Francotyp-Postalia Holding AG

QUARTERLY FINANCIAL REPORT

QUARTERLY FINANCIAL REPORT FOR Q3 2008

Q3 2008

OVERVIEW

FRANCOTYP-POSTALIA GROUP

	Jan. 1– Sept. 30, 2008	Jan. 1– Sept. 30, 2007	3RD QUARTER 2008	3RD QUARTER 2007
Figures in accordance with consolidated financial statements				
Revenues (million euros)	**106.1**	**108.9**	**33.4**	**33.9**
Increase in revenues (%)	–2.6	0.0	–1.5	–5.1
EBITDA[1] before restructing (million euros)	**16.8**	**20.5**	**5.1**	**5.6**
in percentage of revenues	15.8	18.8	15.3	16.5
EBITDA[1] (million euros)	**14.3**	**20.5**	**4.5**	**5.6**
in percentage of revenues	13.5	18.8	13.5	16.5
EBITA (million euros)	**6.9**	**13.3**	**1.9**	**3.5**
in percentage of revenues	6.5	12.2	5.7	10.3
EBIT[1] (million euros)	**–4.8**	**–0.4**	**–2.0**	**–1.0**
in percentage of revenues	n/a	n/a	n/a	n/a
Consolidated net profit for the period (million euros)	**–6.4**	**0.2**	**–2.1**	**–0.8**
in percentage of revenues	n/a	0.2	n/a	n/a
Earnings per share (euros)	**–0.45**	**0.02**	**–0.15**	**–0.05**
Cash flow from operating activities[2] (million euros)	**20.7**	**13.5**	**6.1**	**7.6**
	Sept. 30, 2008	**Dec. 31, 2007**		
Employees	**1,124**	**1,092**		
Equity capital (million euros)	**14.7**	**14.7**		
Shareholders' equity (million euros)	**44.6**	**55.4**		
in percentage of balance sheet total	23.9	29.8		
Debt capital (million euros)	**142.2**	**130.5**		
Balance sheet total (million euros)	**186.8**	**185.9**		

[1] Adjusted for financial result; previous-year figure restated.

[2] Adjusted for postage credit balances managed by the FP Company.

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LETTER TO THE SHAREHOLDERS

Dear Shareholders,

The year 2008 is one of strategic realignment and restructuring for our Company. Having analysed all our business processes during the first half and identified the weak spots, reorganisation is now at the forefront of our efforts. This naturally means time and money, but the extensive restructuring involved will start to have a noticeable effect as early as next year.

My optimism is based on the fact that the market for efficient corporate mail processes that we serve continues to grow in importance. A study we carried out shows that German companies expend an average of 1.38 euros per letter. And that does not include postage. These ancillary mail charges arise from the costs involved in processing, inserting and franking mail, as well as travel to and from the collection point or post office. The digital solutions the FP Group offers can reduce these costs by as much as 80 per cent. This argument alone is of major significance to companies, no matter their size, especially during a phase of slow economic growth.

The FP Group is now systematically focusing its activities on the mail management business. Franking, digitalising and optimising – these three concepts are central to the FP Group's mission as a mail manager. And whether it is classic franking machines or sophisticated digital solutions such as Print&Mail, all our customers are treated individually, getting the best possible solution for their outgoing mail. We stand in direct contact with the people we serve. Our sales and service staff know their requirements and ensure they get the right solutions. Our new Customer Care Center at Birkenwerder which opened this October represents another major milestone further strengthening that commitment. Our customers know they can call on a known team of back-office staff and mobile units that provide competent, targeted support.

As mentioned, the Company's realignment, with the current restructuring this involves, does mean additional cost. In 2008 these charges will amount to around 3 million euros. However, this we expect to be more than offset through annual savings of between 3 to 5 million euros by as early as 2009, mainly as a result of optimising our supply chain. The optimisation of our production and supply chains, as well as streamlining our research and development department and the trimming of administration, means that the FP Group will become much more efficient. This means we can seize opportunities faster and with greater accuracy, as they arise. All this gives me great confidence that 2009 will be a turning point, with a corresponding growth in sales and earnings.

But first we expect to feel some headwind from the difficult economic situation, too. In the first nine months of 2008, the FP Group achieved sales of 106.1 million euros, with EBITDA (earnings before interest, taxes, depreciation and amortisation) reaching 19.5 million euros. The downturn in revenues and in EBITDA is due to weakness in the US dollar against the euro, as well as very cautious investment activity by our customers. This also explains the way decertification developed in the USA, contrary to expectations. Looking at consolidation and outsourcing business, the normal weakness of the summer months was reflected in revenues. But the basic fact remains: our new business segment has achieved an extraordinary growth rate of nearly 90 per cent, posting a positive result of 0.9 million euros.

And our Mailstream business will be the growth driver in the fourth quarter of 2008 again. In the Mailroom segment, we continued to implement measures to further improve efficiency and reduce costs. And despite growing weakness in the economy, with the Mailroom segment developing accordingly, the FP Group still expects to achieve its guidance figure for revenues of between 140 and 145 million euros for the full 2008. Regarding earnings, the Company now expects EBITDA to reach between 21 to 22 million euros before restructuring costs. This figure already prices in any uncertainties following the upheavals of the financial crisis. But internal measures already planned do mean that the Company sees some chance of achieving the higher earnings level.

I am very pleased to announce that Hans Szymanski will be accompanying me as our new CFO as from December 1. In his last position, Mr Szymanski was CFO Central Europe for the logistics specialist Dematic, and can look back on many years of experience in corporate control and financial management. With its new Management Board, its futuristic business concept, and dedicated team, the FP Group is all set for a return to success in 2009.

