



Francotyp-Postalia Holding AG, Birkenwerder  
**ANNUAL FINANCIAL STATEMENTS 2007**

## Management Report for the fiscal year 1 January through 31 December 2007

### Operating activities

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

<u>Name of the company</u>	<u>Headquarters of the company</u>	<u>Interest in %</u>
Francotyp-Postalia Vertrieb & Service GmbH	Germany, Birkenwerder	100
Francotyp-Postalia International GmbH	Germany, Birkenwerder	100
Ruys Handelsvereniging B. V.	Netherlands, The Hague	100
Francotyp-Postalia Ltd.	Great Britain, Dartford	100
Francotyp-Postalia Inc.	USA, Addison	100

There is a control and profit transfer agreement in place between FP Holding and Francotyp-Postalia GmbH ("FP GmbH"). FP GmbH also holds direct and indirect stakes in operating companies of the FP Group, and assumes management tasks as well as important development and manufacturing activities for the FP Group. FP Holding itself carries out on behalf of FP GmbH services in the fields of strategic management consultancy, especially business development, financing and capital procurement. As the function of FP Holding as a management holding company was still being established at the start of 2007, the personnel resources required to carry out the services mentioned were procured from FP GmbH under a personnel sharing agreement. However, FP Holding has employed its own staff since 1 January 2007. In addition to the three members of the Management Board, FP Holding had a total of six employees at the end of the year.

## Market, business development and outlook

### Market

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

FP is the German market leader in the core line of business, with a market share of 44.6%. For FP, the USA is and will remain a further key growth market for our franking machines (market share of around 4.2%). One focus of the activities in the USA in 2008 will be the successful implementation of the Phase IV decertification programme. In addition to the USA, our primary markets outside Germany are the United Kingdom (market share of 7.89%) and the Netherlands (market share of 28.5%).

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

At the same time, traditional operations are to be expanded by initiating sales activities in countries in which FP was not previously represented and by marketing new products in existing markets – such as the latest franking machine, centormail.

The growth rates of the subsidiaries freesort and iab show that these are operating in the market for sorting, consolidation, outsourcing and hybrid mail postal services which is developing rapidly. The physical sending of letters continues unabated. Larger companies are increasingly examining the area of individual mail. The objective is to identify more efficient solutions. The merger of Francotyp-Postalia, iab – internet access GmbH and freesort GmbH has improved customer access in this area. Customers are offered postal processing solutions that dovetail with their requirements. For freesort GmbH alone, the management sees a market potential of in excess of 25% based on an estimated market volume of around 100 million euros.

### Business development

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

Demand for franking machines is naturally concentrated on the major economies of Europe and North America. The largest market is the USA, where the mail volume is also significantly higher than in most European countries: around 1.6 million franking machines are installed in the USA, representing some 60% of the global market. In Germany and the United Kingdom, the number of installed franking

machines at year-end 2007 was around 250,000 and just under 230,000 respectively, giving the countries a global market share of 9% and 8% respectively. Francotyp-Postalia is represented in all three markets with its own sales organisation, meaning that it participates directly in the world's largest mailroom markets. There were significant changes across all key markets in 2007. Demand for smaller machines in the A segment, i.e. for mail volumes of up to 200 letters a day, increased at the expense of the C and B segments. At the same time, companies took up the option of leasing franking machines rather than buying them. Both of these developments are likely to strengthen Francotyp-Postalia's position in the medium term, as the Company traditionally focuses on the A segment, and leasing offers steadier revenue than sales. The short-term impact on revenue will be negative, however, as revenue from leased machines is lower than from the sale of equivalent machines in the first few years.

In the second half of 2007, Francotyp-Postalia was affected by the economic downturn in the largest market for franking machines, the USA, where demand for new machines failed to meet expectations. As the euro continued to increase in value throughout 2007 compared with the US dollar by more than 11% to the most recent figure of USD 1.47 to the euro, and as the manufacturing operations of Francotyp-Postalia are domiciled primarily in the euro zone even though the US market is largest market in the world for franking machines, FP recorded losses due to this exchange rate development during the course of the year. In the single-entity financial statements, the earnings for FP Holding were negatively impacted by the profit transfer agreement in place at FP GmbH in which the exchange losses accrue. Increasingly hesitant investment behaviour also had an adverse affect on the FP Group's activities in Germany.

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

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

iab GmbH goes one step further with its with hybrid mail software solution. In the core business of iab GmbH - outsourcing – recurring communications in particular such as customer invoices are transferred electronically, printed out in the printing centre in sorted form and then delivered to the mail centres of the relevant postal organisation. According to a survey by the Universal Postal Union, hybrid mail services are currently only offered in around one third of industrialised nations, but this figure is on the rise. In addition, customers with individual mail can be catered for with the hybrid mail solution. The content-based software is able to process individual mail such as recurring communications in the mail processing procedure. In this way, small-to-medium-sized companies can also take advantage of the benefits; these are otherwise only available to larger companies due to their volume of mail.

The course of business in 2007 was negatively impacted by a total of five significant unforeseen events: the weakness of the US dollar; the delayed launch of "centormail"; the downturn in the German market, which was more pronounced than expected; the postponement of orders for iab's hybrid mail solution; and the reduction in the installed base following decertification in Canada. For these reasons, the Management Board of FP Holding AG considers the revenue and earnings performance for the FP Group as unsatisfactory, particularly of its Mailroom segment, and has decided to implement restructuring measures in order to increase the FP Group's earning power on a sustainable basis. The single-entity

financial statements for FP Holding were only indirectly affected by these developments via its subsidiaries and sub-subsidiaries.

## Net assets, financial position and results of operations

The balance sheet total of FP Holding has declined since the last balance sheet date by 10,216 thousand euros or 12% to 73,993 thousand euros. As in the year under review the deferred purchase prices for the corporate acquisitions and the remaining liabilities from the IPO were settled, other liabilities declined by 16,733 thousand euros, trade payables by 618 thousand euros and the provisions for outstanding invoices by 882 thousand euros. Since the FP Group is financed primarily via FP GmbH, receivables from subsidiaries also declined by 12,148 thousand euros, whereby the recognition of the receivable from FP GmbH resulting from a profit transfer of 6,899 thousand euros had the opposite effect.

