 years	No	None
27.04.2012	75,000	10 years	No	None
07.09.2012	20,000	10 years	No	None
06.12.2014	57,500	10 years	No	None
11.06.2014	30,000	10 years	No	None
31.08.2015	465,000	10 years	No	None
25.11.2015	40,000	10 years	No	None
31.08.2016	180,000	10 years	No	None

Of the stock options from the 2015 plan allocated in 2016, 180,000 stock options are attributed to an active member of the Management Board of the Francotyp-Postalia FP Holding.

All the following conditions must be met for the options to be exercised under the 2010 and 2015 stock option plans:

a) Vesting period	Four years before the options can be exercised (service condition).
b) Performance target	10% increase in EBITDA (IFRS) in the consolidated financial statements for the fiscal year in which the subscription rights are awarded compared to EBITDA (IFRS) in the consolidated financial statements for the last fiscal year before being awarded. If EBITDA (IFRS) in one or both of the sets of consolidated financial statements to be compared is reported after adjustment for restructuring costs, this EBITDA (IFRS) after adjustment for restructuring costs (IFRS) applies. If the performance target was not met, the subscription rights expire and can be reissued to participants of the Group. This performance target is a non-market performance condition.
c) Personal exercise conditions	The option bearer must work for either Francotyp-Postalia FP Holding or a German or foreign company of the FP Group at the time of exercise.

The following overview shows the fair values of the options of the individual tranches for the 2010 and 2015 stock option plans and the underlying measurement criteria. The options were measured using a Black-Scholes option pricing model as there is no public trading of options for Francotyp-Postalia shares with the same features.

		Award date							
		SOP 2010					SOP 2015		
		01.09.2010	27.04.2012	07.09.2012	06.12.2013	11.06.2014	31.08.2015	25.11.2015	31.08.2016
31.12.2017									
One option	EUR	1.37	1.31	1.17	1.85	1.82	1.07	1.07	1.07
All options	EUR k	336	39	0	106	0	460	43	193
31.12.2016									
One option	EUR	1.37	1.31	1.17	1.85	1.82	1.07	1.07	1.07
All options	EUR k	427	39	23	106	0	482	43	193
Price per FP share		EUR 2.55	EUR 2.60	EUR 2.32	EUR 4.10	EUR 4.71	EUR 4.39	EUR 4.46	EUR 4.20
Exercise price [1]		EUR 2.50	EUR 2.61	EUR 2.34	EUR 3.86	EUR 4.56	EUR 4.48	EUR 4.39	EUR 3.90
Expected exercise date		31.08.2015	26.04.2017	06.09.2017	05.12.2018	10.06.2019	30.08.2020	24.11.2020	30.08.2022
Forecast average holding period in years		5	5	5	5	5	5	5	5
Expected volatility [2]		74.48%	70.84%	71.31%	59.94%	52.21%	38.81%	37.41%	36.62%
Annual dividend yield [3]		2%	2%	2%	2%	2%	3%	3%	3%
Matched-term, risk-free interest rate [4]		1.32%	0.67%	0.60%	0.82%	0.44%	0.07%	0.07%	−0.48%
Expected number of exercisable stock options at award date		741,439	52,031	16,476	39,646	19,596	302,426	26,015	65,888
Estimated annual employee turnover		3.5%	3.5%	3.5%	7.7%	7.7%	7.8%	7.8%	7.5%
Probability of an EBITDA increase of more than 10% year on year		95%	80%	95%	95%	90%	90%	90%	50%

1) The exercise price of an option awarded is equal to the average market price (closing price) of bearer shares of the company in Deutsche Börse AG's electronic Xetra trading in Frankfurt am Main or a comparable successor system on the last 90 calendar days before the subscription right is granted, at least the amount of share capital accounted for by the share.
When exercising options, the respective option holder must pay the exercise price per share. There is a limit for members of the Management Board of Francotyp-Postalia FP Holding. Item 9 of the stock option plan states: "The Supervisory Board must stipulate maximum total annual remuneration (a cap) for the Management Board in accordance with item 4.2.3 of the German Corporate Governance Code. This will be agreed in a supplementary agreement to Management Board members' contracts before options are awarded."
2) Determined in reference to the price volatility of an FP share in the respective period.
3) Assessment takes account of the distribution behaviour of the FP Group in the past.
4) The matched-term, risk-free interest rate for the expected option term of five years (or six years) is based on the corresponding yield curve data, whereby hypothetical zero bonds were derived from the current yields of coupon bonds of the Federal Republic of Germany.

	SOP 2010		SOP 2015	
Options	Number	Average exercise price in EUR	Number	Average exercise price in EUR
As at 31.12.2015	**707,500**	**2.70**	**505,000**	**4.48**
Granted in fiscal year	0	n/a	180,000	3.90
Forfeited in fiscal year	0	n/a	−15,000	4.48
Exercised in fiscal year	−219,300	2.50	0	n/a
Expired in fiscal year	0	n/a	0	n/a
As at 31.12.2016	**419,200**	**2.69**	**670,000**	**4.32**
Range of exercise price		2.34–3.86		3.90–4.48
Average remaining term as at 31.12.2016		53 months		107 months
Exercisable as at 31.12.2016	361,700	2.50	0	n/a
As at 31.12.2016	**419,200**	**2.69**	**670,000**	**4.32**
Granted in fiscal year	0	n/a	0	n/a
Forfeited in fiscal year	0	n/a	−45,000	4.48
Exercised in fiscal year	−86,100	2.46	0	n/a
Expired in fiscal year	0	n/a	0	n/a
As at 31.12.2017	**333,100**	**2.74**	**625,000**	**4.31**
Range of exercise price		2.50–3.86		3.90–4.48
Average remaining term as at 31.12.2017		42 months		96 months
Exercisable as at 31.12.2017	333,100	2.74	0	n/a

As at 31 December 2017, EUR 139 thousand (previous year: EUR 133 thousand) resulting from the 2010 and 2015 stock option plans was recognised under staff costs with an offsetting entry in equity (stock option reserve).

Other comprehensive income
Translation differences from monetary items that are part of a net investment in a foreign operation relate to non-current loans to Sweden.

Net investments in foreign operations
In connection with the acquisition of shares in Franco Frankerings Interessenter AB (formerly: Carl Lamm Personal AB), FP GmbH substantially refinanced Francotyp-Postalia Sverige AB. As the repayment of the financing in question by Francotyp-Postalia Sverige AB to FP GmbH is not expected in the foreseeable future, the refinancing of Francotyp-Postalia Sverige AB by FP GmbH is seen as a net investment in a (Swedish) operation. The currency difference resulting from translation after deferred taxes of (net) EUR –37 thousand (previous year: EUR –64 thousand) is recognised in other comprehensive income in accordance with IAS 21.32 f.

Distribution of a dividend
In 2017, there was a dividend distribution of EUR –2,605,656.96. With reference to the proposal for the appropriation of the distributable profit, please see the comments in the section "Significant events after the end of the reporting period".

DISTRIBUTION POTENTIAL (IN ACCORDANCE WITH HGB)

in EUR	**31.12.2017**
Issued capital	15,950,288.01
Capital reserves	37,980,495.78
Net retained profits	10,749,210.08
Shareholders' equity	64,679,993.87
./. Issued capital	−15,950,288.01
./. Capital reserves	−37,980,495.78
./. Distribution restriction as per section 268(8) and section 253(6) HGB	−273,501.42
Distribution potential	10,475,708.66

(17) Provisions for Pensions and Similar Obligations

There are defined benefit pension plans for employees' occupational pensions.

Under a works agreement dated 9 July 1996 concerning the German companies, the beneficiaries of these plans are all employees who began work before 1 January 1995. Benefits in the form of pensions, disability and survivors' benefits are granted to employees after completing ten eligible years. The amount of pension commitments is based on the duration of employment and employees' pay.

Furthermore, in accordance with the "Pension Policy for Above-scale Employees" as amended January 1986, employees above the general pay scale are also entitled to pensions, disability and survivors' benefits. The beneficiaries have to have been employed before 1 January 1994 and have completed at least ten years of service. The amount of pension commitments is based on the duration of employment and employees' pay.

Death benefits are payable to the surviving dependants of employees in accordance with the framework collective agreement for employees and the works agreement dated 30 December 1975. The benefits are dependent on the duration of employment and employees' pay and are paid as a fixed amount.

In addition, some of the Group's European subsidiaries are legally obliged to set up pension plans. These plans provide for a one-time payment at the end of employment. The amount of payments is based on the duration of employment and employees' pay.

A further defined benefit pension plan is based on individual agreements and provides for entitlements to pensions, disability and survivors' benefits.

A further defined benefit pension plan is based on individual agreements and provides for entitlements to pensions, disability and survivors' benefits. The defined pension amounts are paid, at the discretion of the FP Group, in a lump sum, in three or five annual instalments or as a life-time annuity with annual increases in benefits. A fixed monthly payment has also been agreed for disability and survivors' benefits. The pension plan is funded in part by insurance policies.

In particular, there are actuarial risks such as longevity risk or interest rate risks in connection with defined benefit plans.

This is based on the following key actuarial assumptions for the calculation of the defined benefit obligation as at the end of the reporting period:

in % per year	**31.12. 2017**	31.12.2016
Interest rate	1.51	1.42
Salary trend	3.00	3.00
Pension trend	2.00	2.00

The biometric data, such as mortality and disability, for pensions in Germany is still based on the 2005 G Heubeck mortality tables, which are generally accepted for the measurement of occupational pension commitments.

in EUR thousand	Defined benefit obligation		Fair value of plan assets		Net pension liability	
	2017	2016	**2017**	2016	**2017**	2016
As at 01.01. of the reporting period	17,053	**15,843**	1	**−388**	17,054	**15,454**
In profit or loss						
Current service cost	213	155	–	–	213	155
Interest expense (+)/income (−)	243	368	0	−9	243	359
In other comprehensive income						
Remeasurement						
Actuarial gains and losses						
from changes in biometric assumptions	–	–	–	–	–	–
from changes in financial assumptions	−208	2,168	–	–	−208	2,168
due to experience adjustments	−105	−461	–	–	−105	−461
Expenses on plan assets (not including above interest income)	–	–	0	27	0	27
Other						
Employer contributions to pension plan	–	–	–	–	–	–
Payments from pension plan	−669	−1,021	1	371	−668	−650
As at 31.12. of the reporting period	16,528	**17,053**	0	**1**	16,528	**17,054**

The plan assets which substantiate the benefit obligation was paid out to the beneficiary in a lump sum.