DR HEINZ-DIETER SLUMA

Management Board, Francotyp-Postalia Holding AG

1. CONSOLIDATED INTERIM REPORT FOR FP GROUP

1.1 BUSINESS OPERATIONS

Francotyp-Postalia Holding AG (FP Group), based in Birkenwerder near Berlin, is a global service provider for the outbound mail market. In addition to its traditional mailroom business with franking and inserting machines, the Company is also developing the Mailstream sector via its subsidiaries freesort and iab. freesort GmbH, Düsseldorf concentrates on consolidation and operates throughout Germany. iab-internet access GmbH, Berlin is a software provider and outsourcing specialist for regular communications and marketing mail.

1.2 ECONOMIC ENVIRONMENT

The world economy is increasingly losing momentum. In the third quarter 2008, the Ifo World Business Climate index continued the downward trend it began in late 2007. The economic experts surveyed in several countries considered that the economy was weaker than in the previous quarter.

Economic indicators in the USA are also pointing downwards. The economic figures published by the Federal Reserve Bank were disappointing, stoking analysts' fears of a recession.

Germany was also unable to escape the negative economic environment. According to estimates by the Bundesbank, the German economy hardly grew at all in the third quarter 2008 and, seasonally adjusted, came to a standstill. Experts put this down to the sharp slowdown in global economic growth rates and generally higher uncertainty due to the severity of the crisis on financial markets.

The currency markets were dominated by news of the euro's collapse against the US dollar. In early July, the euro was worth nearly USD 1.60, but, by the end of September, it had dropped to USD 1.45 – representing a decline of around ten per cent over the third quarter. The euro also lost ground against the Canadian dollar. Yet the euro's exchange rate against the British pound remained stable.

In Europe and Germany, the year 2008 is still marked by the liberalisation of postal markets. After the market for all letters was opened up at the start of the year in Germany, the Federal Economics Ministry put forward a draft proposal in September 2008 to harmonise VAT on business mail for all providers.

The government is increasingly liberalising the market for postal services, which brings new opportunities for service providers such as FP Group. Companies dispatch hundreds of thousands of letters every day. This means inserting and franking the letters, sorting and consolidating them, transporting them to their destination and then delivering them to the addressees. Following the market liberalisation, FP Group can cover a large share of this value chain with its products and services.

1.3 COURSE OF BUSINESS

Revenue

In the first nine months of the financial year 2008, Francotyp-Postalia Holding AG reported revenue of 106.1 million euros, following 108.9 million euros in the same period last year. Revenue in the Mailstream segment rose to 11.3 million euros following 6.0 million euros in the first three quarters of 2007. In the traditional Mailroom segment, however, revenue was below last year's level of 102.9 million euros at 94.8 million euros.

In the third quarter 2008, FP Group reported revenue of 33.4 million euros, compared with 33.9 million euros in the same period last year.

REVENUE BY REGION

(in million euros)	Jan. 1– Sept. 30, 2008	Jan. 1– Sept. 30, 2007	Q3 2008	Q3 2007
Germany	46.6	41.5	15.5	13.9
Rest of Europe	32.1	35.0	9.8	10.1
USA/Canada	26.5	31.5	7.8	9.4
ROW	0.9	1.0	0.3	0.4
Total revenue	**106.1**	**108.9**	**33.4**	**33.7**

The drop in revenue is essentially the result of unfavourable exchange rate movements – roughly 5 million euros – and missing or cyclically lower than expected one-off effects such as the decertification in the USA. Adjusted for currency movements, the nine-month revenue came to 111.1 million euros, which means an increase of approx. 2 per cent.

In Britain, FP Group was able to increase revenue in the first nine months of 2008 by 16.0 per cent to GBP 8.7 million, compared with GBP 7.5 million in the same period last year. In the USA, however, both the rate change and the decertification were at the lower end of expectations. Nine-month revenue for the current year came to USD 36.2 million, after USD 37.6 million in the same period last year. In the Netherlands the previous year's revenue of 13.6 million euros, which was largely derived from decertification (NetSet™), could not be matched by this year's revenues of 10.3 million euros.

In the first nine months of 2008, revenue in Germany was well above last year's figure of 41.5 million euros at 46.6 million euros. The Mailstream segment accounts for 5.3 million euros of this increase. The Mailroom segment exhibited a stable trend in Germany over the nine-month period and remained robust in the third quarter. Revenue remained unchanged compared with the third quarter 2007 at 11.7 million euros. At the same time, FP Group was able to underline its leading market position in the domestic market, with a market share in Germany of 44.3 per cent.

REVENUES BY PRODUCT AND SERVICE

(in million euros)	Jan. 1– Sept. 30, 2008	Jan. 1– Sept. 30, 2007*	Q3 2008	Q3 2007[1)]
Mailroom				
Franking	24.0	26.7	7.0	7.7
Inserting	9.2	10.7	2.8	3.6
Other	0.8	1.1	0.6	0.1
Revenue from product sales	**34.0**	**38.5**	**10.4**	**11.5**
Rental	14.5	17.1	4.8	5.6
Teleporto	8.8	9.2	2.9	3.0
Services/customer service	19.6	19.9	5.7	6.0
Consumables	17.5	17.6	5.5	5.5
Recurring revenue	**60.4**	**63.9**	**18.9**	**20.2**
Mailroom revenue	**94.5**	**102.3**	**29.3**	**31.7**
Revenue from machine sales (% of Mailroom revenue)	36.0	37.6	35.4	36.2
Recurring revenue (% of Mailroom revenue)	64.0	62.4	64.6	63.8
Exchange rate effect from USD loan	0.3	0.6	0.3	0.0
Total revenue Mailroom	**94.8**	**102.9**	**29.6**	**31.7**
Mailstream				
Mailstream revenue	**11.3**	**6.0**	**3.8**	**2.2**
Total revenue	**106.1**	**108.9**	**33.4**	**33.9**

[1)] Previous-year value adjusted in respect of financial leasing.