The carrying amount of the financial assets increased in the fiscal year by 2,027 thousand euros, primarily due to increasing the loan to freesort in the amount of 2,000 thousand euros. The financial assets equal approximately 65% of the balance sheet total and 66% of equity.

In November 2007, the Company decided to implement a share buyback programme, in accordance with which 102,132 shares at a cost of 552 thousand euros were acquired by the end of the year. This equals 0.69% of the share capital. The costs of the own shares in the amount of 552 thousand euros were shown in the assets under current assets; in terms of liabilities, the profit carryforward declined and instead was reported under Provisions for own shares.

As the services of the three members of the Management Board were transferred on 1 January 2007 from FP GmbH to FP Holding, the corresponding pension commitments were also assumed by FP Holding. The pension provisions amounted to 248 thousand euros as of 31 December 2007.

The capital ratio was 99% on the balance sheet date compared with 78% last year. The short-term obligations were completely covered by the short-term realisable assets.

Earnings from ordinary business activities in the amount of 7,798 thousand euros (previous year: 5,053 thousand euros) compares with negative one-time earnings of 83 thousand euros (previous year: 4,349 thousand euros), which resulted in net income for the year of 7,715 thousand euros (previous year: 704 thousand euros). Together with the profit carryforward from the previous year of 2,462 thousand euros and the allocation to provisions for own shares of 552 thousand euros, the net income for the year is transferred to an unappropriated surplus of 9,625 thousand euros.

The results of operations for the fiscal year were characterised by the expansion of operating activities. Revenue from consulting services for the subsidiaries increased by 456 thousand euros to 556 thousand euros. In contrast, personnel expenses of 1,076 thousand euros were incurred during fiscal year 2007 due to the taking on of employees for the first time. As a result, the expenses from personnel sharing declined again by 319 thousand euros to 77 thousand euros.

In the previous year, FP Holding incurred one-time expenses for the IPO in the amount of 4,349 thousand euros. In the reporting year, additional one-time expenses of 102 thousand euros and income of 19 thousand euros resulted from the IPO.

In 2007, the net interest income with a positive balance of 2,375 thousand euros (previous year: 324 thousand euros) contributed to the net income for the year. The increase in interest income by 1,320 thousand euros is primarily the result of the increased income for the return on clearing accounts with subsidiaries and the increased loan to freesort. In contrast, there were interest expenses for shareholder loans in the reporting year (previous year: 732 thousand euros). The net profit for the year for FP GmbH of 6,899 thousand euros (previous year: 5,276 thousand euros) was recognised with FP Holding as income from profit transfer. FP Holding thus benefited indirectly from the higher profit distributions and advance distributions of the foreign subsidiaries to FP GmbH.

Net assets, financial position and results of operations of FP Holding are altogether well-regulated. Short-term callable debts are covered in full by short-term liquidable assets. The financing of the FP Group is mainly provided by FP GmbH. A net profit for the year of 7,715 thousand euros (2006: 704 thousand euros) could be achieved during the year under report. For these reasons, the Management Board of FP Holding AG considers the revenue and earnings performance for the FP Group as unsatisfactory, particularly of its Mailroom segment, and has decided to implement restructuring measures in order to increase the FP Group's earning power on a sustainable basis. The single-entity financial statements for FP Holding were only indirectly affected by these developments via its subsidiaries and sub-subsidiaries.

## **Changes in shareholders' equity**

### **Breakdown of subscribed capital**

The Company has share capital of 14,700,000 euros, divided into 14,700,000 ordinary dividend-paying bearer shares with no par value (no par value shares). The notional interest in the share capital thus equals 1.00 euro in each case. Each share entitles the holder to one vote at the Annual General Meeting. No privilege shares were issued.

### **Authorised capital**

On 16 October 2006, the Annual General Meeting resolved to authorise the Management Board, with the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions until 15 October 2011 by a total of up to 6,000,000 euros by issuing up to 6,000,000 new no-par value bearer shares in exchange for cash or non-cash contributions (authorised capital). As a matter of principle, the new no-par value bearer shares must be offered to existing shareholders. However, the Management Board has been authorised to exclude fractional amounts from the shareholders' subscription rights, and to disapply such subscription rights with the approval of the Supervisory Board.

### **Contingent capital**

The Annual General Meeting on 16 October 2006 resolved to contingently increase the Company's share capital by a total of up to 6,000,000 euros through the issue of new no-par value bearer shares each with a notional interest in the share capital of 1.00 euro (contingent capital).

### **Share buyback programme**

On 20 November 2007, the Management Board of Francotyp-Postalia Holding AG resolved on the basis of the resolution of authorisation of the Company's Annual General Meeting on 16 October 2006 to implement a programme to buy back Company shares.

In exercise of the authorisation of the Annual General Meeting on 16 October 2006, up to 500,000 shares are expected to be acquired via the stock exchange. This equals up to 3.40% of the Company's share capital. The purchase price per share paid by the Company under the buyback programme (not including ancillary acquisition costs) may neither exceed nor fall below by 10% the share price in XETRA trading on the Frankfurt Stock Exchange determined on the trading day by the opening auction. The share buyback programme is expected to continue up to and including 15 April 2008. The Management Board reserves the right to discontinue or terminate the share buyback programme at any time ahead of schedule or acquire in total less than 500,000 Company shares.

The Company has commissioned an investment bank for the purposes of implementing the buyback, whereby the buyback is to be implemented taking into consideration in particular the stipulations contained in Section 5 of EC Directive No. 2273/2003 of the Commission dated 22 December 2003.

## **Conversion rights and options**

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

Up to now, there has been no issue of shares using the authorised or contingent capital.

## **Company bodies and shareholder structure**

### **Remuneration of Management Board Members and Supervisory Board Members**

The remuneration of the members of the Management Board is determined by the Supervisory Board at an appropriate amount based on a performance assessment and taking into account any payments by Group companies. The criteria for determining the appropriateness of remuneration are, in particular, the tasks of the respective member of the Management Board, his personal performance and the performance of the Management Board as a whole, as well as the economic situation and the performance and outlook of the Company, taking into account its peer group. The employment agreements entered into with the members of the Management Board include a fixed annual salary and a performance-related bonus. In fiscal year 2007, the direct remuneration paid to the members of the Management Board totalled 1,008, thousand euros, of which 618 thousand euros related to the fixed annual salary, 300 thousand euros to the performance-related bonus, and 90 thousand euros to remuneration in kind. The bonus system is variable, meaning that bonus payments do not constitute guaranteed remuneration. Remuneration in kind primarily relates to the amounts to be recognised for the use of a company car under tax law and the individual insurance contributions.