DEFINED BENEFIT OBLIGATION

in %	**31.12. 2017**	31.12.2016
Active beneficiaries	20.0	21.1
Beneficiaries who have left the company	24.6	25.5
Retired employees	55.4	53.4

All pension commitments are vested.

The weighted average term of pension commitments is 14.7 years as at 31 December 2017 (previous year: 15.1 years).

MATURITY OF THE UNDISCOUNTED PENSION OBLIGATIONS

in EUR thousand	**31.12. 2017**	31.12.2016
Up to 1 year	634	629
1–5 years	2,791	2,815
6–10 years	3,845	3,815
More than 10 years	14,166	15,027
Total	21,437	**22,286**

EFFECT ON DEFINED BENEFIT OBLIGATIONS AS AT 31.12.2017

in EUR thousand	Increase	Decrease
Interest rate (change of 1.00%)	−2,111	2,653
Salary trend (change of 0.50%)	470	−435
Pension trend (change of 0.25%)	467	−446
Life expectancies (change of 1 year)	540	−529

The sensitivity calculations were performed in isolation for the key actuarial assumptions in order to show their effects on defined benefit obligations calculated as at 31 December 2017 separately.

(18) Tax Receivables and Liabilities

TAX ASSETS

in EUR thousand	**31.12. 2017**	31.12.2016
Deferred tax liabilities	1,386	866
Current tax liabilities	2,446	0
Tax assets (non-current)	3,832	**866**
Receivables (current; other intangible assets)	5,813	**6,480**
Tax assets (total)	9,645	**7,346**

TAX LIABILITIES

in EUR thousand	**31.12. 2017**	31.12.2016
Deferred tax liabilities (non-current)	1,576	572
Tax liabilities (current)	5,091	3,635
Tax liabilities	6,667	**4,207**

Deferred tax assets and liabilities are recognised as follows in relation to measurement differences on individual items of the statement of financial position and tax loss carryforwards:

in EUR thousand	Deferred tax assets 31.12.2017	Deferred tax liabilities 31.12.2017	Deferred tax assets 31.12.2016	Deferred tax liabilities 31.12.2016
Non-current assets	4,921	10,450	6,275	14,527
Other assets	509	825	661	660
Provisions	3,464	455	4,195	0
Liabilities	2,715	2,868	3,308	2,594
Tax loss carryforwards	2,799	0	3,636	0
Total	**14,408**	**14,598**	**18,075**	**17,781**
Offset	–13,022	–13,022	–17,209	–17,209
Group carrying amount	**1,386**	**1,576**	**866**	**572**

The deferred tax assets for loss carryforwards are based on the expectation that loss carryforwards can be offset against future taxable profits.

No deferred tax assets were recognised for loss carryforwards of EUR 1,745 thousand (previous year: EUR 1,744 thousand) and deductible temporary differences of EUR 326 thousand (previous year: EUR 280 thousand). The deferred taxes not capitalised are based on loss carryforwards of EUR 5,690 thousand (previous year: EUR 5,719 thousand). These tax loss carryforwards relate particularly to subsidiaries in France and Italy.

As at the reporting date there were deferred tax liabilities from outside basis differences of EUR 23 thousand (previous year: EUR 39 thousand) which were not recognised as the conditions in accordance with IAS 12.39 exist.

Mutual agreement procedures in accordance with the Double Taxation Agreement and the EU Arbitration Convention between the Federal Republic of Germany and the USA, Austria, the Netherlands and Belgium, which relate to the period of the 2005 to 2008 company audit, have since been concluded. The procedure aims to establish a corresponding adjustment of transfer prices in the respective countries. It is anticipated that implementation with the USA and Austria will take place in 2018. A current tax receivable of EUR 2,446 thousand was recognised for this as of the reporting date.

Since 2014, an ongoing German Group audit of the 2009 fiscal year up to and including the 2012 fiscal year has been pending. A final meeting took place in November 2017. The audit reports were received only in 2018. Known audit findings had already been recognised as at the reporting date. The audit result included significant corrections of transfer prices for deliveries of goods by the FP GmbH entity to its foreign sales companies in the USA and the Netherlands.

This and further income corrections as a result of the company audit will result in a utilisation of the loss carryforwards and to an anticipated additional tax expense in Germany of EUR 2,849 thousand. To avoid the double taxation due to the transfer pricing adjustment in Germany, Francotyp Postalia will aim to achieve the corresponding mutual agreement procedures in the countries impacted, which will result in the relevant claims to reimbursement outside Germany or a withdrawal of the correction by Germany. A non-current tax receivable of EUR 4,952 thousand was recognised for this at Group level.

(19) Other Provisions (Current) and Provisions (Non-Current)

in EUR thousand	As at 01.01. 2017	Currency differences	Charge for the year	Utilisation	Unused amounts reversed	As at 31.12. 2017	of which non-current	of which current
Staff provisions[1]	5,133	–134	4,685	–3,601	–581	5,502	1,027	4,475
Restructuring	0	0	250	0	0	250	0	250
Warranties	169	–1	203	–78	0	293	0	293
Invention royalties	239	0	229	–210	–29	229	0	229
License costs	198	0	0	0	–63	135	0	135
Litigation costs	783	–39	41	–319	–93	372	0	135
Anticipated losses	1,050	0	80	–388	–371	372	0	372
Miscellaneous provisions[1]	1,388	–6	1,864	–277	–1,018	1,951	112	1,839
(Other) provisions	**8,960**	**–180**	**7,352**	**–4,873**	**–2,155**	**9,104**	**1,139**	**7,965**

1) To improve the presentation, EUR 185 thousand within other provisions was reclassified compared to the previous year.

All other provisions reported under non-current liabilities in the consolidated statement of financial position have a remaining term of more than one year. As in the previous year, the interest effect of interest accrued on and the discounting of non-current provisions is EUR 1 thousand (previous year: EUR 38 thousand).

Staff provisions essentially include provisions for severance payments, anniversary provisions, obligations under semi-retirement plans and bonuses.

Provisions for onerous contracts relate primarily to contracts of Mentana-Claimsoft GmbH De-Mail customers.

Miscellaneous provisions includes risks for audits of EUR 1,180 thousand, restructuring of EUR 212 thousand, EUR 113 thousand for the remuneration of supervisory bodies, EUR 100 thousand for outstanding invoices and archiving costs of EUR 33 thousand.

The obligations under semi-retirement plans (EUR 359 thousand; previous year: EUR 375 thousand) are based on the following key actuarial assumptions:

in % per year	31.12. 2017	31.12.2016
Interest rate	–0.34	–0.32
Salary trend	3.00	3.00

The anniversary provisions (EUR 225 thousand; previous year: EUR 181 thousand) are based on the following key actuarial assumptions:

in % per year	31.12. 2017	31.12.2016
Interest rate	1.42	–0.15
Salary trend	3.00	3.00

The biometric data, such as mortality and disability, for pensions in Germany is still based on the 2005 G Heubeck mortality tables.

The provisions for litigation costs essentially relate to expected costs for pending legal disputes. Please also see section IV, note 25.

Provisions for warranties were recognised for products sold on the basis of past experience.

The income from the reversal of provisions of EUR 2,155 thousand (previous year: EUR 1,030 thousand) essentially relates to provisions for bonuses and severance payments of EUR 581 thousand, provisions for onerous contracts of EUR 371 thousand, reversals from contractual risks for DP AG discounts of EUR 500 thousand, risks from the IBB funding of EUR 381 thousand and provisions for litigation costs of EUR 93 thousand.

in EUR thousand	31.12.2017 Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years	31.12.2016 Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years
Staff provisions	5,502	4,475	1,027	4,948	4,246	702
Restructuring	250	250	0	0	0	0
Warranties	293	293	0	169	169	0
Invention royalties	229	229	0	239	239	0
License costs	135	135	0	198	198	
Litigation costs	372	372	0	783	783	0
Anticipated losses	372	372	0	1,050	1,050	0
Miscellaneous provisions	1,921	1,839	112	1,573	1,284	289
(Other) provisions	**9,104**	**7,965**	**1,139**	**8,960**	**7,969**	**991**

(20) Liabilities

in EUR thousand	31.12.2017 Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years	31.12.2016 Total	Remaining term < 1 year	Remaining term > 1 year ≤ 5 years
Liabilities to banks	42,847	180	42,667	36,915	6	36,908
Finance lease liabilities	704	232	471	1,526	905	621
Financial liabilities	**43,551**	**412**	**43,138**	**38,440**	**911**	**37,530**
Trade payables	**11,210**	**11,210**	**0**	**10,612**	**10,612**	**0**
Other liabilities						
from taxes	1,361	1,361	0	2,095	2,095	0
for social security contributions	286	286	0	261	261	0
from teleporto	27,281	27,281	0	28,119	28,119	0
to employees	1,698	1,698	0	1,553	1,553	0
from derivatives	2,215	2,215	0	2,170	2,170	0
from deferral accounts	12,157	12,157	0	12,114	12,114	0
Miscellaneous liabilities	4,759	4,689	70	5,806	5,696	110
Other liabilities	**49,757**	**49,688**	**70**	**52,118**	**52,008**	**110**
Total	**104,518**	**61,312**	**43,207**	**101,170**	**63,530**	**37,640**

Liabilities to banks relate to a syndicate of banks and primarily comprise loans to finance the purchase price paid for the FP Group in 2005. As at 31 December 2017, the loans amounted to EUR 42,667 thousand (previous year: EUR 36,908 thousand; please see the comments on the syndicated loan agreement under "Financial instruments – Fair values and risk management", 4. Liquidity risks, in section IV).

In accordance with the syndicated loan agreement in place on 31 December 2017, an interest rate pegged to EURIBOR has been determined for the individual loans. Due to the current negative interest rates for 3-month EURIBOR and 6-month EURIBOR, interest rate hedging was not sensible as at the reporting date.

The financing agreements concluded in the previous year do not result in any contractual payment obligations in 2017. Accordingly, the liabilities are reported with a remaining term of more than one year.

As in the previous year, no deposits were paid in connection with leases. Interest expenses of EUR 43 thousand (previous year: EUR 100 thousand) related to leases.

Teleporto liabilities relate to customer funds held in trust.

The liabilities from deferral accounts of EUR 12,157 thousand (previous year: EUR 12,114 thousand) include deferred revenues received under finance leases.

(21) Financial Instruments

In the context of its operating activities, the FP Group is exposed to credit risks, liquidity and market risks in the financial sector. In particular, market risks relate to interest rate and exchange rate risks. Detailed information on risk management can be found below. The following information refers exclusively to the quantitative effects of risks in the fiscal year. These risks affect the following financial assets and liabilities.