Persistent price pressure and greater sales of smaller machines as well as negative exchange rate effects caused revenues from franking and inserting machines (and therefore from product sales) to decline. In the first three quarters of the current year they came to 34.0 million euros following 38.5 million euros in the same period last year. As a result, recurring income for the first three quarters was below last year's level of 63.9 million euros at 60.4 million euros. In particular, rental income of 14.5 million euros was below the previous year's figure of 17.1 million euros. This is largely due to the unfavourable effect of exchange rates on the American rental business. Recurring revenue as a proportion of total revenue in the Mailroom segment came to 64.0 per cent, and so was higher than the 62.4 per cent for the same period last year.

Operating expenses

In the first nine months of 2008, the cost of materials and services dropped to 34.1 million euros in comparison with 35.2 million euros for the same period last year. There were two main reasons for this decline. Firstly, sinking revenue from product sales and, secondly, less own work capitalised (discontinuation of decertifying machines in Canada and the Netherlands). In the Mailroom segment, the cost of materials and services in relation to revenue stayed at the same level as last year.

In contrast, the services purchased rose by 1.1 million euros, whereby at freesort alone, purchased services went up by 1.7 million euros. Quarter on quarter, the cost of materials and services fell by 2.2 per cent to 10.4 million euros following 10.6 million euros in the third quarter 2007.

Staff expenses went up largely due, on the one hand, to severance payments in the Mailroom segment and, on the other hand, to additional recruitment in the Mailstream segment. These costs rose in the first nine months of 2008 to 42.2 million euros compared with 40.7 million euros in the same period last year. Quarter on quarter, staff expenses went up from 12.8 million euros in the third quarter last year to 13.3 million euros.

In the first nine months of 2008, other operating expenses remained unchanged compared with the same period last year at 25.5 million euros. At the quarterly level, however, they increased principally as a result of the extraordinary expenses carried out as part of the MOVE restructuring programme. In the third quarter 2008, other operating expenses went up from 7.5 million euros in the same period last year to 8.3 million euros.

EBITDA

Earnings before interest, taxes, net financial income, depreciation and amortisation (EBITDA) came to 14.3 million euros for the first nine months of 2008 (adjusted for restructuring expenses of 2.5 million euros to 16.8 million euros), compared with 20.5 million euros for the same period last year. From the restructuring costs 1.5 million euros account for staff expenses and 0.9 million euros for other operating expenses.

The main reasons for the drop in operating earnings are lower revenues in the Mailroom segment and negative exchange rate effects. The negative impact of exchange rate movements resulted in foregone earnings of 2.7 million euros in the first nine months of 2008. EBITDA adjusted for exchange rate effects and restructuring costs amounted to 19.5 million euros.

FP Group reported EBITDA of 4.5 million euros in the third quarter 2008 (adjusted for restructuring costs, 5.0 million euros) compared with 5.6 million euros in the same period last year.

In the financial year 2008, FP Group is disclosing EBITDA without net financial income for the first time. To achieve greater reporting transparency this figure is adjusted to the standard used by publicly listed companies.

Depreciation and amortisation

Depreciation and amortisation declined in the first nine months of 2008 to 19.1 million euros, compared with 20.8 million euros in the same period last year. The main reason for the decline was the end of amortisation for a non-competition clause at the end of 2007. In the third quarter, depreciation and amortisation dropped slightly to 6.5 million euros from 6.6 million euros in the same quarter last year.

Net financial income

In the third quarter 2008, FP Group reported net financial income of 0.7 million euros, compared with 0.2 million euros in the same period last year. Nevertheless, the euro's climb, especially in the first half-year 2008, resulted in net financial income for the first nine months of –0.7 million euros, compared with 1.8 million euros in the same period last year.

Consolidated net income

In the first three quarters of 2008, consolidated net income (before minority interests) came to –7.0 million euros, compared with 0.2 million euros in the same period last year. In the third quarter 2008, consolidated net income amounted to –2.4 million euros, following –0.5 million euros in the same quarter last year.

1.4 COURSE OF BUSINESS BY SEGMENT

Mailroom segment

In its traditional Mailroom business, FP Group reported revenue of 94.8 million euros in the first nine months of 2008, in comparison with 102.9 million euros for the same period last year. In the third quarter, revenue amounted to 29.6 million euros compared with 31.7 million euros last year.

In addition to unfavourable exchange rates, the drop in revenue was partly due to a one-off effect in the Netherlands (NetSet™) and partly to persistent price pressure on standard products in Germany and other European countries.

The proportion of recurring and therefore sustainable revenues for FP Group was 64.0 per cent in the third quarter. The Company also generates sustainable income from framework contracts with large companies and public authorities. In the third quarter 2008, for instance, the Austrian subsidiary Francotyp-Postalia GmbH was awarded an important contract. By delivering its first centor**mail** to the German Chamber of Trade and Industry in Austria, the FP subsidiary was able to demonstrate its leading position on the Austrian market.

Price pressure on standard products, restructuring expenses as well as negative exchange rate movements meant that EBITDA for the Mailroom segment came to 13.4 million euros for the first nine months of the year, compared with 21.1 million euros for the same period last year. In a quarterly comparison, EBITDA in the third quarter 2008 was 4.0 million euros against 5.8 million euros in the same period last year. Restructuring expenses in 2008 related solely to the Mailroom segment.