Provisions of 248 thousand euros were created for pension commitments relating to the Management Board. The pension claims for members of the Management Board employed at the end of the year result from the pension system of Gebr. Röchling, Mannheim. After fulfilment of the claim requirements, retirement pension, disability pension and dependants' pensions were granted as the pension benefits. The level of benefits is determined by the qualifying length of service and qualifying income.

In addition to the variable remuneration granted by the Company, the planned payment of additional variable remuneration by a third party to Dr. Heinz-Dieter Sluma, who was appointed to the Management Board with effect from 1 January 2008, has been approved by the Supervisory Board.

No stock-based components are in place. Nor have any stock option plans been introduced for fiscal year 2008.

In accordance with the resolution by the Annual General Meeting on 16 October 2006, the remuneration of the members of the Company's Supervisory Board is set out in Section 17 of the Articles of Association. Each member of the Supervisory Board receives a fixed remuneration for each fiscal year payable in the last month of the fiscal year. The Chairman receives 2.5 times the fixed remuneration and his Deputy twice the fixed remuneration. The annual remuneration increases by 10% for each Supervisory Board committee to which the respective member belongs, providing that the committee in

question meets at least twice during the fiscal year in question. No other performance-related remuneration is granted. Provisions were thus created in the amount of 60 thousand euros for accruing Supervisory Board compensation including expenses.

Detailed information regarding the remuneration structure is contained in the notes to the annual financial statements.

## **Amendments to the Articles of Association**

The resolutions at the Annual General Meeting are passed with a simple majority of the votes cast and, unless the law requires a capital majority in addition to the simple majority, the simple majority of the equity capital represented at the passing of the resolution, unless the law or the Articles of Association expressly require a larger majority. Abstentions are not counted towards the number of votes cast.

## **Appointment of members of the Management Board**

The Management Board and Supervisory Board cooperate closely with the aim of generating a sustainable increase in enterprise value. The Management Board and Supervisory Board regularly meet to discuss the status of the strategic orientation of the Company as coordinated by the Management Board and its implementation. The Management Board is also obliged to provide the Supervisory Board with regular information on all relevant matters relating to planning, business development, the risk situation, risk management and compliance. The Supervisory Board has determined the information and reporting duties of the Management Board accordingly. For decisions or measures that fundamentally change the net assets, financial position or results of operations of the Company and transactions of material importance, the Supervisory Board is provided with corresponding reservations of consent as set out in the rule of procedure of the Management Board.

In accordance with the Articles of Association, the Management Board is composed of three members. The Supervisory Board stipulates the number of members of the Management Board, as well as their appointment and revocation of their appointment. Whereas the Management Board appointed a speaker from its ranks in the past fiscal year, it has had a Chairman since 1 January 2008. This change was accompanied by the release of new rules of procedure of the Management Board.

In accordance with the Company's Articles of Association, the Supervisory Board of Francotyp-Postalia Holding AG is composed of three members to be appointed by the Annual General Meeting. All of the members of the Supervisory Board have the extensive knowledge and experience required to successfully perform their role. On account of the size of the Company and the number of Supervisory Board members set out in the Articles of Association, committees or other executive bodies are not generally formed. As an exception, a committee consisting of members of the Supervisory Board and the Management Board has been formed with the aim of examining and discussing the share buyback programme which was initiated in the past fiscal year. The Supervisory Board will perform the tasks that would otherwise be delegated to the Audit Committee for as long as it consists of only three people.

In accordance with the Articles of Association of Francotyp-Postalia Holding AG, the Chairman and Deputy Chairman of the Supervisory Board are appointed from the ranks of the Supervisory Board. This means that candidates for the position of Chairman of the Supervisory Board are not proposed to shareholders as recommended in section 5.4.3 of the Corporate Governance Code.

A D&O policy with no deductible has been concluded for the members of the Supervisory Board and the Management Board.

Notes according to para. 289 section 4 no. 2, 4, 5, 8 and 9 HGB were not necessary.

## Environmental and employee issues

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

In the past, the FP Group has taken precautions to ensure compliance with environmental legislation, to equip our systems in accordance with the state of the art, and to guarantee continued compliance with the requirements of environmental law in future.

## Direct and indirect participation

(in accordance with Section 289 (4) no.3 of the German Commercial Code, if in excess of 10%)

Shareholders	Shareholdings as of 31 December 2007	
	Number of shares	%
Quadriga Capital Private Equity Fund II L.P.	3,357,321	22.84
Quadriga Capital Limited	803,326	5.46

## Internal risk management

Risk management is an integral part of all decisions and business processes within the FP Group. In terms of its content, degree of detail and frequency, internal reporting is designed to detect risks at an early stage.

A fundamental review of the risk management system was undertaken in fiscal year 2007. To do this, the first step was to determine the principles of risk detection and analysis (determination of threshold levels) in all corporate divisions. The Management Board and senior executives then prepared a revised inventory of potential risks, the probability of their occurrence and the potential damages arising as a result, and allocated those risks to risk categories based on the extent to which they can be controlled internally and the specific areas of responsibility:

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

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

For the possible risks to the company as a going concern, an ad-hoc obligation for managers to report to the Management Board was included if the threshold values determined are exceeded. All risks are now regularly checked as part of a formal process.

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

Francotyp-Postalia is always exposed to certain risks, which also apply to its explicitly mentioned competitive strengths, if these cannot be maintained. These risks can have fundamental detrimental repercussions for business activity as well as for the financial condition and results of operations of Francotyp-Postalia.

## **Risks and opportunities for future development**

### **Market and competition**

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

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

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

requirements. Proximity to the customer and the ability to react flexibly and quickly to customer demands are the strengths of FP in respect to the expected redistribution of market share.