CLASSES OF FINANCIAL INSTRUMENTS

Figures in EUR thousand	Measurement category	Carrying amounts 31.12.2017	Carrying amounts 31.12.2016
Securities	HfT	676	679
Asset derivatives with a hedging relationship	n/a	110	0
Asset derivatives without a hedging relationship	HfT	0	86
Equity investments and associates	AfS	199	199
Trade receivables	LaR	18,684	18,966
Other financial assets	LaR	6,812	8,092
Finance lease receivables	n/a	15,271	12,544
Cash and cash equivalents	LaR	34,234	26,394
Liabilities to banks	OL	42,847	36,915
Trade payables	OL	11,210	10,612
Other financial liabilities	OL	31,970	33,815
Finance lease liabilities	n/a	704	1,526
Liabilities derivatives with a hedging relationship	n/a	0	357
Liability derivatives	HfT	2,215	1,813

Explanations of the abbreviations
- AfS, available for sale
- HfT, held for trading
- LaR, loans and receivables
- n/a, not applicable, cannot be allocated to a measurement category
- OL, other liability, financial liabilities measured at amortised cost

For the other financial liabilities, the reported carrying amount is the cash payment in the following year.

CLASSES OF FINANCIAL INSTRUMENTS

Figures in EUR thousand	Fair value 31.12.2017	Fair value 31.12.2016	Measurement method	Significant unobservable inputs	Hierarchy
Financial assets at fair value through profit or loss					
Securities	676	679	Quoted market price	Not applicable	Level 1
Asset derivatives	110	86	Market comparison method: the fair values are based on brokers' price quotations	Not applicable	Level 2
Financial liabilities at fair value through profit or loss					
Liability derivatives	2,215	2,170	Market comparison method: the fair values are based on brokers' price quotations	Not applicable	Level 2

There were no reclassifications between measurement classes of financial instruments in the reporting year.

For all financial instruments not shown, the carrying value is approximately the fair value.

The fair values of available-for-sale financial assets are calculated based on market prices (level 1) or discounted cash flows (level 3).

The reported securities with a fair value of EUR 676 thousand (previous year: EUR 679 thousand) are units held for trading in a capital appreciation fund that predominantly invests in interest-bearing securities, money market instruments and demand deposits. The reported securities have no fixed maturity and no fixed interest rate.

Risk management

The FP Group is exposed to certain financial risks in its business activities, covering in particular currency fluctuations, interest rate risk, liquidity risk and bad debts. The overall risk management system of the Group takes into account the unpredictability of financial markets and aims to minimise the negative impact on the result of operations of the Group. The Group uses certain financial instruments to achieve this goal.

For further details on the qualitative information on risk management and financial risks, please see the risk report in the Group management report.

No further significant risk clusters in relation to financial instruments have been identified. The framework, responsibilities, financial reporting procedures and control mechanisms for financial instruments are set out in internal regulations for the Group. This includes a separation of duties between the monitoring and controlling of financial instruments. The currency, interest rate and liquidity risks of the FP Group are managed centrally.

1. Foreign currency risks

Given its global operations, the FP Group is exposed to foreign exchange risks in its ordinary activities. Foreign currency risks arise from statement of financial position items, from pending transactions in foreign currencies and cash inflows and outflows in foreign currencies. Derivative financial instruments are used to minimise these risks.

I. Translation risks:

Income from translation differences and hedges of EUR 885 thousand (previous year: EUR 3,787 thousand) and expenses of EUR 1,258 thousand (previous year: EUR 3,076 thousand) were recognised in net finance costs in the reporting year.

II. Transaction risks:

The risk is mainly mitigated by invoicing business transactions (sales and purchases of products and services as well as investing and financing activities) in the respective functional currency. Moreover, it offsets the foreign currency risk in part by procuring goods, raw materials and services in the corresponding foreign currency.

Operating units are prohibited from borrowing or investing funds in foreign currencies for speculative reasons. Intragroup financing or investments are preferably carried out in the respective functional currency. Corporate financing is organised and carried out by FP Holding and Francotyp-Postalia GmbH.

With all other parameters remaining constant, the following table shows the sensitivity of consolidated net income before taxes and consolidated equity to possible changes in the exchange rates relevant to the FP Group (GBP, USD, CAD, SEK). The unhedged transactions in the relevant currencies (net risk position) and the existing financial instruments and investments in accordance with IAS 21 were used as the benchmark for the calculated sensitivities.

DERIVATIVE FINANCIAL INSTRUMENTS

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2017			
GBP	+5%	695	–175
	–5%	–629	159
2016			
GBP	+5%	649	0
	–5%	–588	0

DERIVATIVE FINANCIAL INSTRUMENTS

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2017			
USD	+5%	0	–397
	–5%	0	360
2016			
USD	+5%	–205	–328
	–5%	157	296

DERIVATIVE FINANCIAL INSTRUMENTS

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equityl
2017			
CAD	+5%	0	0
	–5%	0	0
2016			
CAD	+5%	0	–43
	–5%	0	39

NET RISK POSITION

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2017			
GBP	+5%	158	0
	–5%	–143	0
2016			
GBP	+5%	327	0
	–5%	–296	0

NET RISK POSITION

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2017			
USD	+5%	271	0
	–5%	–245	0
2016			
USD	+5%	895	0
	–5%	–810	0

NET RISK POSITION

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2017			
CAD	+5%	140	0
	–5%	–127	0
2016			
CAD	+5%	90	0
	–5%	–81	0

NET RISK POSITION

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2017			
SEK	+5%	75	0
	–5%	–68	0
2016			
SEK	+5%	64	0
	–5%	–58	0

NET INVESTMENTS

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated net income before taxes	Effect on equity
2017			
SEK	+5%	0	108
	–5%	0	–98
2016			
SEK	+5%	0	111
	–5%	0	–100

The foreign currency risks from anticipated future cash inflows in US dollars (USD), Canadian dollars (CAD) and pound sterling (GBP) are hedged to a significant extent.

To minimise earnings fluctuations, hedging transactions together with the underlying transactions were transferred to a new hedging unit as at 31 December 2017, taking account of the provisions of IAS 39.

Overview of hedges subject to IFRS hedge accounting:

Currency	Total expected cash flow in foreign currency	**Hedged volume in foreign currency (31.12.2017)**	Type of hedge	Effectiveness test/effective part (OCI)	Effectiveness test/ineffective part (P&L)
USD	15,443,000.00	9,267,000.00	Currency forward/cash flow hedge	93,210.26	14.54
GBP	5,650,000.00	2,985,000.00	Currency forward/cash flow hedge	16,830.52	0

The FP Group is anticipating cash flows in US dollars of USD 15,443 thousand in 2018 from the operating activities of its US subsidiary. As at 14 December 2017, twelve currency forwards with a fixed maturity in the amount of USD 9,267 thousand were concluded.

The FP Group is anticipating cash flows in GBP of GBP 5,650 thousand in 2018 from the operating activities of its subsidiary in the United Kingdom. As at 14 December 2017, twelve currency forwards with a fixed maturity in the amount of GBP 2,985 thousand were concluded.

Taking account of the currency hedges in place at the reporting date, the following net risk positions result:

Currency	Expected cash flows (inflows) in foreign currency	Hedged in a cash flow hedge	Net risk in foreign currency
GBP thousand	5,650	2,985	2,665
USD thousand	15,443	9,267	6,176
CAD thousand	4,000	0	4,000
SEK thousand	14,000	0	14,000

Additional currency risks were concluded as individual derivative transactions. According to IAS 39 these are not defined as hedges required for hedge accounting. This relates to the following transactions:

Currency	Nominal volume in foreign currency	Type of hedge	**Market value as at 31.12.2017**
GBP thousand	12,000	Currency swap	–2,215

2. Interest rate risks

The risk of fluctuations in market interest rates, to which the FP Group is exposed, predominantly results from long-term liabilities with variable interest rates. The finance department of the Group manages the interest rate risk with the aim of optimising the net interest income of the Group and minimising the total interest rate risk. The financing requirements of companies in the FP Group are covered by intragroup loans or intragroup clearing accounts.

No interest hedges were concluded in fiscal year 2017.

The new loan agreement concluded in June 2016 provides for an interest rate on the basis of a variable reference interest rate (3-month EURIBOR or 6-month EURIBOR) plus a credit margin. Due to the ongoing low interest rate environment (negative interest rate for (3-month EURIBOR and 6-month EURIBOR), at the present moment in time an interest hedge would mean unnecessary hedging costs.

However, all interest and currency risks are being monitored on an ongoing basis, and hedging can be concluded promptly if it becomes necessary.

Floating rate financial liabilities are exclusively liabilities to banks. The following table shows the sensitivity of consolidated net income before taxes and consolidated equity to a reasonable possible change in interest rates. All other variables remain constant. The average amount of loans for the year was used as the benchmark for sensitivity.

in EUR thousand	Change in percentage points	Effect on consolidated net income before taxes in EUR thousand	Effect on equity before taxes in EUR thousand
2017	+1%	−289	0
	−1%	0	0
2016	+1%	−350	0
	−1%	+350	0

3. Risk of default

The carrying amount of financial assets is the maximum risk of default in the event that counterparties fail to meet their contractual payment obligations. For all contracts on which primary financial instruments are based, depending on the type and volume of the contract, collateral is required, credit information / references are obtained or historical data from previous business relations (e. g. analysis of payment performance) are used to minimise the risk of default. In accordance with the terms and conditions of Francotyp-Postalia, there a retention of title to goods purchased until all payments have been received in full. If a customer leasing machinery is in arrears or if a lessor refuses to execute a contract despite warnings, the customer is required to return the leased assets to Francotyp-Postalia and to pay damages on termination of the contract.

The discernible risks of default and general credit risks are taken into account with corresponding specific and general valuation allowances. The maturity structure of trade receivables can be seen in section IV, note 13. This maturity structure also shows the receivables past due.

In the reporting year, the Group concluded a factoring transaction for short-term trade receivables of EUR 1,000 thousand with a commercial bank which is one of its key banks. Both the resulting counterparty risk and the debtor default were monitored on an ongoing basis.

For other financial assets (such as cash and cash equivalents, available-for-sale financial instruments and derivative financial instruments), the maximum risk of default is the respective reported carrying amount. Maturity structures are not shown for the other financial assets as there are no such assets past due but not impaired.

The FP Group concludes derivative financial instruments on the basis of netting agreements. In general, with these agreements the amounts owed from all transactions of the respective contractual partners on a specific individual day within our currency are offset and paid from one contract partner to the other contract partner as one amount. In special circumstances – for example in the case of a credit event such as a default, all outstanding transactions under the agreement are ended and a total amount determined by offsetting all transactions. This amount is then payable.