Under the leadership of new senior management, the FP Group has responded to declining revenues and earnings in the Mailroom segment with a global restructuring programme, which is expected to lead to lasting improvements in revenues and margins from 2009.

Mailstream segment

The growth driver in the first nine months of the current year was the Mailstream segment, which was only set up in late 2006. Revenues from postal services such as consolidation and outsourcing nearly doubled to 11.3 million euros from 6.0 million euros in the same period last year. Even in the third quarter 2008, which is seasonally slacker, the Company was able to increase revenue from 2.2 million euros in the third quarter 2007 to 3.8 million euros.

The revenue growth is largely a success for the freesort subsidiary. In the first three quarters, freesort processed more than 120 million letters and so was able to increase revenue from 3.3 million euros in the same period last year to 8.3 million euros. Over the first nine months, iab improved revenues from 2.7 million euros last year to 3.0 million euros. FP Group is increasingly offering its services to Mailroom customers as well, thereby contributing to integrating the two segments into a service provider for tailor-made outbound mail solutions.

In order to present its complete range of services in the outbound mail sector, FP Group took part in important trade exhibitions such as the Post Expo in London or PostPrint in Berlin in the third quarter. There is still great potential in this area at many companies and public authorities.

Strong growth in the Mailstream business led to an improved earnings situation. In the first three quarters of 2008, FP Group reported positive EBITDA in this segment of 0.9 million euros, compared with –0.6 million euros in the same period last year. iab even doubled its EBITDA from 0.2 million euros last year to 0.4 million euros. At the same time, freesort also made a lasting contribution to the positive operating result in the current year. While the consolidation specialist reported EBITDA of –0.9 million euros for the first nine months of 2007, the Company was able to record EBITDA of 0.5 million euros in the first three quarters of 2008.

	Revenue			EBITDA [1]		
(in million euros)	Jan. 1– Sept. 30, 2008	Jan. 1– Sept. 30, 2007	Change %	Jan. 1– Sept. 30, 2008	Jan. 1– Sept. 30, 2007	Change %
Mailroom	94.8	102.9	–7.9	13.4	21.1	–36.5
Mailstream	11.3	6.0	88.3	0.9	–0.6	n/a
of which freesort	8.3	3.3	151.5	0.5	–0.9	n/a
of which iab	3.0	2.7	11.1	0.4	0.2	100.0
FP Group	**106.1**	**108.9**	**–2.6**	**14.3**	**20.5**	**69.8**

[1] EBITDA was adjusted for net financial income. The figures for last year were adjusted accordingly.

	Revenue			EBITDA [1]		
(in million euros)	Q3 2008	Q3 2007	Change %	Q3 2008	Q3 2007	Change %
Mailroom	29.6	31.7	–6.6	4.0	6.1	–34.4
Mailstream	3.8	2.2	72.2	0.5	–0.2	n/a
of which freesort	2.7	1.3	107.7	0.4	–0.3	n/a
of which iab	1.1	0.9	22.2	0.1	0.1	0.0
FP Group	**33.4**	**33.9**	**–1.4**	**4.5**	**5.6**	**n/a**

[1] EBITDA was adjusted for net financial income. The figures for last year were adjusted accordingly.

1.5 ASSETS AND FINANCIAL POSITION

Financial position

Cash flow from operating activities rose in the first nine months of 2008 to 20.7 million euros compared with 13.5 million euros in the same period last year. The main reason was a reduction in working capital, principally due to an increase in accounts payable.

Cash used for investing activities in the first nine months of 2008 came to 12.6 million euros. In the first three quarters of 2007, the figure, including expenditure for Company acquisitions, was 18.7 million euros. Cash flow used for financing activities sank from –16.7 million euros to –3.0 million euros. This is principally due to lower cash outlay for the repayment of bank loans and the absence of payments related to the flotation. On the other hand, cash was used for dividend payments to shareholders and to purchase treasury shares.

Capital expenditure

(in million euros)	Jan. 1– Sept. 30, 2008	Jan. 1– Sept. 30, 2007
Capitalised development costs	2.9	4.1
Investment in intangible assets	3.3	0.9
Investment in property, plant and equipment	6.5	2.9
Investment in leased products	3.6	5.3
Investment in financial investments	0.0	0.1
Capital expenditure	**16.3**	**13.3**

Capitalised development expenses of 2.9 million euros in the first nine months of 2008 were below the previous year's level of 4.1 million euros. In 2008, more development capacity was directed towards quality intensification in products already in the market that were not capitalised. In contrast, investment of 3.3 million euros in intangible assets was up in comparison with 0.9 million euros in the first three quarters of 2007. This increase is largely due to capitalisation in connection with the takeover of Direkt Express Brief AG's customer base by freesort GmbH, as well as the capitalisation of software to optimise the production and supply chain.

Investment in leased products sank sharply in the first nine months of 2008. One of the main reasons is the absence of the non-recurring effect of decertification in Canada and the Netherlands.

Asset situation

The balance sheet as of September 30, 2008 is characterised both by a sharp rise in current assets and current liabilities, and a decline in non-current assets and equity.

Total assets rose by 0.8 million euros or 0.5 per cent compared with December 31, 2007 to 186.8 million euros. The proportion of non-current assets dropped from 59.9 per cent to 57.5 per cent, and the equity ratio from 29.8 per cent to 23.9 per cent.

Intangible assets declined from 76.7 million euros to 69.6 million euros, principally due to amortisation of assets which were capitalised in the consolidated accounts in connection with Company acquisitions. As of September 30, 2008, property, plant and equipment went down from 23.3 million euros to 22.9 million euros. One reason for this is the reduction in carrying amounts for operating and office equipment from 6.0 million euros to 4.6 million euros. In contrast, equipment under finance leases increased from 3.4 million euros to 5.0 million euros. This reflected the purchase of two sorting machines with carrying amounts of 1 million euros in the third quarter. There was a decline in leased products from 12.3 million euros to 11.9 million euros. In the USA, some of the machines were reclassified as inventory, which in turn explains the rise in unfinished goods and services from 1.6 million euros to 2.6 million euros.