## Corporate finance

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

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

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

The volume of our business activity is generally linked to the overall economic situation of the individual countries and their commercial relationships. At the present time, we do not see any substantial overall economic risks for Francotyp-Postalia. In the past fiscal year, no risks were identified for either FP Holding or the entire FP Group which individually or taken as a whole could have a substantial impact on the existence of the Company or Group. Nor are there likely to be any in the foreseeable future.

## Strategy / outlook

Following the reduction of our forecasts for 2007, the management's planning for the FP Group in 2008 is conservative in nature. We expect the Group to continue to record steady growth of 5-10% over the coming years and organic revenue growth for the Mailroom segment. Considerable impulses, particularly in 2008, is coming from by the decertification of B-segment machines in the USA and the continued high level of recurring revenue around the world. With a contribution to revenue of more than 60%, the latter will guarantee the Group's stable, profitable growth. Existing growth potential will be leveraged in the key markets of the USA and the UK with a view to increasing the Group's market share. FP Holding will participate in these developments via its subsidiary FP GmbH, with which a profit transfer agreement is in place.

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

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

activities as well as its more recently acquired expertise in the areas of consolidation, outsourcing and groundbreaking hybrid mail solutions.

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

As the Group is dependent on USD-denominated revenue to a large extent, a further appreciation of the euro could have a negative effect on revenue and earnings.

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

## Events after the reporting date

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

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

There were no major events after the reporting date.

## Responsibility statement of the Management Board in accordance with Section 289 (1) sentence 5 of the German Commercial Code

"To the best of our knowledge, we affirm that in accordance with the accounting standards to be used for the annual financial statements, a true and fair view of the net assets, finances, and earnings of the Company is conveyed and in the Management Report, the development of business including the position of the Company is portrayed in such a way that a true and fair view is conveyed, and the important opportunities and risks for the expected development of FP Holding for the remainder of the fiscal year are described."

Birkenwerder, 20 March 2008

Dr Heinz-Dieter Sluma  
Management Board  
Chairman

Hans Christian Hiemenz  
Management Board member

Manfred Schwarze  
Management Board member

Francotyp-Postalia Holding AG, Birkenwerder

Balance sheet dated 31 December 2007



Assets			Liabilities		
	31 Dec. 2007	31 Dec. 2006		31 Dec. 2007	31 Dec. 2006
	Euro thousand	Euro thousand		Euro thousand	Euro thousand
<b>A. Long-term assets</b>			<b>A. Equity</b>		
Financial assets			I. Subscribed capital	14.700	14.700
1. Shares in subsidiaries	28.317	28.290	II. Capital reserves	48.600	48.600
2. Loans to subsidiaries	20.423	18.423	III. Retained earnings		
	<b>48.740</b>	<b>46.713</b>	Provisions for own shares	552	0
			IV. Unappropriated surplus	9.625	2.462
<b>B. Short-term assets</b>				<b>73.477</b>	<b>65.762</b>
I. Receivables and other assets			<b>B. Accruals</b>		
1. Receivables from subsidiaries	24.642	36.790	1. Accruals for pensions and other obligations	248	0
2. Other assets	3	703	2. Other accruals	210	1.040
	24.645	37.493		<b>458</b>	<b>1.040</b>
II. Securities and shares	552	0	<b>C. Liabilities</b>		
III. Cash on hand, bank balances	3	3	1. Accounts payable	16	634
	<b>25.200</b>	<b>37.496</b>	2. Liabilities due to subsidiaries	2	0
<b>C. Deferred items</b>	<b>53</b>	<b>0</b>	3. Other liabilities	40	16.773
	<b>73.993</b>	<b>84.209</b>		<b>58</b>	<b>17.407</b>
				<b>73.993</b>	<b>84.209</b>

Francotyp-Postalia Holding AG, Birkenwerder  
(formerly Francotyp-Postalia Holding GmbH)



Income statement  
for the period 1 January through 31 December 2007

	1 Jan.-31 Dec. 2007	1 Jan.-31 Dec. 2006
	<b>Euro thousand</b>	<b>Euro thousand</b>
1. Revenue	556	100
2. Personnel expenses	1.076	0
3. Other operating expenses	956	647
4. Income from profit transfer agreements	6.899	5.276
5. Other interest and similar income	2.376	1.056
6. Interest and similar expenses	1	732
<b>7. Earnings from ordinary business activities</b>	<b>7.798</b>	<b>5.053</b>
8. One-time income	19	0
9. One-time expenses	102	4.349
<b>10. Net profit for the year</b>	<b>7.715</b>	<b>704</b>
11. Profit carryforward from the previous year	2.462	3.058
12. Use for capital increase from shareholder resources	0	-1.300
13. Allocation to provisions for own shares	-552	0
<b>14. Unappropriated surplus</b>	<b>9.625</b>	<b>2.462</b>



## **Notes to the consolidated financial statements for Francotyp-Postalia Holding AG, Birkenwerder, for the fiscal year 1 January through 31 December 2007**

### **I. General information**

Francotyp-Postalia Holding AG, Birkenwerder, (hereinafter also referred to as "FP Holding" or the "Company") is the parent company of the Francotyp-Postalia Group (hereinafter also referred to as "Francotyp-Postalia"). The headquarters of the Company is Birkenwerder at Triftweg 21-26.

FP Holding is entered in the commercial register maintained by the Local Court of Neuruppin under HRB 7549. The fiscal years correspond to the respective calendar years.

Francotyp-Postalia has an eighty-year history as an organisation operating internationally in the field of outgoing post processing. The corporation operates a traditional product business involving primarily the development, production and distribution of postage meters and inserters in combination with after-sales business. The subsidiary freesort and the majority stake in iab, both acquired last November, now give the Francotyp-Postalia Group the capability to offer customers in Germany sorting and consolidation services as well as hybrid mail products.

Since 30 November 2006, all shares of FP Holding AG were listed for official trading. At the same time, shares were approved for trading on the Prime Standard segment of the Frankfurt Stock Exchange under WKN identifier FPH900. This involved additional post-listing requirements, .

The annual financial statements were prepared in accordance with the provisions of the German Commercial Code (HGB) taking into account the special provisions for corporations (Sections 264 ff. of the HGB) and the additional regulations of the German Stock Corporation Act. The cost of production method was selected for the income statement.