These agreements do not fulfil the criteria for offsetting transactions in the financial statements. This is the case because Francotyp Postalia has no lawful means of offsetting these transactions in a normal situation. Offsetting is legally possible only in the case of a future event such as a default on liabilities or something similar:

The following table shows the carrying amounts of the the recognised financial instruments subject to such an agreement as at 31 December 2017:

Description (Figures in EUR thousand)	Gross amount of the financial instruments recognised in the statement of financial position	Relevant not recognised financial instruments	Net amount
Asset derivatives	110	−78	32
Liability derivatives	2,215	−78	2,137

4. Liquidity risks

The liquidity risks of the Group are that it may no longer be able to meet its financial obligations (for instance, the repayment of financial liabilities, the payment of suppliers or fulfilment of finance lease obligations). The FP Group limits these risks with working capital and cash management. Liquidity risks are further addressed by a liquidity forecast for the entire Group. In addition, measures to secure additional liquidity are used on the basis of utilising customer receivables (factoring).

In addition to the liquidity management instruments stated above, the FP Group is constantly monitoring financing opportunities as they arise on the financial markets. The central aim is to ensure the Group's financial flexibility and to limit financial risks.

To finance itself, the FP Group primarily uses cash flow from operating activities, along with existing or adjusted loan agreements with financial institutions and finance leases of less than one year.

In fiscal year 2016, with a strong, international syndicate of banks, the FP Group concluded a significantly extended syndicated loan agreement at improved terms and conditions for an amount of EUR 120,000 thousand, with an option to increase the volume by a further EUR 30,000 thousand. As at 31 December 2017, the FP Group had unutilised credit facilities of EUR 75,332 thousand. The agreement has a duration of five years to 14 June 2021, plus two one-year extension options.

In accordance with the new syndicated loan agreement, the FP Group has undertaken to comply with two defined financial covenants.

$$\text{Leverage} = \frac{\text{Total net debt}}{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}} \leq 3{,}0\times$$

$$\text{Interest Cover} = \frac{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}}{\text{Net interest income (adjusted for IAS 23 Borrowing Costs)}} \geq 5{,}0\times$$

In the previous loan agreement, the FP Group had to comply with four key financial ratios with a much narrower definition (debt ratio, debt service coverage ratio, adjusted own funds and own funds ratio).

Additional key new elements of the financing documents on the basis of the British Loan Market Association (LMA) is the option of utilising part of the loan facility in foreign currency. Furthermore, the new loan agreement also creates financing security for acquisitions. In the future, the FP Group has entrepreneurial headroom to enter into additional financial obligations. What is more, the conditions were improved in comparison to the previous financing facility (margin plus reference interest rate and commitment fee). As a result of the new syndicated loan agreement, the FP Group overall has achieved a considerable improvement in financial stability and flexibility.

The credit conditions were complied with consistently throughout the reporting year. The FP Group was able to meet its payment obligations at all times.

The finance lease liabilities, trade payables and other liabilities mainly relate to the financing of operating assets used in continued operations (such as property, plant and equipment) and to investments within working capital (such as inventories and trade receivables). The Group takes these assets into account in the effective management of its overall liquidity risk.

The following table shows the cash flows resulting from the syndicated loan agreement, including estimated interest payments and payments from derivative financial instruments with negative fair value. In addition to the stated loans of EUR 42,667 thousand (previous year: EUR 36,908 thousand), there were other liabilities to banks of EUR 180 thousand (previous year: EUR 6 thousand) payments from associated derivatives.

CARRYING AMOUNT AS AT 31.12.2017

in EUR thousand		Expected cash flows			
		2018	2019	2020	2021
Loans	−42,667	0	−1,546	−8,958	−32,185
Incoming payment from derivatives transactions		13,525			
Outgoing payment from derivatives transactions		−15,583			

CARRYING AMOUNT AS AT 31.12.2016

in EUR thousand		Cash flows				
		2017	2018	2019	2020	2021
Loans	−36,908	−1,039	−200	−281	−929	−31,561
Incoming payment from derivatives transactions		24,717				
Outgoing payment from derivatives transactions		−26.795				

It is not expected that the payment outflows shown will occur at materially differing dates or with materially deviating amounts.

Net gains and losses on financial instruments by measurement category

NET INCOME

in EUR thousand	2017	2016
Held-for-trading financial instruments [1]	–65	–2
Available-for-sale financial assets Assets	0	0
Loans and receivables [2]	–761	1,957
Financial liabilities at amortised cost [3]	2,546	–338

1) Consist of the changes in their fair value.
2) Consist of impairment losses, reversals, interest payments and foreign currency effects.
3) Consist of net gains and losses from foreign currency effects, payments and gains and losses on disposal.

Accounting for derivative financial instruments

Derivative financial instruments are used inside and outside hedges as defined by IFRS. Derivatives outside hedges are accounted for at fair value in profit or loss.

Capital management

The capital structure is key to the capital management of the Group. The net debt ratio is the control parameter for the capital structure. This is the ratio of net liabilities to equity. The net debt ratio is monitored on an ongoing basis. In comparison to the previous year, treasury shares are no longer included in cash and cash equivalents.

NET RESULT

in EUR thousand	31.12.2017	31.12.2016
Liabilities to banks	42,847	36,915
Finance lease liabilities	702	1,526
Liabilities	**43,549**	**38,440**
Cash and cash equivalents	–34,234	–26,394
Securities	–676	–679
Postage Credit Balance	10,820	8,418
Cash and cash equivalents	**–24,089**	**–18,655**
Net debt	**19,460**	**19,785**
Shareholders' equity	32,959	35,946
Net debt ratio	**59%**	**55%**

The goal of capital management is to achieve the highest possible credit rating. The future of the Group as a going concern must also be ensured.

In the 2017 reporting year, there were no changes in the objectives, policies or processes for capital management.

Financial performance indicators

Group management is essentially carried out using the following financial performance indicators: revenue, EBITDA and free cash flow.

(22) Collateral

in EUR thousand	31.12.2017	31.12.2016
Guarantee obligations	648	1,027
Total	**648**	**1,027**

The guarantee obligations include rent guarantees for machinery and postage and any refunds of subsidies.

All present, contingent and future receivables of the financing parties to the syndicated loan agreement from or in connection with this loan agreement, a sub-loan agreement or other financing documents are secured by guarantees. Each guarantor autonomously and independently guarantees the financing parties the irrevocable and unconditional payment of all amounts owed by the borrowers under the loan agreement or other financing document, if they are not paid on time or in full. The guarantors undertook to make any payment under this guarantee free from deductions or retentions.

In addition to the borrower FP Holding, the guarantors are also Francotyp-Postalia GmbH, freesort GmbH, Francotyp-Postalia Vertrieb und Service GmbH, FP Produktionsgesellschaft mbH, Mentana-Claimsoft GmbH, IAB GmbH, Francotyp-Postalia Inc. (USA), Francotyp-Postalia Ltd. (UK), Francotyp-Postalia Canada Inc. (Canada) and Francotyp-Postalia France SARL (France).

The loan utilised amounted to EUR 44,668 thousand as at 31 December 2017 (31 December 2016: EUR 37,968 thousand). This amount also includes sureties.

Collateral received has a fair value of EUR 1,108 thousand (previous year: EUR 1,301 thousand) and is available to the FP Group in the short term only in the reporting year (previous year: unchanged). The collateral essentially consists essentially of rent deposit guarantees, guarantees from banks for deliveries of goods services and an insurance policy.

(23) Other Financial Obligations

NOMINAL VALUES OF FINANCIAL OBLIGATIONS AS AT 31.12.2017

in EUR thousand	Total	< 1 year	1–5 years	> 5 years
Other contractual obligations	45,924	27,360	17,573	991
of which from operating leases	12,371	4,465	7,280	626
of which from purchase commitments	26,576	19,499	7,077	0
of which from miscellaneous other financial obligations	6,977	3,396	3,216	365

NOMINAL VALUES OF FINANCIAL OBLIGATIONS AS AT 31.12.2016

in EUR thousand	Total	< 1 year	1–5 years	> 5 years
Other contractual obligations	46,227	20,432	22,990	2,805
of which from operating leases	13,211	4,771	7,805	635
of which from purchase commitments	28,112	13,114	13,191	1,807
of which from miscellaneous other financial obligations	4,904	2,547	1,994	363

Owing to the impracticable separability of expenses of EUR 1,070 thousand (previous year: EUR 939 thousand), future minimum lease payments under operating leases also include leases that comprise a service component in addition to the lease expense. EUR 299 thousand (previous year: EUR 343 thousand) of this relates to short-term obligations and EUR 772 thousand (previous year: EUR 596 thousand) to medium-term obligations.

There are contractual obligations (purchase commitments) for the acquisition of property, plant and equipment of EUR 73 thousand (previous year: EUR 181 thousand), the acquisition of intangible assets of EUR 173 thousand (previous year: EUR 190 thousand) and other purchases of EUR 26,654 thousand (previous year: EUR 27,741 thousand).

Lease payments of EUR 5,640 thousand (previous year: EUR 5,924 thousand) are recognised in profit or loss in the year under review. Lease expenses for the current year include incidental rental costs.

(24) Other Disclosures on Finance Leases

NOMINAL VALUES

	Future lease payments		Interest payments		Present value of future lease payments	
in EUR thousand	**2017**	2016	**2017**	2016	**2017**	2016
Less than one year	253	939	21	35	232	905
Between one and five years	495	642	24	20	471	621
Finance lease liabilities	**748**	**1,581**	**45**	**55**	**703**	**1,526**

Most of the terms of the leases run for up to 75% of the useful life. After the basic term, there is usually the option to renew the lease or to acquire the assets for a pre-determined amount.

in EUR thousand	**31.12. 2017**	31.12.2016
Carrying amount of assets leased to third parties	559	1,979
Carrying amount of the leased assets	1,208	3,102
Future minimum payments from subleases	842	3,220

(25) Contingent Assets and Contingent Liabilities

Contingent assets

In connection with the irregularities in the internal recording and billing of letter volumes in the time-critical consolidation business reported in 2017, the FP Group found that it had suffered financial damages as a result of breaches of duty extending beyond the reporting period. As a consequence, FP asserted damages claims against employees of around EUR 1.7 million on 14 February 2018 as part of wrongful dismissal proceedings that are currently still ongoing. The fidelity insurer has also been informed about the breaches of duty and the damages incurred. If the claims are upheld, this could have a one-time positive effect on the company's financial position and results of operations and result in FP exceeding the forecast for 2018 or its medium-term goals.