The increase in receivables from finance leases meant that other assets went up from 3.8 million euros to 4.7 million euros.

In current assets, trade receivables sank from 18.3 million euros to 17.5 million euros.

Securities valued at 0.6 million euros are used by freesort GmbH as a cash deposit for a guarantee towards Deutsche Post AG. Cash and cash equivalents rose from 26.6 million euros to 28.3 million euros.

In liabilities and equity, shareholders' equity sank from 55.4 million euros to 44.6 million euros. This is the result of negative consolidated net income after minority interests of 6.4 million euros, the dividend payment of 2.2 million euros and the purchase of treasury shares in the course of the share buy-back for 1.3 million euros. The remainder is due to lower fair values of derivative financial instruments, which are shown in accumulated other equity.

Current liabilities rose from 57.6 million euros to 68.4 million euros, as accounts payable went up from 4.6 million euros to 10.1 million euros and other liabilities from 36.0 million euros to 37.9 million euros, due to service contracts which involve an advance payment at the beginning of the contract. Other provisions also went up, especially provisions for staff expenses, to 14.4 million euros as of September 30, 2008 compared with 9.9 million euros as of December 31, 2007. However, current financial liabilities declined from 6.1 million euros to 4.7 million euros.

As of September 30, 2008, the ratio of current assets to current liabilities was 116 per cent.

1.6 RESEARCH AND DEVELOPMENT

In the first nine months of the current financial year, FP Group spent 8.5 million euros on research and development, compared with 6.5 million euros in the first three quarters of 2007. This is equivalent to some 8.0 per cent of total revenues, as against 5.9 per cent in the same period last year. Of the total, FP capitalised 2.9 million euros in accordance with IFRS and recognised 5.6 million euros as an expense. In the third quarter 2008, costs increased to 2.5 million euros, following 2.0 million euros in the same quarter last year.

1.7 STAFF

Worldwide, FP Group had 1,124 employees as of September 30, 2008 (previous year: 1,098). Of the total, 406 are attributable to foreign subsidiaries (previous year: 420) and 718 to companies in Germany (previous year: 678). 521 of the staff members in Germany are employed at FP Holding, FP GmbH and their subsidiaries (previous year: 545). FP GmbH and VS GmbH, in particular, have cut their workforce. 64 additional employees were recruited at the subsidiaries freesort GmbH and iab GmbH compared with September 30, 2007. The Mailstream segment now has a total of 197 employees (previous year: 133). The Company anticipates a further minor decline in staff numbers in the Mailroom segment as a result of the restructuring.

2. REPORT ON RISKS AND OPPORTUNITIES

The Company described risks and opportunities in detail in its financial statements as of December 31, 2007. Under a loan agreement with BNP Paribas, Francotyp-Postalia is obliged to maintain certain financial ratios. These concern the relationship between net debt and EBITDA. For the future, and especially with regard to the development of the new business segment Mailstream Services, FP is in negotiations with the banks about an extension.

3. RESTRUCTURING

FP Group continued the process of restructuring and realignment. In the last quarter, one focus was on reorganising Sales in Germany for the solutions business. The opening of the Customer Care Centre in Birkenwerder on October 1, 2008 represented an important milestone. All customer enquiries are now routed to this centre, where individual customers have a fixed contact person for advice and assistance. This gives the nationwide sales team greater scope to develop optimal solutions for outbound mail in dialogue with the customer. The process adjustments have also been completed in the Research & Development department. This primarily involved reducing the requirement for freelance staff.

Optimising our production and supply chain also brings about significant changes. Since the beginning of the year, all process steps from placing orders to delivering the machine have been analysed. New structures are currently being introduced, principally in the Dutch and British subsidiaries, with the aim, on the one hand, of supplying customers directly from Birkenwerder and, on the other hand, of minimising or doing away with inventories in the various European countries. We anticipate future savings of 3–5 million euros, particularly from optimising our supply chain.

Restructuring costs of 1.5 million euros were incurred in the first nine months of 2008. The departure of the two members of the Management Board, Hans-Christian Hiemenz and Manfred Schwarze, also resulted in a one-off expense of 1.0 million euros for severance payments. In 2009 FP Group is expecting a reduction in costs and therefore an improvement in earnings as a result of the measures taken.

4. OUTLOOK

Despite the looming economic downturn and the effect this will have on the Mailroom business, FP Group is planning to attain the lower revenue target corridor of 140–145 million euros for the full year 2008. Regarding earnings, the Company now expects EBITDA to reach between 21 to 22 million euros before restructuring costs. This figure already prices in any uncertainties following the upheavals of the financial crisis. But internal measures already planned do mean that the Company sees some chance of achieving the higher earnings level.

The Mailstream business will also remain the growth driver for FP Group in the fourth quarter. The Company offers tailored solutions for corporate customers of all sizes. In phases of weak economic growth, companies are particularly interested in FP products, as corporate customers can use the innovative solutions to realise potential savings.

In the Mailroom segment, the Company will continue to implement measures to increase efficiency and reduce costs in the fourth quarter. From 2009, the Company expects these to deliver an effective positive earnings contribution.

5. CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2008

ASSETS		
(in thousand euros)	**Sept. 30, 2008**	**Dec. 31, 2007**
A. LONG-TERM ASSETS		
I. Intangible assets		
1. Intangible assets including customer lists	38,461	47,699
2. Goodwill	26,034	26,034
3. Development projects in progress and advance payments	5,124	3,004
	69,619	**76,737**
II. Property, plant and equipment		
1. Land, equivalent rights and buildings	32	34
2. Technical equipment and machinery	1,460	1,631
3. Other equipment, operating and office equipment	4,599	5,970
4. Leased products	11,863	12,305
5. Advance payments and assets under construction	23	0
6. Assets under finance leasing	4,966	3,356
	22,943	**23,296**
III. Other assets		
1. Equity investments	337	337
2. Loans to third parties	0	0
3. Finance leasing receivables	4,145	3,284
4. Other long-term assets	227	203
	4,709	**3,824**
IV. Deferred tax assets	**10,192**	**7,560**
	107,463	**111,417**
B. SHORT-TERM ASSETS		
I. Inventories		
1. Raw materials, consumables and supplies	6,648	8,451
2. Work/services in progress	2,595	1,640
3. Finished products and goods	10,258	9,510
4. Payments made on account	100	94
	19,601	**19,695**
II. Trade receivables	**17,509**	**18,289**
III. Securities	**661**	**0**
IV. Cash and cash equivalents	**28,276**	**26,593**
V. Other assets		
1. Finance leasing receivables	1,923	1,577
2. Receivables from related parties	6	6
3. Derivative financial instruments	396	482
4. Other short-term assets	10,934	7,862
	13,259	**9,927**
	79,306	**74,504**
	186,769	**185,921**

LIABILITIES

(in thousand euros)	Sept. 30, 2008	Dec. 31, 2007
A. SHAREHOLDERS EQUITY		
I. Equity attributable to shareholders of the parent Company		
1. Subscribed capital	14,700	14,700
2. Capital reserves	45,708	45,708
3. Treasury shares	–1,829	–552
4. Loss carried forward	–13,042	–8,314
5. Consolidated net income/loss	–6,446	–2,578
6. Accumulated other income	–1,020	–712
	38,071	**48,252**
II. Minority interests	**6,546**	**7,148**
	44,617	**55,400**
B. LONG-TERM LIABILITIES		
I. Accruals for pensions and similar obligations	12,164	12,070
II. Other accruals	1,506	1,663
III. Financial liabilities	55,175	52,941
IV. Other liabilities	29	65
V. Deferred tax liabilities	4,831	6,202
	73,705	**72,941**
C. SHORT-TERM LIABILITIES		
I. Current income tax liabilities	1,352	989
II. Other accruals	14,376	9,922
III. Financial liabilities	4,733	6,062
IV. Trade payables	8,467	4,568
V. Advance payments received on orders	2	2
VI. Other liabilities	39,517	36,037
	68,447	**57,580**
	186,769	**185,921**

6. CONSOLIDATED INCOME STATEMENT FOR THE PERIOD January 1 to September 30, 2008

(in thousand euros)	Jan. 1– Sept. 30, 2008	Jan. 1– Sept. 30, 2007	July 1– Sept. 30, 2008	July 1– Sept. 30, 2007
1. Revenues	106,106	108,928	33,415	33,861
2. Increase in work in progress and finished goods	1,752	898	339	–655
	107,858	**109,826**	**33,754**	**33,206**
3. Other capitalised own work	6,290	9,321	2,058	2,484
4. Other operating income	1,965	2,697	695	858
5. Cost of materials				
a) Cost of raw materials, consumables and supplies	25,761	28,003	8,007	8,524
b) Cost of services purchased	8,307	7,156	2,380	2,097
	34,068	**35,159**	**10,387**	**10,621**
6. Staff expenses				
a) Wages and salaries	36,143	33,921	11,400	10,897
b) Social security contributions	5,671	5,611	1,816	1,726
c) Pensions and other benefits	386	1,137	112	128
	42,200	**40,669**	**13,328**	**12,751**
7. Depreciation and amortisation	19,128	20,849	6,529	6,647
8. Other operating expenses	25,545	25,535	8,308	7,544
9. Net interest income				
a) Interest and similar income	1,777	1,916	553	615
b) Interest and similar expenses	4,055	3,559	1,535	1,074
	–2,278	**–1,643**	**–982**	**–459**
10. Other net financial income				
a) Other financial income	555	2,864	392	870
b) Other financial expenses	1,278	1,054	–348	630
	–723	**1,810**	**740**	**240**
11. Net taxes				
a) Tax income	5,310	7,915	1,235	4,366
b) Tax expenses	4,529	7,526	1,318	3,650
	781	**389**	**–83**	**716**
12. Consolidated net income	–7,048	188	–2,370	–518
13. Minority interests	–602	–59	–233	240
14. Consolidated net income				
after minority interests	**–6,446**	**247**	**–2,137**	**–758**
EARNINGS per share (euros):	**–0.45**	**0.02**	**–0.15**	**–0.05**

7. STATEMENT OF CHANGE IN EQUITY

	Subscribed capital	Capital reserve	Treasury shares	Net income/ loss	Accumulated other equity	Minority interests	Total
	thousand euros	thousand euros	thousand euros	thousand euros	thousand euros	thousand euros	thousand euros
Balance on January 1, 2007	**14,700**	**45,768**	**0**	**–8,314**	**1,377**	**7,354**	**60,885**
Exchange rate differences	0	0	0	0	–1,390	0	–1,390
Natural hedges	0	0	0	0	324	0	324
Derivatives	0	0	0	0	–137	0	–137
Net income/loss Jan. 1–Sept. 30,2007	0	0	0	247	0	–59	188
Balance on September 30, 2007	**14,700**	**45,768**	**0**	**–8,067**	**174**	**7,295**	**59,870**
Balance on January 1, 2008	**14,700**	**45,708**	**–552**	**–10,892**	**–712**	**7,148**	**55,400**
Share buybacks	0	0	–1,277	0	0	0	–1,277
Exchange rate differences	0	0	0	0	135	0	135
Natural hedges	0	0	0	0	–364	0	–364
Derivatives	0	0	0	0	–79	0	–79
Dividends	0	0	0	–2,150	0	0	–2,150
Net income/loss Jan. 1–Sept. 30,2008	0	0	0	–6,446	0	–602	–7,049
Balance on September 30, 2008	**14,700**	**45,708**	**–1,829**	**–19,488**	**–1,020**	**6,546**	**44,617**

8. CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD January 1 to September 30, 2008

(in thousand euros)	Jan. 1– Sept. 30, 2008	Jan. 1– Sept. 30, 2007
1. Cash flow from operating activities		
Consolidated net income/loss	–7,048	247
Income tax expense taken to income (previous year – income)	–781	–389
Net interest income taken to income	2,278	1,643
Depreciation and amortisation of fixed assets	19,128	20,849
Increase (+)/decrease (–) in accruals and deferred taxes	6,791	–201
Losses on the disposal of fixed assets	364	243
Increase (+)/decrease (–) in inventories, trade receivables and other assets not attributable to investment or financing activities	–6,245	–2,513
Increase (+)/decrease (–) in accounts payable and other liabilities[1] not attributable to investment or financing activities	8,804	–1,186
Other non-cash expenses and income	2,924	–1,030
Interest paid	–2,447	–1,396
Income tax paid	–3,053	–2,725
Cash flow from operating activities	**20,715**	**13,542**
2. Cash flow from investment activities		
Capitalisation of development costs	–2,874	–4,122
Proceeds from the disposal of fixed assets	39	108
Cash paid for investment in intangible assets	–3,278	–881
Cash paid for investment in property, plant and equipment	–6,465	–8,144
Cash paid for investment in financial assets	0	–131
Cash paid for corporate acquisitions	0	–5,544
Cash flow from investment activities	**–12,578**	**–18,714**
3. Cash flow from financing activities		
Cash paid to shareholders to buy back Company shares	–1,277	0
Dividend payments to shareholders	–2,150	0
Cash paid to repay bank loans	–3,595	–15,072
Cash paid in connection with IPO	0	–1,585
Proceeds of bank loans	4,000	0
Cash flow from financing activities	**–3,022**	**–16,657**
Cash and cash equivalents[1]		
Change in cash and cash equivalents	5,115	–21,829
Change in cash and cash equivalents due to currency translation	–1,310	–532
Cash and cash equivalents at beginning of period	7,284	40,985
Cash and cash equivalents at end of period	**11,089**	**18,624**

[1] The postage credit balances managed by FP Group (17,848 thousand euros; previous year 18,808 thousand euros) have been deducted from cash and cash equivalents and other liabiilties. The figures for the previous year have been adjusted accordingly. Cash and cash equivalent includes current securities valued at 661 thousand euros (previous year 0 thousand euros).

9. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD January 1 to September 30, 2008

9.1 GENERAL REMARKS

9.1.1 General information on the Company

Francotyp-Postalia Holding AG, Birkenwerder, (also known here as "FP Holding") is a German joint stock company. The Company's registered offices are at Triftweg 21–26, Birkenwerder. The interim financial statements for FP Holding for the quarter ending on September 30, 2008 include FP Holding and its subsidiaries (also known here as "FP Group").

Francotyp-Postalia is an international company in the outbound mail processing sector, with a heritage going back over 80 years. The focus of its activities is the traditional product business, which consists of developing, manufacturing and selling franking machines, in particular, but also inserting machines and conducting after-sales business. FP-group also offers its customers in Germany sorting and consolidation services and hybrid mail products via its subsidiary freesort, acquired in November 2006, and iab, in which a majority stake was also purchased in November 2006.

The consolidated financial statements for the previous year were approved by the Management Board for publication in line with IAS 10.17 on April 24, 2008.

9.1.2 Accounting principles

Basis of preparation for the financial statements

The interim financial statements for FP Holding as of September 30, 2008 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable and binding in the EU on the reporting date, and with the interpretations issued on them by the International Financial Reporting Interpretations Committee (IFRIC). They are condensed financial statements in accordance with IAS 34 for the interim reporting period January 1 to September 30, 2008.

The requirements of all standards applicable up to September 30, 2008 have been met in full and result in a true and fair view of the assets, financial and earnings position of the Group. The interim financial statements as of September 30, 2008 apply the same accounting and valuation principles as the consolidated financial statements for the financial year 2007. As the interim financial statements do not include all notes and disclosures required for annual financial statements, they should be read in conjunction with the consolidated financial statements as of December 31, 2007.

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

Currency translation

Currencies have been translated at the following rates:

1 EURO =	SPOT RATE			AVERAGE RATE	
	Sept. 30, 2008	Dec. 31, 2007	Sept. 30, 2007	Q3/2008	Q3/2007
US dollar (USD)	1.4449	1.4729	1.4272	1.5225	1.34454
Pound sterling (GBP)	0.7951	0.7379	0.6974	0.7817	0.67678
Canadian dollar (CAD)	1.5001	1.4464	1.4171	1.5502	1.48570
Singapore dollar (SGD)	2.0672	2.1308	2.1204	2.1168	2.05008

Management estimates and assessments

No significant changes have been made to the estimates for amounts shown in the consolidated financial statements as of December 31, 2007.

9.2 PERFORMANCE IN THE REPORTING PERIOD

9.2.1 Seasonal influences

FP Group's business is generally not subject to seasonal influences.