The annual financial statements are produced in euros. All amounts are quoted in thousands of euros unless specified otherwise to afford better clarity and comparability. Minor differences may result from rounding of figures for individual positions and percentages.

### **II. Accounting policies**

**Shares in subsidiaries** are reported at cost and the **loans, receivables** and **other assets** are all reported at nominal value. The assets are subject to regular impairment testing.

**Pension provisions** were established in line with the actuarially determined net present value in accordance with Section 6a of the German Income Tax Act (EStG) on the basis of the "2005 G mortality tables" of Professor Klaus Heubeck and using a rate of 6%.

**Other provisions** take into account all identifiable risks and uncertain liabilities. They are formed in line with reasonable business judgment.

All **liabilities** are assessed at the level of their repayment amounts.

### **III. Notes on the balance sheet**

#### **1. Fixed assets**

Under financial assets are reported the shares in FP GmbH, iab internet access GmbH (abbr. "iab"), iab-Verwaltungs- und Vertriebs GmbH (abbr. "iabv") and freesort GmbH (abbr. "freesort"). A list of the equity stakes is included in the appendix to the notes.

In the previous year, FP Holding acquired 51.01% of the shares in iab as well as 36.99% of the shares in iabv, both headquartered in Berlin; the remaining approximate amount of 63.01% in iabv is held directly by iab. The company also has long-term pre-emptory purchase rights for the other approximate amount of 48.99% of iab shares through 31 December 2017. The sale price of the two companies equalled 7,500 thousand euros less ancillary acquisition costs of 123 thousand euros.

Also last year, FP Holding acquired all the shares in freesort GmbH, headquartered in Dusseldorf. The sale price was 19,550 thousand euros. Other acquisition-related expenses accrued in the amount of 144 thousand euros.

There are loans in the amount of 16,623 thousand euros to FP GmbH and 3,800 thousand euros to freesort.

## 2. Receivables from subsidiaries

Receivables from subsidiaries primarily contain receivables from the profit transfer, interest on the loans, services carried out and current offsetting. Receivables fell by 12,148 thousand euros compared with the previous year. All receivables have remaining durations of less than one year.

## 3. Securities and shares

On 20 November 2007, the Management Board of Francotyp-Postalia Holding AG resolved on the basis of the resolution of authorisation of the Company's Annual General Meeting on 16 October 2006 to implement a programme to buy back Company shares in order to be able to acquire companies or equity interests in company's using own shares as the acquisition currency.

In exercise of the authorisation of the Annual General Meeting on 16 October 2006, up to 500,000 shares are expected to be acquired via the stock exchange. This equals up to 3.40% of the Company's share capital. The purchase price per share paid by the Company under the buyback programme (not including ancillary acquisition costs) may neither exceed nor fall below by 10% the share price in XETRA trading on the Frankfurt Stock Exchange determined on the trading day by the opening auction. The share buyback programme is expected to continue up to and including 15 April 2008. The Management Board reserves the right to discontinue or terminate the share buyback programme at any time ahead of schedule or acquire in total less than 500,000 Company shares.

The Company has commissioned an investment bank for the purposes of implementing the buyback, whereby the buyback is to be implemented taking into consideration in particular the stipulations contained in Section 5 of EC Directive No. 2273/2003 of the Commission dated 22 December 2003.

102,132 shares had been acquired by the reporting date and these were capitalised with their cost of 552 thousand euros. As of 31 December 2007, the own shares had a market value of 669 thousand euros.

Period of acquisition	Number of own shares acquired	Amount of share capital in euro thousand	Percentage of share capital
November 2007	38,283	38,283	0.26%
December 2007	63,849	63,849	0.43%
<b>Total</b>	<b>102,132</b>	<b>102,132</b>	<b>0.69%</b>

#### **4. Equity**

Francotyp-Postalia Holding AG share capital currently totals 14,700 thousand euros, consisting of 14,700,000 par value dividend-paying bearer shares. Each share entitles the holder to one vote at the Annual General Meetings. Share capital is fully paid-in.

FP Group shareholders passed resolutions on 16 October 2006 authorising 6 million euros in additional capital, amendment of the Articles of Association accordingly and a contingent increase in share capital by a maximum 6 million euros through the issuance of new individual bearer shares, each representing 1.00 euro of share capital. The Management Board was further authorised to issue warrants and convertible bonds allowing exclusion of subscription rights as per Section 186 (3), sentence 4 Stock Corporation Act (AktG), creating contingent capital and amending the Articles of Association accordingly. The company was authorised to purchase and sell its own shares pursuant to Section 71 (1), no. 8 AktG in an amount up to 10% of Company share capital.

In November 2007, the Company resolved to implement a corresponding share buyback programme involving the acquisition of 102,132 shares with costs of 552 thousand euros by the end of the year. This equals 0.69% of the share capital. The costs of the own shares in the amount of 552 thousand euros reduced the profit carryforward and were instead reported under Provisions for own shares.

#### **5. Accruals for pensions and similar obligations**

As the contractual relationships of the three members of the Management Board were transferred on 1 January 2007 from FP GmbH to FP Holding, the corresponding pension commitments were also assumed by FP Holding. The amount of the commitments assumed were charged to FP GmbH as compensation.

#### **6. Other accruals**

Other accruals mainly include accruals for auditing expenses in the amount of 93 thousand euros (previous year: 98 thousand euros), Supervisory Board remuneration of 60 thousand euros (previous year: 60 thousand euros), premiums of 31 thousand euros (previous year: 0 thousand euros) and outstanding holidays amounting to 16 thousand euros (previous year: 0 thousand euros).

## **7. Liabilities**

All the liabilities have remaining durations of up to one year.

Other liabilities relate to tax liabilities. Of these, 34 thousand euros relate to wage taxes and 6 thousand euros to VAT still to be paid.

The deferred purchase price liabilities for the corporate acquisitions of freesort (14,273 thousand euros) and iab (2,500 thousand euros) reported last year under Other liabilities were settled in full in the reporting year.