Contingent liabilities

A lawsuit filed against our subsidiary in the US is pending before the US District Court for Eastern District of Missouri (case no. 4:14-cv-01161-HEA). In the putative class action it is claimed that Francotyp-Postalia Inc. violated the Telephone Consumer Protection Act of 1991 by faxing unsolicited advertising. It has not yet been clarified whether the approach in question (advertising by fax) is covered by the statutory provisions.

The U.S. District Court for Eastern District of Missouri suspended the action on 17 February 2015 until a decision is reached by the Federal Communications Commission and the United States Court of Appeals for the D.C. Circuit on the application and validity of the Telephone Consumer Protection Act of 1991. This decision is currently pending.

The outcome of the lawsuit filed against Francotyp-Postalia Inc. is pending and could lead to potential damages of up to an estimated EUR 1,000 thousand. FP assumes that there is currently no obligation. On the basis of the current status of the lawsuit, FP anticipates that the legal dispute will be continued with legal assistance. Thus a future outflow of resources for legal fees is expected. A provision of EUR 267 thousand was recognised for this.

In the second quarter of 2017, deviations and occasional irregularities due to employee misconduct were found in the internal recording and billing of letter volumes in the time-critical consolidation business. On the basis of current information, FP assumes that there is an obligation to return payments and that there will be a future outflow of resources for consulting costs. In this context, the FP Group recognised provisions of EUR 176 thousand on the reporting date. The currently still ongoing clarification of the matter could result in further repayment obligations for the FP Group with estimated potential damages of EUR 600 thousand. The FP Group does not currently assume that there is an obligation for this.

V. Other Disclosures

Notes to the Cash Flow Statement

in EUR thousand	31.12. 2017	31.12.2016
Cash and cash equivalents	34,234	26,394
plus securities	676	679
less restricted cash and cash equivalents ("postage credit held")	–10,820	–8,418
Cash and cash equivalents	**24,090**	**18,655**

Cash flow from financing activities developed as follows in fiscal year 2017:

in EUR thousand	31.12. 2016	Cash	Non-cash		31.12. 2017
			Exchange rate changes	Change in fair value	
Liabilities to banks	36,915	5,932	0	0	42,847
Derivative financial instruments	2,170	–7	0	52	2,215
Finance lease	1,526	–822	0	0	704
Cash flow from financing activities	**38,441**	**5,110**	**0**	**0**	**43,551**

Employees

AVERAGE NUMBER OF EMPLOYEES BY COUNTRY

	2017	2016
Germany	642	650
USA	130	118
UK	100	95
The Netherlands	48	52
Canada	43	44
Italy	29	26
Sweden	25	20
Austria	17	18
France	20	16
Belgium	6	8
Total	**1,059**	**1,045**

AVERAGE NUMBER OF EMPLOYEES BY SEGMENT

	2017	2016
Sales Germany	428	453
International Sales	417	395
Production	171	163
Central Functions	43	34
Total	**1,059**	**1,045**

Management Board and Supervisory Board (Additional Disclosures in Accordance with German Commercial Code (HGB))

According to the schedule of responsibilities for the Management Board of Francotyp-Postalia FP Holding, the responsibilities of the members of the Management Board are as follows:

Name	Appointment	End of appointment	Areas of responsibility
Rüdiger Andreas Günther Business graduate	11 January 2016	December 2019	– Strategic Business Development – Production/Procurement/Quality – HR/Legal/Compliance – Finance/Accounting/Controlling – Corporate Communications/Investor Relations/Press – Internal Communications – Mergers & Acquisitions
Thomas Grethe Banking and economics graduate	June 2013	June 2018	– (Strategic Business Development) – Internal Audit – Strategic Marketing/Brand Management – (Business Development/Product Portfolio Management) – Franking and Inserting (Sales Germany, International, Asia, Product Management)
Sven Meise Business management graduate (BA)	February 2015	December 2021	– (Strategic Business Development) – Business Development/Product Portfolio Management – Information Technology – Research and Development – Digital Solutions business area (freesort, IAB, Mentana-Claimsoft)

In the reporting year, Mr Günther was a member of the Commerzbank Unternehmerperspektive Mittelstand (Entrepreneur Perspective Mittelstand) and in the Commerzbank Regional Advisory Council East. Since January 2017, he has also been a member of the Customer Advisory Council of LBBW Sachsen Bank. The members of the Management Board were not members of any statutory supervisory boards or similar executive bodies of business enterprises in Germany or abroad outside the FP Group.

The following table shows the members of the Supervisory Board of Francotyp-Postalia FP Holding and their activities outside the company and other administrative, management or supervisory board mandates or mandates for similar executive bodies of business enterprises in Germany and abroad:

Name	Professional activity	Other administrative or supervisory board mandates or mandates for similar executive bodies in Germany and abroad
Klaus Röhrig (Member and Deputy Chairman of the Supervisory Board since 1 April 2013; Chairman since 9 April 2013)	– Managing Director, Active Ownership Capital S.à r.l., Grevenmacher, Luxembourg – Managing Partner of Mercury Capital Unternehmensberatungs-GmbH, Vienna, Austria – Managing Director, R3 Beteiligungen GmbH, Vienna, Austria – Managing Director, R3 Capital GmbH, Vienna, Austria – Director, White Elephant HoldCo S.à r.l., Grevenmacher, Luxembourg – Director, White Elephant S.à r.l., Grevenmacher, Luxembourg – Director, White Hills Management SCOSA, Grevenmacher, Luxembourg	– Chairman of the Management Board, exceet Group SE, Luxembourg, Luxembourg
Robert Feldmeier (member of the Supervisory Board since 28 July 2012; Deputy Chairman since 27 June 2013)	– Managing Director of Unigloves Arzt- und Klinikbedarfshandelsgesellschaft mbH, Siegburg – Managing Director and Partner of UNIGLOVES Holding GmbH, Munich	– None
Botho Oppermann (member of the Supervisory Board since 27 June 2013)	– Managing Partner of Internet Business Solutions Nord UG (haftungsbeschränkt), Wentorf near Hamburg – Managing Partner of Internet Business Solutions Süd UG, (haftungsbeschränkt), Wentorf near Hamburg – Managing Partner of Internet Business Solutions Ost UG, (haftungsbeschränkt), Wentorf near Hamburg – Managing Partner of Internet Business Solutions West UG, (haftungsbeschränkt), Wentorf near Hamburg	– President of the Management Board of Internet Business Solutions AG, Boppelsen, Switzerland – Supervisory Board of ID Information und Dokumentation im Gesundheitswesen GmbH & Co. KGaA, Berlin – Member of the Management Board of ID Suisse AG, St. Gallen, Switzerland – Member of the Management Board of HCG FP Holding, Herisau, Switzerland

Shareholder Structure (Additional Disclosures in Accordance with German Commercial Code (HGB))

In fiscal year 2017, Francotyp-Postalia FP Holding received the following notifications from its shareholders in accordance with section 21(1) of the German Securities Trading Act (WpHG) and published them in accordance with section 26(1) WpHG and section 26a WpHG:

Publication date	21.02.2017	17.10.2017	17.10.2017	15.12.2017	15.12.2017
Reason of notification	Share sale	Share purchase	Share purchase	Share purchase	Share purchase
Shareholder/reporter	Alceda Fund Management S.A.	Active Ownership Fund SICAV-FIS SCS/Mr Klaus Röhrig	Active Ownership Fund SICAV-FIS SCS/Mr Florian Schuhbauer	Baring Fund Managers Limited	Baring Asset Management Limited
Date threshold reached	17.02.2017	12.10.2017	12.10.2017	11.12.2017	11.12.2017
Total share of voting rights					
Old	3.068%	10,27%	n/a	n/a	n/a
New	2.98%	10,31%	9.51%	3.07%	3.07%
Voting rights (sections 21, 22 WpHG)	485,000	1,680,000	1,550,000	500,000	500,000

There are also the following significant voting rights:

Publication date	18.01.2016	03.04.2014	03.04.2014	29.05.2013	29.05.2013	21.08.2013	05.06.2013	03.09.2012
Reason of notification	Share purchase	Share purchase	Share purchase	Share purchase	Share purchase	Share purchase	Share purchase	Share purchase
Shareholder/reporter	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf, Germany	Quaero Capital Funds (Lux), Luxembourg, Luxembourg	QUAERO CAPITAL SA, Geneva, Switzerland	Tom Hiss	Ludic GmbH, Bad Oldesloe, Germany	Saltarax GmbH, Hamburg, Germany	Axel Sven Springer	Rudolf W. Heil
Date threshold reached	12.01.2016	01.04.2014	01.04.2014	24.05.2013	24.05.2013	08.08.2013	03.06.2013	30.08.2012
Total share of voting rights	10,16%	5,20%	5,20%	3,51%	3,51%	3,59%	3,13%	3,03%
Voting rights (sections 21, 22 WpHG)	1.641.732	840.000	840.000	566.882	566.882	580.706	505.988	490.000

In fiscal year 2017, Francotyp-Postalia FP Holding received and published the following notifications from its shareholders in accordance with section 19 (1) Market Abuse Regulation with reference to the share ISIN DE000FPH9000:

Publication date	16.06.2017		28.08.2017		28.08.2017		04.09.2017	
Information on persons exercising management tasks	Rüdiger Andreas Günther		Rüdiger Andreas Günther		3R Investments Ltd,. Klaus Röhrig		Sven Meise	
Reason for notification/position	Management Board		Management Board		Supervisory Board		Management Board	
Transaction type	Acceptance of allocation of 180,000 stock options. Transaction under SOP 2015. The exercisability of the stock options depends in particular on the attainment of performance targets and the expiry of the four-year vesting period. Details on the SOP 2015 can be found in the 2016 annual report and the invitation to the 2015 Annual General Meeting. The stock options can be neither traded nor transferred.		Purchase		Purchase		Purchase	
Price(s)/volume in EUR	0.00	0.00	4.80000	4.80	4.92900	98,580.00	5.00000	3,250.00
			4.80000	480.00			4.99400	1,568.12
			4.80000	120.00			5.02000	2,198.76
			4.80000	480.00			4.99200	529.15
			4.86500	671.37			4.99100	598.92
			4.86500	9,491.62			4.99400	1,438.27
			4.80000	403.20				
			4.75000	475.00				
			4.75000	641.25				
			4.78000	186.42				
			4.78000	478.00				
			4.78000	664.42				
			4.73500	473.50				
			4.73500	473.50				
			4.80000	2,880.00				
			4.80000	2,880.00				
			4.80000	556.80				
			4.86000	2,779.92				
			4.87683	14,636.05				
			4.89100	978.20				
Aggregate price/volume EUR	n/a		4.85520	48,557.85	4.92900	98,580.00	5.0017	9,583.22
Date of transaction	01.09.2016		24.08.2017		24.08.2017		04.09.2017	
Place of transaction	n/a		Xetra		Xetra		Xetra	