9.2.2 Economic factors

Francotyp-Postalia's traditional business is characterised by a high proportion of recurring revenues, which make up some 60 per cent of group revenue. The main driver for this revenue stability is the installed base (i.e. the units installed on customers' premises) of more than 266,000 franking machines worldwide, together with the stable after-sales business this implies. Leasing of franking machines, which is particularly common in the USA, also contributes to recurring revenues.

It is precisely in this area, however, that the threat of recession on the American market and the dollar's weakness compared to the euro are having an impact on revenue and earnings at FP Group. The fact that economic growth in Germany, FP's largest market, nearly came to a standstill in the third quarter is also not without consequences. Nevertheless, Francotyp-Postalia sees great opportunities in the full liberalisation of the letter market in Germany from January 1, 2008 and FP Group's repositioning as a service provider in the outbound mail market.

Changes in the Management Board

The contracts with two members of the Management Board, Hans-Christian Hiemenz (CFO) and Manfred Schwarze (CTO), were terminated as of June 30, 2008. The Supervisory Board has appointed Hans Szymanski as new CFO from December 1, 2008. The post of CTO will not be filled again. Until the end of the last quarter Mr Schwarze held responsibility within the Management Board for Research and Development, Intellectual Property, Production, Logistics, Purchasing and Quality Management. In future these duties will be divided between Dr Sluma and Mr Szymanski.

9.3 NOTES

9.3.1 Notes to the cash flow statement

The cash flow statement for FP Group shows positive and negative changes in cash flows from current operating, investing and financing activities.

Postage credit balances managed by FP Group (restricted cash) are subtracted from cash and cash equivalents. The corresponding offsetting item is included in other liabilities. This means that cash and cash equivalents are made up as follows:

(in thousand euros)	Sept. 30, 2008	Sept. 30, 2007
Cash and cash equivalents	28,276	38,406
Current securities	661	0
Less postage credit balances managed	–17,848	–19,782
Total	**11,089**	**18,624**

Cash and cash equivalents as of September 30, 2007 also included 8,996 thousand euros which were pledged with BNP Paribas for payment of the remaining purchase price for freesort.

9.3.2 Staff

	Sept. 30, 2008	Sept. 30, 2007
Of which in		
Germany	718	678
USA	118	112
The Netherlands	99	110
UK	87	87
Austria	22	23
Canada	33	44
Belgium	16	16
Italy	15	15
Singapore	16	13
Total	**1,124**	**1,098**

As of September 30, 2008, a total of 197 staff were employed in the Mailstream segment, compared with 133 last year. The number of employees in the Mailroom segment sank during the same period by 40.

9.3.3 Changes in loan liabilities

On September 16, 2008, the Group drew down 4,000 thousand euros from the existing line of credit. At the end of the quarter, existing bank loans of USD 3,750 thousand (2,570 thousand euros) and 1,000 thousand euros were repaid.

9.3.4 Disclosures on the valuation of property, plant and equipment

The Group has capitalised refurbishment costs for franking machines amounting to 567 thousand euros as subsequent costs of manufacture in line with IAS 16.13 f.

9.3.5 Events after the spot date

In the period up to the end of October 2008, the dollar/euro exchange rate has moved in FP Group’s favour.

9.4 SEGMENT INFORMATION

According to the location of its assets, FP Group is divided into the segments Germany, USA/Canada, Europe (except Germany) and Other regions.

January 1–September 30, 2008 (in thousand euros)	GERMANY	USA/CANADA	EUROPE (EXCLUDING GERMANY)	OTHER REGIONS	GROUP
Revenues					
External revenue	46,559	26,492	32,106	949	106,106
Internal revenue	19,910	8,620	9,150	390	38,071
Total revenue	**66,469**	**35,112**	**41,256**	**1,339**	**144,177**
Reconciliation					
Total Group revenue					144,177
Less intersegment revenue					38,071
Revenue per income statement					**106,106**
Operating earnings					
Segment earnings	**–5,032**	**3,066**	**4,734**	**–286**	**2,481**
Reconciliation					
Group operating earnings					2,482
Less intersegment earnings					7,310
Operating earnings					**–4,829**
Less net financial income					–723
Less net interest income					–2,278
Less net tax expense					781
Earnings per income statement					**–7,048**

January 1–September 30, 2007 (in thousand euros)	GERMANY	USA/CANADA	EUROPE (EXCLUDING GERMANY)	OTHER REGIONS	GROUP
Revenues					
External revenue	41,510	31,472	34,955	991	108,928
Internal revenue	20,552	14,791	12,606	3,368	51,317
Total revenue	**62,062**	**46,263**	**47.561**	**4,359**	**160,245**
Reconciliation					
Total Group revenue					160,245
Less intersegment revenue					51,317
Revenue per income statement					**108,928**
Operating earnings					
Segment earnings	**2,648**	**4,534**	**2,970**	**56**	**10,208**
Reconciliation					
Group operating earnings					10,208
Less intersegment earnings					10,576
Operating earnings					**–368**
Less net financial income					1,810
Less net interest income					–1,643
Less net tax expense					389
Earnings per income statement					**188**

10. DECLARATION OF THE MANAGEMENT BOARD

To the best of my knowledge, I confirm that in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and earnings of the Group, and the Group interim management report gives a true and fair view 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 in the remainder of the financial year.

Birkenwerder, November 10, 2008

Management Board, Francotyp-Postalia Holding AG

DR HEINZ-DIETER SLUMA
Management Board

11. FINANCIAL CALENDAR

EVENT	DATE
Analyst Conference Financial Statements 2008	April 23, 2009
Annual General Meeting 2009	June 23, 2009

12. LEGAL INFORMATION

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