## **8. Contingencies**

With effect from 1 January 2007, FP Holding issued a letter of comfort for its subsidiary freesort GmbH, Dusseldorf to the effect that it assumes the irrevocably unlimited obligation up to 31 January 2010

- to maintain unchanged the stake in freesort GmbH, Dusseldorf,
- to provide freesort at its first request with additional liquidity or other financial resources if this is necessary to enable it to satisfy all receivables due to its creditors and thus to eliminate and existing or potential inability to pay, and to avoid existing over-indebtedness under insolvency law,
- and to ensure that freesort GmbH is able to continue fundamentally its operations

#### IV. Notes on the income statement

##### 1. Revenue

Revenue accrued exclusively from consulting services in accordance with the service contract concluded with FP GmbH on 16 May 2006.

##### 2. Personnel expenses

	<b>2007</b> <b>Euro thousand</b>	<b>2006</b> <b>Euro thousand</b>
Salary and wages	927	0
Social security contributions, pensions and other benefits	149	0
(of which for pensions)	(79)	(0)
	<b>1,076</b>	<b>0</b>

The Company has only employs its own employees since 1 January 2007, with most being transferred from Francotyp-Postalia GmbH. In the previous year, the services of these employees were carried out within the framework of personnel sharing, the amount of 396 thousand euros being charged by Francotyp-Postalia GmbH being reported under Other operating expenses.

##### 3. Other operating expenses

Other operating expenses contain legal and consulting costs of 430 thousand euros (previous year: 50 thousand euros), auditing costs of 83 thousand euros (previous year: 121 thousand euros), travel expenses of 113 thousand euros (previous year: 15 thousand euros), advertising expenses of 105 thousand euros (previous year: 0 thousand euros) and Supervisory Board remuneration of 60 thousand euros (previous year: 60 thousand euros).

##### 4. Income from profit transfer agreements

The income accrued on the profit of FP GmbH due to a profit transfer agreement.

##### 5. Interest income and expense

Interest income of 2,375 thousand euros (previous year: 1,056 thousand euros) mainly comprises interest from subsidiaries of 2,163 thousand euros (previous year: 1,056 thousand euros). The remaining interest income comes from fixed-term deposits. Interest expenses of only 1 thousand euros to third parties accrued in the reporting year.

## 6. One-time earnings

The one-time earnings of 19 thousand euros and one-time expenses of 102 thousand euros only contain the earnings and expenses who arose directly from the IPO of FP Holding AG.

## V. Other information

### 1. Average number of employees

In addition to the three members of the Management Board, the Company employed an average of four employees over the year.

### 2. Management Board and Supervisory Board

The Company's Management Board currently comprises three people. The following table shows the members of the Management Board active in the 2007 fiscal year and their respective functions:

Name	Appointed	Current term ending	Responsibilities
Hans Christian Hiemenz, graduate in business studies	September 2006	September 2010	<ul style="list-style-type: none"> <li>• Controlling</li> <li>• Finance and Accounting</li> <li>• IT</li> <li>• HR, Legal</li> <li>• Investor Relations</li> </ul>
Hartmut Neumann (Chairman), graduate in business studies	September 2006	September 2010 (resigned 31 December 2007)	<ul style="list-style-type: none"> <li>• Service</li> <li>• Sales</li> <li>• Marketing</li> <li>• Business Development</li> </ul>
Manfred Schwarze, graduate in business and engineering	September 2006	September 2010	<ul style="list-style-type: none"> <li>• Research and Development</li> <li>• Intellectual Property</li> <li>• Production</li> <li>• Logistics</li> <li>• Purchasing</li> <li>• Quality Management</li> </ul>

The three Management Board members do not sit on any supervisory boards or other monitoring committees per Section 125 (1), sentence 3 AktG.

The speaker of the Management Board of Francotyp-Postalia Holding AG, Hartmut Neumann, resigned from the Company at the end of the year. The Supervisory Board appointed Dr Heinz-Dieter Sluma as his successor; he has managed the activities of Francotyp-Postalia as CEO since 1 January 2008.

The table below lists the company Supervisory Board members and their disclosable positions outside the company, on other advisory, management or supervisory boards or on similar domestic or foreign corporate monitoring committees:

Name	Occupation	Other memberships on advisory/supervisory boards or other domestic or foreign monitoring committees
Dr Rolf Stomberg (Chairman)	Management consultant	<ul style="list-style-type: none"> <li>- Chairman of the Supervisory Board               <ul style="list-style-type: none"> <li>• LANXESS AG, Leverkusen</li> </ul> </li> <li>- Vice-Chairman of the Supervisory Board               <ul style="list-style-type: none"> <li>• Biesterfeld AG, Hamburg</li> </ul> </li> <li>- Member of the Supervisory Board               <ul style="list-style-type: none"> <li>• Deutsche BP, Hamburg</li> <li>• Reed Elsevier N. V., Amsterdam</li> <li>• TNT N. V., Amsterdam</li> </ul> </li> <li>- Member of the Board of Directors               <ul style="list-style-type: none"> <li>• JSC Severstal, Russia</li> <li>• Reed Elsevier plc, London</li> <li>• Smith &amp; Nephew plc, London</li> </ul> </li> <li>- Advisory Board Vice-Chairman               <ul style="list-style-type: none"> <li>• HOYER GmbH, Hamburg</li> </ul> </li> </ul>
Christoph Weise (Vice-Chairman)	Management consultant	<ul style="list-style-type: none"> <li>- Managing Director               <ul style="list-style-type: none"> <li>• QCR 1 GmbH</li> <li>• Quadriga Capital GmbH</li> <li>• Quadriga Capital Services GmbH</li> <li>• W.E.R.F. 1 Vermögensverwaltungsge-sellschaft mbH</li> </ul> </li> </ul>
George Marton	Management consultant	None

The remuneration of the members of the Management Board is determined by the Supervisory Board at an appropriate amount based on a performance assessment and taking into account any payments by Group companies. The criteria for determining the appropriateness of remuneration are, in particular, the tasks of the respective member of the Management Board, his personal performance and the performance of the Management Board as a whole, as well as the economic situation and the performance and outlook of the Company, taking into account its peer group. The employment agreements entered into with the members of the Management Board include a fixed annual salary and a performance-related bonus. In the 2007 financial year, the direct remuneration paid to the members of the Management Board totalled 1,008, thousand euros, of which 618 thousand euros related to the fixed annual salary, 300 thousand euros to the performance-related bonus, and 90 thousand euros to remuneration in kind. Remuneration in kind primarily relates to the amounts to be recognised for the use of a company car under tax law and the individual insurance contributions.