Publication date	17.10.2017		17.10.2017	
Information on persons exercising management tasks	3R Investments Ltd,/Klaus Röhrig		Active Ownership Fund SICAV-FIS SCS	
Reason for notification/position	Supervisory Board		Supervisory Board	
Transaction type	Sale		Purchase	
Price(s)/volume in EUR	4.50	6,975,000.00	4.50	6,975,000.00
Aggregate price/volume EUR	4.50	6,975,000.00	4.50	6,975,000.00
Date of transaction	12.10.2017		12.10.2017	
Place of transaction	Off-market		Off-market	

In fiscal year 2017, Francotyp-Postalia FP Holding published the following notifications on changes in voting rights in accordance with section 26a WpHG:

Publication date	04.01.2017	04.01.2017 Correction notification	30.01.2017	28.02.2017	31.03.2017	30.06.2017
Capital measure	Other capital measure (section 26a (1) WpHG)	Issue of new shares (section 26a (2) WpHG)	Issue of new shares (section 26a (2) WpHG)	Issue of new shares (section 26a (2) WpHG)	Issue of new shares (section 26a (2) WpHG)	Issue of new shares (section 26a (2) WpHG)
As at/effective date	31.12.2016	31.12.2016	27.01.2017	28.02.2017	31.03.2017	30.06.2017
New total of voting rights	16,215,356	16,215,356	16,255,356	16,265,356	16,285,356	16,301,456

Related Party Disclosures

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

- the associate FP Data Center Inc., Japan;
- the non-consolidated subsidiary FP Systems India Private Limited, India;
- the non-consolidated subsidiary FP Direct Ltd., UK;
- Active Ownership Capital S.à r.l., Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- Mercury Capital Unternehmensberatungs- GmbH, Vienna, Austria (through a member of the Supervisory Board);
- R3 Beteiligungen GmbH, Vienna, Austria (through a member of the Supervisory Board);
- R3 Capital GmbH, Vienna, Austria (through a member of the Supervisory Board);
- White Elephant HoldCo S.à r.l., Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- White Elephant S.à r.l., Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- White Hills Management SCOSA, Grevenmacher, Luxembourg (through a member of the Supervisory Board);
- excet Group SE, Luxembourg, Luxembourg (through a member of the Supervisory Board);
- Managing Director of UNIGLOVES Arzt- und Klinikbedarf Handelsgesellschaft mbH, Siegburg (through a member of the Supervisory Board);

- Managing Director of UNIGLOVES Holding GmbH, Munich;
- Managing Partner of Internet Business Solutions Nord UG (haftungsbeschränkt), Wentorf near Hamburg (through a member of the Supervisory Board);
- Managing Partner of Internet Business Solutions Süd UG (haftungsbeschränkt), Wentorf near Hamburg (through a member of the Supervisory Board);
- Managing Partner of Internet Business Solutions Ost UG, (haftungsbeschränkt), Wentorf near Hamburg (through a member of the Supervisory Board);
- Managing Partner of Internet Business Solutions West UG, (haftungsbeschränkt), Wentorf near Hamburg (through a member of the Supervisory Board);
- President of the Management Board of Internet Business Solutions AG, Boppelsen, Switzerland (through a member of the Supervisory Board);
- ID Information und Dokumentation im Gesundheitswesen GmbH & Co. KGaA, Berlin (through a member of the Supervisory Board);
- ID Suisse AG, St. Gallen, Switzerland (through a member of the Supervisory Board);
- HCG FP Holding, Herisau, Switzerland (through a member of the Supervisory Board);

Revenue of EUR 0 thousand (previous year: EUR 1 thousand) was generated in the 2017 reporting year from related parties with a significant influence on the financial and operating policies of the FP Group in connection with the performance of maintenance work with FP Data Center Inc., Japan. The outstanding balance is EUR 6 thousand (previous year: EUR 6 thousand). In addition, members of the Management Board and the Supervisory Board received remuneration which is described in detail in the following section Total remuneration of the Management Board and the Supervisory Board". No further remuneration was paid. There were no reportable issues as defined by IAS 24.18 (b) to (d) in the reporting period.

Total Remuneration of the Management Board and the Supervisory Board

The long-term bonus for Mr Günter of EUR 180 thousand (previous year: EUR 180 thousand), Mr Grethe of EUR 42 thousand (previous year: EUR 11 thousand) and Mr Meise of EUR 42 thousand (previous year: EUR 41 thousand) and the variable short-term remuneration in the amount of the probable achievement of goals were recognised in profit or loss in the 2017 annual financial statements.

Regarding the remuneration report in accordance with section 315(2) no. 4 sentence 1 HGB, please see the Group management report. The total remuneration paid to the Management Board in accordance with GAS 17 was as follows:

MR GÜNTHER (MANAGEMENT BOARD MEMBER FROM 11 JANUARY 2016)

in EUR thousand		2016	2017
Non-performance-based component	Fixed remuneration	400	400
	Additional benefits	45	19
	Total	445	419
Performance-based component			
without long-term incentive effect	Short-term variable remuneration:	220	348
with long-term incentive effect	Long-term variable remuneration:		
	2015 stock option plan	141	0
	Long-term bonus [1]	180	0
	Total	541	348
Pension cost		19	20
Total remuneration		**1,005**	**787**

1) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met. EUR 180 thousand (previous year: EUR 180 thousand) was recognised in profit or loss in the 2017 annual financial statements as an addition to the provision in line with the probable achievement of goals.

MR GRETHE (MANAGEMENT BOARD MEMBER FROM 15 JUNE 2013)

in EUR thousand		2013	2014	2015	2016	2017
Non-performance-based component	Fixed remuneration	119	200	230	293	265
	Additional benefits	6	12	10	16	20
	Total	125	212	240	309	285
Performance-based component						
without long-term incentive effect	Short-term variable remuneration:	20	36	–11	10	113
with long-term incentive effect	Long-term variable remuneration:					
	2015 stock option plan	0	0	54	0	0
	Long-term bonus [1]	0	0	0	38	0
	Total	20	36	43	48	113
Pension cost		2	21	21	21	22
Total remuneration		**147**	**269**	**304**	**378**	**420**

1) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met. EUR 42 thousand (previous year: EUR 42 thousand) was recognised in profit or loss in the 2017 annual financial statements as an addition to the provision in line with the probable achievement of goals.

MR MEISE (MANAGEMENT BOARD MEMBER FROM 1 FEBRUARY 2015)

in EUR thousand		2015	2016	2017
Non-performance-based component	Fixed remuneration	183	233	265
	Additional benefits	18	26	26
	Total	201	259	291
Performance-based component				
without long-term incentive effect	Short-term variable remuneration:	24	42	117
with long-term incentive effect	Long-term variable remuneration:			
	2015 stock option plan	48	0	0
	Long-term bonus [1]	0	0	0
	Total	72	42	117
Pension cost		19	21	22
Total remuneration		**292**	**322**	**430**

1) In accordance with GAS 17, non-share-based payment is recognised in total remuneration when the condition linked to the commitment is met. EUR 42 thousand (previous year: EUR 41 thousand) was recognised in profit or loss in the 2017 annual financial statements as an addition to provisions in line with the probable achievement of goals.

Of the share-based payment granted in fiscal years 2015 and 2016 from the 2015 stock option plan, EUR 243 thousand or 312,500 options related to the Management Board. No further options were granted under this 2015 stock option plan in the reporting year. The exercise periods for the options are in fiscal year 2019 and 2020.

The amounts stated in the above table as pension cost are subsidies for pensions and part of the fixed remuneration paid to Management Board members.

The additional benefits essentially consist of the value of the use of a company car as determined in compliance with tax law. In the previous year, they also included a blanket amount for moving expenses.

As in the previous year, provisions of only insignificant amounts were recognised for pension obligations to active Management Board members (2017: EUR 4 thousand; 2016: EUR 3 thousand).

EUR 1,121 thousand was recognised for pension obligations to former Management Board members of Francotyp-Postalia FP Holding as at 31 December 2017 (previous year: EUR 1,141 thousand). EUR 17 thousand (previous year: EUR 39 thousand) was added to provisions in the 2017 reporting year, of which EUR 1 thousand for service cost and EUR 16 thousand for interest cost.

In addition to the reimbursement of cash expenses and any VAT incurred in relation to Supervisory Board work, each member of the Supervisory Board receives fixed remuneration of EUR 30 thousand per fiscal year, payable in the last month of the fiscal year. From fiscal year 2009, the fixed remuneration for the Chairman is 150% of the remuneration for a normal Supervisory Board member and 125% for the Deputy Chairman.

The fixed remuneration of the Supervisory Board for fiscal year 2017 amounted to EUR 113 thousand (previous year: EUR 113 thousand). The total amount is divided into EUR 45 thousand for Mr Klaus Röhrig, EUR 37.5 thousand for Mr Robert Feldmeier and EUR 30 thousand for Mr Botho Oppermann.

Auditor's Fee

On the basis of a recommendation of the Supervisory Board, the Annual General Meeting elected KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as the auditor for fiscal year 2017. The total fee charged for services by the auditor in the fiscal year is as follows:

in EUR thousand	2017	2016
Audits of financial statements	394	322
Tax advisory services	555	509
Other certification services	13	21
Other services	225	507
Total	**1,187**	**1,359**

Of the provisions recognised for audits of financial statements, EUR 263 thousand was utilised in the reporting year, and the remainder was reversed to profit or loss.

Other certification services relate primarily to confirmations on the use of funds and financial covenants. Other services relate primarily to legal and organisational consulting. The figures calculated comprise only the legally independent entity of the appointed auditor.

Report on Post-Balance Sheet Date Events

The Management Board will propose to the Supervisory Board and the 2018 Annual General Meeting that the net retained profits of EUR 10,749,210.08 be utilised as follows:

EUR	
Dividend of EUR 0.12 per entitled share	1,878,943.93
Profit carryforward	8,870,266.15
Net retained profits	**10,749,210.08**

In the context of share buybacks, a total of 47,325 treasury shares were acquired in fiscal year 2018.

Corporate Governance

The Management Board and the Supervisory Board of Francotyp-Postalia FP Holding have issued a declaration of compliance with the German Corporate Governance Code in accordance with section 161 AktG and made this declaration permanently accessible on the company's website (https://www.fp-francotyp.com/en/declaration-of-compliance/10ddeb512660af81).

Berlin, 21 March 2018

The Management Board of Francotyp-Postalia FP Holding

Rüdiger Andreas Günther, CEO

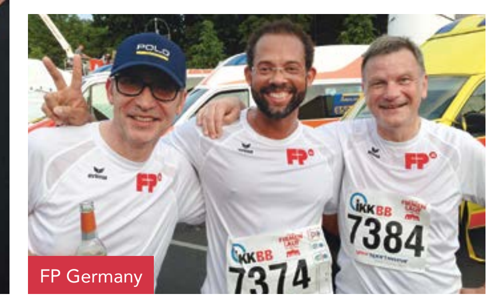
Thomas Grethe

Sven Meise


FP USA


FP Italy


FP France



FP Germany


FP Canada


FP Germany

Appendix 1
Changes in Intangible Assets and Property, Plant and Equipment between 1 January and 31 December 2016

	Cost or cost of manufacture						Amortisation, depreciation and write-downs							Book values	
in EUR thousand	C/F 01.01.2016	Currency differences	Other additions	Disposals	Reclassifica-tions	**Status 31.12. 2016**	C/F 01.01.2016	Currency differences	Other additions	Disposals	Reclassifica-tions	Reversals	**Status 31.12. 2016**	01.01. 2016	**31.12. 2016**
Intangible assets															
Internally generated intangible assets	38,875	–2	2,258	136	8,707	49,702	29,041	–2	4,103	201	0	0	32,941	9,834	16,761
Other intangible assets	89,575	95	2,309	150	66	91,895	85,588	180	850	80	1	0	86,539	3,987	5,356
Intangible assets including customer lists	128,450	93	4,567	286	8,773	141,597	14,428	178	4,953	281	1	0	119,480	13,821	22,117
Goodwill	22,922	0	0	0	0	22,922	14,428	0	0	0	0		14,428	8,494	8,494
Development projects in progress and ad-vance payments	10,715	0	2,323	0	–8,772	4,266	0	0	0	0	0	0	0	10,715	4,266
Total	162,087	93	6,890	286	1	168,785	129,057	178	4,953	281	1	0	133,908	33,030	34,877
Property, plant and equipment															
Land, land rights and buildings	4,109	–75	63	0	0	4,097	824	–38	267	0	0		1,053	3,285	3,044
Technical equipment and machinery	10,111	6	641	325	30	10,463	5,167	7	882	322	0		5,734	4,944	4,729
Other plant and operating and office machinery	30,432	–25	2,148	800	95	31,850	26,668	15	1,672	852	–1		27,502	3,764	4,348
Leased products	59,830	1,289	6,765	4,500	3,635	67,019	35,228	1,255	8,308	4,337	2,758		43,212	24,602	23,807
Finance lease assets	10,803	400	0	0	–3,635	7,568	5,504	314	1,405	0	–2,758		4,465	5,299	3,103
Advance payments and assets under construction	96	0	345	0	–126	315	0	0	0	0	0		0	96	315
Total	115,381	1,595	9,962	5,625	–1	121,312	73,391	1,553	12,534	5,511	–1	0	81,966	41,990	39,346
Non-current assets total	**277,468**	**1,688**	**16,852**	**5,911**	**0**	**290,097**	**202,448**	**1,731**	**17,487**	**5,792**	**0**	**0**	**215,874**	**75,020**	**74,223**

Changes in Intangible Assets and Property, Plant and Equipment between 1 January and 31 December 2017

	Cost or cost of manufacture						Amortisation, depreciation and write-downs						Book values	
in EUR thousand	C/F 01.01.2017	Currency differences	Other additions	Disposals	Reclassifications	**Status 31.12. 2017**	C/F 01.01.2016	Currency differences	Other additions	Disposals	Reclassifications	**Status 31.12. 2017**	01.01.2017	**31.12. 2017**
Intangible assets														
Internally generated intangible assets	49,702	0	517	0	3,950	54,169	32,941	0	5,226	0	0	38,167	16,761	16,002
Other intangible assets	91,895	−996	1,621	247	0	92,272	86,539	−933	1,337	246	0	86,697	5,355	5,575
Intangible assets including customer lists	141,596	−996	2,138	247	3,950	146,441	119,480	−933	6,563	246	0	124,864	22,116	21,577
Goodwill	22,922	−16	0	0	0	22,906	14,428	−16	0	0	0	14,412	8,494	8,494
Development projects in progress and advance payments	4,266	−1	4,759	0	−3,950	5,074	0	−0	0	0	0	−0	4,266	5,074
Total	168,785	−1,013	6,897	247	0	174,421	133,908	−950	6,563	246	0	139,275	34,876	35,146
Property, plant and equipment														
Land, land rights and buildings	4,097	−17	19	9	0	4,090	1,053	−12	265	0	0	1,306	3,044	2,784
Technical equipment and machinery	10,463	−16	679	733	475	10,868	5,734	−16	983	672	180	6,209	4,729	4,659
Other plant and operating and office machinery	31,850	−463	1,399	1,119	289	31,956	27,502	−414	1,658	1,096	32	27,682	4,348	4,274
Leased products	67,019	−8,681	5,713	4,171	3,394	63,274	43,212	−6,027	8,922	3,832	2,615	44,890	23,807	18,384
Finance lease assets	7,568	−912	355	755	−3,876	2,380	4,465	−658	670	478	−2,827	1,172	3,103	1,208
Advance payments and assets under construction	315	0	413	0	−282	446	0	0	0	0	0	0	315	446
Total	121,312	−10,089	8,578	6,787	0	113,014	81,966	−7,127	12,498	6,078	0	81,259	39,346	31,755
Non-current assets total	**290,097**	**−11,102**	**15,475**	**7,034**	**0**	**287,435**	**215,874**	**−8,077**	**19,061**	**6,324**	**0**	**220,534**	**74,222**	**66,901**

Independent Auditor's Report *

To Francotyp-Postalia Holding AG, Berlin

Report on the Audit of the Consolidated Financial Statements and of the Combined Group Management Report

Opinions

We have audited the consolidated financial statements of Francotyp-Postalia Holding AG, Werdohl, and it subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined group management report of Francotyp-Postalia Holding AG for the financial year from 1 January to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as of 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and

– the accompanying combined group management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined group management report in accordance with Section 317 HGB and EU Audit Regulation No. 537 / 2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment testing of goodwill

Please refer to Section I in the notes to the consolidated financial statements for information on the accounting policies applied. Information on the impairment tests carried out can be found in the notes in Section IV (10).

The Financial Statement Risk

Goodwill equalled EUR 8.5 million as at the balance sheet date of 31 December 2017. Goodwill is checked annually for impairment at the level of the two cash-generating units, freesort (EUR 5.9 million) and IAB (EUR 2.6 million), both of which are assigned to the Sales Germany segment.

For this purpose, the carrying amount is compared with the recoverable amount of each cash-generating unit. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell and its value in use. If the value in use of the cash-generating unit is over its carrying amount, the Company does not determine fair value less costs to sell. Goodwill was tested for impairment as at 30 September 2017.

Impairment testing of goodwill is complex and based on a range of assumptions that require judgement. This includes the expected mail volumes, anticipated gross profit margins, assumed sustainable growth rates and the discount rate used.

The freesort CGU's economic situation deteriorated in financial year 2017. This aggravated future business prospects. Furthermore, the general market interest rate increased compared with prior years.

Nonetheless, as a result of the impairment test conducted by Francotyp-Postalia Holding AG, no need to recognise an impairment loss was identified. There is the risk for the consolidated financial statements that impairment existing as at the reporting date was not identified. There is also the risk that the related disclosures in the notes are not appropriate.

Our Audit Approach

With the involvement of our valuation specialists, we assessed the appropriateness of the significant assumptions and the calculation method of Francotyp-Postalia Holding AG. For this purpose, we discussed the expected business and earnings development and the assumed sustainable growth rates with those responsible for planning. We also reconciled this information with other internally available forecasts, e.g. for tax purposes, as well as the budget prepared by the management board and approved by the supervisory board.

Furthermore, we confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and by analysing deviations. Since changes to the discount rate can have a significant impact on the results of impairment testing, we compared the assumptions and parameters underlying the discount rate, in particular the risk-free rate, the market risk premium and the beta coefficient, with our own assumptions and publicly available data.

To ensure the computational accuracy of the valuation model used, we verified the Company's calculations on the basis of selected risk-based elements.

In order to take account of forecast uncertainty and the earlier deadline for impairment testing, we investigated the impact of potential changes in the discount rate, earnings performance and the sustainable growth rate on the recoverable amount by calculating alternative scenarios and comparing them with the values stated by the Company (sensitivity analysis). The risk-based core focus of our analyses was on the freesort cash-generating unit, as its future economic prospects deteriorated significantly in the financial year under review.

Finally, we assessed whether the disclosures in the notes regarding impairment of goodwill were appropriate. This included an assessment of the appropriateness of disclosures relating to sensitivity.

Our Observations

The calculation method used for impairment testing of goodwill is appropriate and in line with the accounting policies to be applied. The Company's assumptions and parameters used for measurement are appropriate overall. The related disclosures in the notes are appropriate.

Assessment of the tax liabilities for income tax and recognition of tax refund claims

Please refer to the disclosures in the notes to the consolidated financial statements – Section IV (18) – for more information on the tax liability and tax refund claims.

The Financial Statement Risk

Francotyp-Postalia Holding AG has business activities in various jurisdictions with different legal regulations. The consolidated financial statements of Francotyp-Postalia Holding AG reported EUR 5.1 million in short-term income tax liabilities for the risks arising from the tax audits as at 31 December 2017. Corresponding claims for refunds abroad are shown in the consolidated financial statements of Francotyp-Postalia Holding AG as at 31 December 2017 in the amount of EUR 5.8 million as short-term income tax receivables as well as in the amount of EUR 2.4 million as long-term income tax receivables. Application of local tax regulations and tax relief is complex and subject to risks. Determining tax liabilities and refund claims requires Francotyp-Postalia Holding AG to exercise judgement in its assessment of tax matters and make estimates concerning tax risks.

* Please note that this is an English translation of the original German Auditor's Report.

There is a risk for the consolidated financial statements that the tax liabilities and tax receivables are over or underfunded.