No stock-based components are in place. Nor have any stock option plans been introduced for the 2008 financial year. Remuneration for the 2007 financial year breaks down as follows:

<b>Euro thousand</b>	<b>Fixed salary</b>	<b>Bonus</b>	<b>Remuneration in kind</b>	<b>Total remuneration</b>
Hans Christian Hiemenz	206	100	29	335
Hartmut Neumann	206	100	32	338
Manfred Schwarze	206	100	29	335
<b>Total</b>	<b>618</b>	<b>300</b>	<b>90</b>	<b>1,008</b>

Provisions of 248 thousand euros were created for pension commitments relating to the Management Board. No close relatives of Management Board members maintained a business relationship with FP.

Each member of the Supervisory Board receives a fixed remuneration of 10 thousand euros for each fiscal year payable in the last month of the fiscal year. The Chairman receives 2.5 times the fixed remuneration and his Deputy twice the fixed remuneration.

Provisions were thus created in the amount of 60 thousand euros for accruing Supervisory Board compensation including expenses.

### **3. Auditor's fees expensed**

Expenses of 83 thousand euros were shown for fiscal year 2007 for auditing services provided to FP Holding by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Berlin. These are accounted for in their entirety by the auditing.

### **4. Corporate governance**

The German Corporate Governance Code (the "Code") adopted February 2002, last revised 14 June 2006, provides guidelines and best practices on the management and monitoring of public companies in Germany concerning shareholders and shareholder voting, executive and supervisory boards, transparency, accounting and auditing.

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

### **5. Consolidated financial statements**

Separate consolidated financial statements are prepared for FP Holding and its subsidiaries and sub-subsidiaries. The financial statements are submitted to and published in the electronic German Federal Gazette.

### **6. Shareholder structure**

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

- Threadneedle Asset Management Limited announced on its own behalf and on behalf of Treadneedle Asset Management Holding Limited, both headquartered in London, United Kingdom, and Ameriprise Financial Inc. headquartered in Minneapolis, USA, that on 10 May 2007 the share of the voting rights in the share capital of Francotyp Postalia Holding AG fell below the threshold of 5%, exceeded the threshold again on 24 May 2007 and fell below it again on 31 August 2007. On 6 September 2007, it finally fell below the threshold of 3% of the share capital of Francotyp Postalia Holding AG and new equals 2.8% (411,529 shares).
- Deka Investment GmbH, headquartered in Frankfurt am Main, Germany, informed the company that on 14 May 2007 its share of the voting rights in Francotyp

Postalia Holding AG fell below the threshold of 3%. The share now equals 2.95% or 433,600 voting rights.

- On 11 May 2007, the share in the voting rights accorded to INVESCO UK Limited, headquartered in Oxfordshire, Great Britain, exceeded the threshold of 5% and now equals 5.1124% (751,528 voting rights).
- On 7 March 2007, the Financiere de L'Echiquier Paris, France, exceeded the threshold of 3% for its share in the voting rights in Francotyp Postalia Holding AG and on 1 November 2007 the threshold of 5%. The share in the voting rights now equals 5.112% or 751,510 voting rights.
- J O Hambro Capital Management Limited, JO Hambro Capital Management Group Limited and JO Hambro Capital Management Umbrella Fund plc, all headquartered in London, Great Britain, are affiliated companies with the result that the voting rights for their stakes in Francotyp-Postalia Holding AG are allocated in accordance with Section 22 (1) sentence 1 no. 6 German Securities Trading Act.
  - J O Hambro Capital Management Limited announced that its share in the voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 3% on 18 May 2007 and on this day equalled 3.10% of the voting rights (455,960 voting rights). 3.10% of the voting rights (455,960 voting rights) are to be assigned to J O Hambro Capital Management Limited in accordance with Section 22 (1) sentence 1 no. 6 German Securities Trading Act.
  - J O Hambro Capital Management Group Limited announced that its share in the voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 3% on 18 May 2007 and on this day equalled 3.10% of the voting rights (455,960 voting rights). 3.10% of the voting rights (455,960 voting rights) are to be assigned to J O Hambro Capital Management Group Limited in accordance with Section 22 (1) sentence 1 no. 6 German Securities Trading Act in association with Section 22 (1) sentence 2 German Securities Trading Act.
  - J O Hambro Capital Management Umbrella Fund plc announced that its share of the voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 3% on 22 May 2007 and on this day equalled 3.02% of the voting rights (444,651 voting rights).
  - Furthermore, J O Hambro Capital Management Umbrella Fund plc informed the Company that its voting rights in Francotyp-Postalia Holding AG exceeded on 4 July 2007 the threshold of 5% and on this day equalled 5.69% of the voting rights (835,956 voting rights).
  - J O Hambro Capital Management Limited announced that its voting rights in Francotyp-Postalia Holding AG exceeded on the threshold of 5% on 4 July 2007 and on this day equalled 6.01% of the voting rights (882,960 voting rights). 6.01% of the voting rights (882,960 voting rights) are to be assigned to J O Hambro Capital Management Limited in accordance with Section 22 (1) sentence 1 no. 6 German Securities Trading Act. The voting rights are to be assigned to J O Hambro Capital Management Limited via J O Hambro Capital Management Umbrella Fund plc.