Our Audit Approach
We integrated our own employees specialising in local and international tax law into the audit team to evaluate the tax calculation including Francotyp-Postalia Holding AG's risk assessments. We obtained an understanding of the existing tax risks in the course of discussions with management of the group companies concerned and employees of the tax department. We also analysed the correspondence with the relevant tax authorities and assessed the assumptions made to determine the tax liabilities and disclosed current tax assets based on our knowledge and experience of how the relevant legal requirements are currently applied by the authorities and courts.

Our Observations
The valuation model and the assumptions made by Francotyp-Postalia Holding AG in the determination of the expected tax liabilities and disclosure of current tax assets are appropriate.

Existence of revenue
Please refer to Section I of the notes to consolidated financial statements for information on the accounting policies used. Refer to the disclosures on risk reporting in the combined group management report (8.1.4.) for information on the reported irregularities in connection with the recording of letter volumes.

The Financial Statement Risk
Revenue equalled EUR 206.3 million in financial year 2017, including EUR 65.7 million that the Group generated in the Mail Services segment. At 31.9%, the latter represents a substantial part of the Group's total revenue.

Overall, in light of the complexity of the accounting-related IT systems necessary for accurate recognition in the Mail Services segment, the revenue here is subject to a particular risk. Furthermore, the deviations and irregularities regarding the entry and invoicing of letter volumes identified in 2017 illustrate the risk of inaccurate revenue recognition in the consolidated financial statements.

Our Audit Approach
We assessed selected processes and controls set up by the Group to record revenue.

We especially assessed the appropriateness, setup and effectiveness of the internal controls used to handle and recognise revenue. For the Mail Services segment, we critically assessed matters such as management's handling of the identified deviations and irregularities and evaluated the accounting-related IT systems used, including the implemented accounting-related controls in the case of system modifications.

In addition, we assessed the accounting-related IT systems used to invoice sale revenue. Furthermore, we assessed the posting logic up through recording in the general ledger and, using random samples, compared the recorded revenue with the customer invoices and incoming payments. Moreover, we checked the existence of revenue by obtaining balance confirmations from third parties using a deliberate sample as at 31 December 2017.

Our Observations
The approach for recording the revenue is appropriate. With regard to financial reporting, management properly handled and rectified the irregularities identified in Mail Services.

Other Information
Management is responsible for the other information. The other information comprises the annual report, with the exception of the audited consolidated financial statements and combined group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the combined group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the consolidated financial statements, with the combined group management report or our knowledge obtained in the audit, or

– otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Group Management Report
Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Group Management Report
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

– Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

– Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

– Evaluate the consistency of the combined group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

– Perform audit procedures on the prospective information presented by management in the combined group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 7 June 2017. We were engaged by the supervisory board on 13 October 2017. We have been the group auditor of Francotyp-Postalia Holding AG without interruption since financial year 2009.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Patrick Waubke.

Berlin, 22 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Waubke Wirtschaftsprüfer [German Public Auditor]	Unger Wirtschaftsprüferin [German Public Auditor]


FP Canada


FP USA


FP Italy


FP Germany


FP Germany

FP Germany

We are the experts for secure and efficient communication.

Based in Berlin, but working around the globe with approx. 1,100 employees.

We frank and fold / insert, we provide special services, and offer software solutions as well as digital processing of mail.

FP: Built on three stable pillars, strong in three fields.

FP is
franking and folding/inserting
= efficient processing of mail

We develop franking systems, which we sell or lease just like we do with our folding/inserting systems. Both are combined with comprehensive services.
Our systems can frank mail automatically in a short time and cut postage costs, which makes them real time savers for our customers.
The most important revenue driver in this field of business is the after-sales business that generates revenues from the leasing of equipment, the sale of consumables, services and software solutions for cost centre management, next to teleporto.

FP is
Mail Services
= consolidation of business mail

Mail Services combines the franking service and the consolidation of business mail, which means collecting postal letters from customer businesses, sorting according to postcodes and delivering to a Deutsche Post mail centre or another mail service provider.
This business is operated by our subsidiary freesort GmbH, one of the leading independent consolidators of business mail on the German market.

FP is
software
= digital solutions

Here, we pool our business with hybrid mail and solutions regarding fully digital communication – we are ready for the Internet of things.
The hybrid mail of our IAB GmbH allows our customers to outsource their incoming and outgoing mail processing.
The fully digital offers of Mentana-Claimsoft include in particular digital signature solutions such as the FP Sign product range.
In addition, we already offer products to secure electronic documents by means of encryption software.

Glossary

A

Agile methods
Agile methods are principle-based approaches for higher efficiency in software development.

Actuation
Actuation describes the signal-controlled response of drive components to certain operating conditions.

API
Application programming interface.

C

CDS spreads
A credit default swap (CDS) is a credit derivative that allows the default risks of loans or bonds to be traded. Spread is the difference between bid and ask prices.

CGU
According to International Financial Reporting Standards (IFRS), a cash generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (IAS 36.6).

Connectivity
The ability of systems to establish a connection with other systems.

CRM
A software system for customer relationship management.

Cryptography
Originally the science of the encryption of information. Today, cryptography also concerns the conception, definition and design of information systems and information security.

Currency swap
In a currency swap, two contracting parties swap two currencies at the current exchange rate and then swap them back at the same rate at a later date.

D

Del credere
The term del credere means the general risk of default of a receivable.

eIDAS
European regulation on electronic identification and trust services for electronic transactions.

E

ERP
Resource planning software for an enterprise or organisation.

F

Finance lease
Under a finance lease, the opportunities and risks of ownership are transferred to the lessee.

Financial covenants
Blanket term for additional contractual clauses or side agreements in loan and bond agreements with enterprises.

Forfaiting
The purchase of receivables – usually without recourse to the seller in the event of default.

FP Fit4Change
Human resources initiative in which around 1,000 employees took part in six languages and more than 40 workshops.

FP Marketing & Sales Plus
An ACT project with targeted marketing and sales measures to expand the customer base and acquire new customers.

FP Product Roadmap
An ACT project to develop new products and services in the field of franking systems.

"Freedom to operate" analysis
Analysis of whether third parties already have property rights with respect to the development, manufacture and market launch of a new product.

G

Going concern
Positive forecast of continuation for the coming fiscal year.

I

Infrastructure discount
Since 1 January 2018, the infrastructure discount has replaced Deutsche Post AG's volume discount. This requires specific conditions to be met, including with regard to machine-readable postage paid impressions.

Inserter release
A new option to combine inserting and franking.

Intellectual property
A category of property that includes intangible creations of the human intellect.

Iteration
The process of repeating the same or similar actions multiple times to approximate a solution or a certain target.

O

Operating lease
Any lease that is not a finance lease is classified as an operating lease. The opportunities and risks of ownership primarily reside with the lessor.

P

Part-performance discount
A part-performance discount is granted in a part-performance contract when letters are delivered, processed and consolidated in a sorting office.

PostBase One
PostBase One replaced CentorMail in spring 2016 and is a new system in the upper performance class of the PostBase product family. PostBase One enables the franking of medium and large mail volumes.

PostBase Sandd
Special PostBase variant for a private carrier in the Netherlands.

PostBase100
A special feature is its dynamic scale, which allows customers to conveniently process stacks of uniform mixed mail.

S

Sale and lease back
Sale of assets that are then used by way of rental or leasing.

SCRUM
SCRUM is a rule-based process model in project management, especially for agile software development.

Sensors
Sensors capture external and internal operating conditions, which are used to control drive components via special software programs.

Strength compass
The strength compass is the world's first and only digital tool for collecting and visualisation feedback on strengths. More than 1,000 FP employees worldwide took part in the strength compass workshops.

T

Triggering event
Event that triggers an impairment test.

Financial Calendar

FINANCIAL CALENDAR	
Consolidated Financial Statements 2017	29 March 2018
Results for the First Quarter 2018	17 May 2018
Annual General Shareholder Meeting, Berlin	29 May 2018
Results for the Half Year 2018	23 August 2018
Results for the Third Quarter 2018	15 November 2018

Imprint

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This report was printed on certified paper from sustainably managed forests.

Sustainability Report

Acting responsibly – growing sustainably: sustainability has long been a firm fixture at numerous levels of our company. Growing sustainably is part of our responsibility as a global corporation to our employees, to our customers and suppliers, to our shareholders, and to our social and natural environment. Growing keeps us in a position to constantly improve our fulfilment of this responsibility. Our first comprehensive sustainability report (separate non-financial report) describes how we meet this responsibility. It is available on our website at https://www.fp-francotyp.com/sustainability-report.

Forward Looking Statement

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 German. If there are variances, the German version has priority over the English translation. It is available for download in both languages at www.fp-francotyp.com.

Multi-Year Overview

FIGURES IN ACCORDANCE WITH CONSOLIDATED FINANCIAL STATEMENTS (in EUR million)

	2017	2016	2015	2014	2013
Revenue	206.3	203.0	191.1	170.3	168.9
Recurring revenue	162.6	161.9	154.3	139.4	136.9
EBITDA	26.3	27.2	26.8	23.1	22.2
as percentage of revenue	12.8	13.4	14.0	13.6	13.1
EBIT	7.3	9.7	9.0	9.8	10.4
as percentage of revenue	3.5	4.8	4.7	5.8	6.1
Consolidated net income	4.6	6.2	3.7	5.2	4.9
as percentage of revenue	2.3	3.1	1.9	3.1	2.9
Free cash flow	5.8	4.6	–1.4	–5.6	5.9
Equity capital	16.3	16.2	16.2	16.2	16.2
Shareholders equity	33.0	35.9	35.2	30.1	25.9
as percentage of balance sheet total	19.4	21.5	22.6	21.1	18.8
Return on equity (%)	14.1	17.2	10.6	17.4	18.8
Debt capital	136.8	131.4	120.9	112.1	111.5
Net debt	19.5	19.8	20.4	17.0	11.5
Net debt-equity ratio [1]	59.0	55.0	57.9	56.6	44.4
Balance sheet total	**169.8**	**167.3**	**156.2**	**142.1**	**137.4**
Share price end of year (EUR)	**4.66**	**5.49**	**4.34**	**3.98**	**4.17**
Earnings per share (basic in EUR)	**0.29**	**0.36**	**0.22**	**0.32**	**0.31**
Earnings per share (diluted in EUR)	**0.28**	**0.36**	**0.22**	**0.32**	**0.31**
Employees (end of period)	**1,067**	**1,052**	**1,048**	**1,054**	**1,047**

1) Adjusted figures for 2013–2015 in 2016.

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»It depends on you whether you want to use the new year as a brake or an engine.«
Henry Ford