- J O Hambro Capital Management Group Limited announced that its share in the voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 5% on 4 July 2007 and on this day equalled 6.01% of the voting rights (882,960 voting rights). 6.01% of the voting rights (882,960 voting rights) are to be assigned to J O Hambro Capital Management Group Limited in accordance with Section 22 (1) sentence 1 no. 6 German Securities Trading Act in association with Section 22 (1) sentence 2 German Securities Trading Act. The voting rights are assigned to J O Hambro Capital Management Group Limited via J O Hambro Capital Management Umbrella Fund plc, which has a direct holding of more than 3% of the voting rights.
- J O Hambro Capital Management Umbrella Fund plc announced via FP Holding that its voting rights in Francotyp-Postalia Holding exceeded the threshold of 10% on 5 September 2007 and on this day equalled 10.41% of the voting rights (1,530,435 voting rights).
- J O Hambro Capital Management Limited announced that its voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 10% on 5 September 2007 and on this day equalled 10.84% of the voting rights (1,593,452 voting rights). 10.84% of the voting rights (1,593,452 voting rights) are to be assigned to J O Hambro Capital Management Limited in accordance with Section 21 (1) sentence 1 no. 6 German Securities Trading Act. The voting rights are assigned to J O Hambro Capital Management Limited via J O Hambro Capital Management Umbrella Fund plc, which has a direct holding of more than 3% of the voting rights.
- J O Hambro Capital Management Group Limited informed the company that its voting rights in Francotyp-Postalia Holding AG exceeded the threshold of 10% on 5 September 2007 and on this day equalled 10.84% of the voting rights (1,593,452 voting rights). 10.84% of the voting rights (1,593,452 voting rights) are to be assigned to J O Hambro Capital Management Group Limited in accordance with Section 22 (1) sentence 1 no. 6 German Securities Trading Act in association with Section 22 (1) sentence 2 German Securities Trading Act. The voting rights are assigned to J O Capital Management Group Limited via J O Hambro Capital Management Umbrella Fund plc, which has a direct holding of more than 3% of the voting rights.
- INVESCO Fund Managers Limited, headquartered in Oxfordshire, Great Britain, announced on 17 July 2007 that its share in Francotyp Postalia Holding AG had exceeded the threshold of 3% and now equals 3.9366% (578,687 voting rights).

Birkenwerder, 20 March 2008

Dr Heinz-Dieter Sluma  
Management Board  
Chairman

Hans Christian Hiemenz  
Management Board  
member

Manfred Schwarze  
Management Board  
member

## Francotyp-Postalia Holding AG, Birkenwerder

## Development of non-current assets in fiscal year 2007

	Costs					Accumulated depreciation					Residual book values	
	1 Jan. 2007	Additions	Reclassifications	Disposals	31 Dec. 2007	1 Jan. 2007	Additions	Reclassifications	Disposals	31 Dec. 2007	31 Dec. 2007	31. Dec 2006
	Euro thousand	Euro thousand	Euro thousand	Euro thousand	Euro thousand	Euro thousand	Euro thousand	Euro thousand	Euro thousand	Euro thousand	Euro thousand	Euro thousand
<b>Financial assets</b>												
1. Shares in subsidiaries	28.290	27	0	0	28.317	0	0	0	0	0	28.317	28.290
2. Loans to subsidiaries	18.423	2.000	0	0	20.423	0	0	0	0	0	20.423	18.423
	46.713	2.027	0	0	48.740	0	0	0	0	0	48.740	46.713
	<b>46.713</b>	<b>2.027</b>	<b>0</b>	<b>0</b>	<b>48.740</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>48.740</b>	<b>46.713</b>



Item no.	Company	Currency	Share in capital in %	Earnings 2007	Equity	Shareholders (serial no.)
1	Francotyp-Postalia Holding AG, Birkenwerder, Germany					
	<b>List of equity stakes</b>					
2	Francotyp Postalia GmbH, Birkenwerder, Germany	Euro thousand	100	0	1.000	1
3	freesort GmbH, Dusseldorf, Germany	Euro thousand	100	-2.341	-3.715	1
4	iab Internet Access GmbH, Berlin, Germany	Euro thousand	51,01	79	1.079	1
5	iab-Verwaltungs- und Vertriebs GmbH, Berlin, Germany	Euro thousand	100	-11	20	1 and 4
6	FP Direkt Vertriebs GmbH, Birkenwerder, Germany	Euro thousand	100	0	26	2
7	Francotyp-Postalia Vertrieb & Service GmbH, Birkenwerder, Germany	Euro thousand	100	0	11.187	2
8	Francotyp-Postalia International GmbH, Birkenwerder, Germany	Euro thousand	100	0	6.510	2
9	Francotyp-Postalia N.V. Zaventem, Belgium	Euro thousand	99,97	163	1.036	2
10	Francotyp-Postalia (Österreich) GesmbH Vienna, Austria	Euro thousand	100	419	1.179	2
11	Ruys Handelsvereniging BV The Hague, Netherlands	Euro thousand	100	1.325	679	8
12	Italiana Audion S.r.l. Milan, Italy	Euro thousand	100	-350	203	8
13	Francotyp-Postalia Ltd. Dartford, Great Britain	GBP thousand	100	1.450	2.030	8
14	Francotyp-Postalia Inc. Lisle, Illinois, USA	USD thousand	100	5.744	20.609	2
15	Francotyp-Postalia Canada Inc. Markham, Canada	CAD thousand	100	-2.264	-527	14
16	Francotyp-Postalia Unterstützungseinrichtung Berlin, Germany	Euro thousand	100	0	4.441	2
17	Kara Technology Inc. Houston, Texas, USA	USD thousand	15	n.a.	n.a.	2
18	FPGPS Assembly Pte. Ltd, Singapore, Singapore	SGD thousand	55	353	367	2
19	FP Data Center Inc. Osaka, Japan	JPY thousand	49	n.a.	n.a.	2
20	FP Hanse GmbH Hamburg, Germany	Euro thousand	100	0	102	7

The companies shown under items 2, 6, 7, 8 and 20 report balanced net profit for the year due to profit transfer agreements.

36.99% of the shares in no. 5 are held by no. 1 and 63.01% by no.4

## **AUDITORS' REPORT**

We have granted the following unqualified audit certificate, signed on 25 March 2008, for the annual financial statements and management report for the 2007 financial year of Francotyp-Postalia Holding AG, Birkenwerder, in the version as per annex 1:

### **"Auditors' report**

We audited the annual financial statements, comprising the balance sheet, profit and loss account and notes, including the accounting method, together with the management report of Francotyp-Postalia Holding AG, Birkenwerder, for the financial year from 1 January to 31 December 2007. The preparation of the annual financial statements in accordance with German commercial law is the responsibility of the Management Board of the company. Our responsibility is to express an opinion on the annual financial statements, including the accounting method, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany ("Institut der Wirtschaftsprüfer"). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and earnings situation in the annual financial statements in accordance with the applicable financial reporting standards are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting method and the annual financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and the significant estimates made by the Management Board, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of Francotyp-Postalia Holding AG, Birkenwerder, comply with the statutory regulations and give a true and fair view of the net assets, financial position and earnings situation of the company. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development."