Francotyp-Postalia Holding AG

Management Board Speech at the

Annual General Meeting on

13 June 2007

in Berlin

The spoken word applies

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Good day, ladies and gentlemen!

On behalf of Francotyp-Postalia Holding AG, I would like to welcome you warmly to our Annual General Meeting. We are very pleased that you are able to attend.

Ladies and gentlemen,

Let me start off by saying that this moment is a special one, for my Management Board colleagues and myself, but also for Francotyp-Postalia as company. For the first time, we are holding an Annual General Meeting as a listed company. And one thing I may say:

At one and the same time the listing is for us a stimulus and an obligation.

In the next few minutes I would like to report to you as shareholders - in two respects. First I would like to report about the financial year 2006.

Even though it may only seem a short period to you, become we only went onto the exchange on 30 November 2006, the reporting period does cover the whole of 2006.

Secondly, I would like to present our strategy. With the IPO, we believe we initiated the actions to equip Francotyp-Postalia for the future on a sustained basis. I would like to go into this point in more detail later.

Ladies and gentlemen,

Let me first deal with the figures. I will state not only the key figures for the 2006 financial year, but also draw comparisons with the previous financial year. To do this, I must start off by giving a brief explanation. Many of you will know that in April 2005 Francotyp-Postalia was bought out of the Röchling by the financial investor Quadriga and the management. Officially for 2005 there is only an abbreviated financial year. But as Francotyp-Postalia had already been managed independently within the Röchling Group, we prepared pro forma accounts for the whole of the 2005 financial year.

Another issue is important - the transaction resulted in subsequent costs which do not relate to the operating business. And to allow you a meaningful comparison, we have adjusted the figures for these costs. Thus in what follows, I will only refer to the adjusted figures.

So enough of the introduction. I would now like to come to the hard facts. I can state that the last financial year was a pleasing year for Francotyp-Postalia. The Group is growing and operates in an extremely profitable manner. We improved revenue by 4.2 percent to EUR 143.1 million. Total operating performance increased to as high as EUR 155.7 million. Decisive here is that this growth by no means negatively impacted the return. On the contrary, we improved our EBITDA, i.e. earnings before taxes, interest, depreciation and amortisation to EUR 32.2 million. This is equivalent to an EBITDA margin of 22.5 percent.

I can say that this is already a very good figure and we considerably improved on the previous-year figure of 21.1 percent. Furthermore, we increased the operating result, also called EBIT, from EUR 20.6 million to EUR 23.4 million. The EBIT margin also increased, from 15.0 percent to 16.4 percent.

One figure which fills me with particular pride is the Return on Capital Employed ratio, otherwise known as ROCE. We increased this figure to the round figure of 30 percent after 26.7 percent in the previous year. Not very many listed companies can point to an ROCE at this level. What is more, in our business we traditionally generate high cash flow from current operations. Last year it was EUR 20.3 million, 14.2 percent of revenues. All in all I can tell you – I am presenting you the key figures of a very healthy company.

Now after a careful look in our annual report, you may well ask how such a profitable company as Francotyp-Postalia can generate a net loss for the year, even if it is only very low. I would like to answer this question. The reason is the purchase in 2005 of Francotyp-Postalia by the finance investor Quadriga, as has already been mentioned. In this transaction there was an allocation of the purchase price i.e. the purchase price paid was set off against the equity of the companies acquired. The resulting difference of EUR 55 million was allocated to tangible and intangible assets. The largest amount relates to the customer list. The entire amount is written off over a period of three to five years. Admittedly this is quite a complex procedure, but one which is also motivated by tax reasons.

As you know, taxes are paid on net income. It was and is in the interests of our shareholders not to post a result higher than is necessary. In 2006, there were depreciation charges of approximately EUR 16 million, so that after the adjustment there is a figure of EUR 8 million.

Of course the pleasing special tax effect from the goodwill amortization will of course not last for ever. In 2005, we made the first amortization.

But in 2013 at the latest the transaction-related amortization will run out, if we have not made any further acquisitions by then.

My message to you in this connection is not to align yourselves to the annual result, but to the previously cited figures of EBITDA, EBIT and cash flow from operating activities. These figures provide you information about the true status of your company.

As you see, the financial year 2006 was good. Nevertheless, we would like to propose not paying a dividend this time, but to carry forward the unappropriated surplus. After all, in 2006, we were listed on the stock exchange only for one month. But at this point, let me state quite clearly that we are a company which is committed unrestrictedly to distributing a dividend.

From next year, we want to achieve a payout ratio of 60 percent. Please understand it in the way that by foregoing the distribution this year, we are laying the foundation for higher distributions over the next few years.

Ladies and gentlemen,

Give me two, three minutes to give you a few details about our figures. For the sake of completeness, I would like to comment on one item in our income statement – the expenses. I believe that there is little to be said about material and personnel expenditure. I have already explained the high amortization. What remains is only the **other operating expenses** as a key position with a volume of EUR 33.5 million. You find a more detailed explanation on page 75 of our annual report

The most important positions may give you a somewhat better picture of our business.

The largest position is commissions at over EUR 5.6 million. Particularly in the USA, but also in Germany we make a large number of sales via trading partners. In this case **commissions** are due.

The almost EUR 5 million for **rents and leases** are due because we do not have any property, but rent or lease all our business premises and vehicles.

The almost EUR 2.5 million for **packaging and shipping** shows just how international our business has become. I do not want to go into further detail about the other items. Individually, they are not so important.

One special feature in our balance sheet is the item with the name Teleporto funds. I would like to mention them, because they are quite charming for us and also reveal something about our business. At almost EUR 20 million, Teleporto funds are quite considerable. These relate to payments we received from our customers in England, Austria and Canada. In these countries, our customers pay onto one of our accounts, loading from there the postage onto the franking machines. We thus hold the money for our customers, on a trustee basis.

These Teleporto funds, which appear on the assets in the cash and cash equivalents and as liabilities under other liabilities thus extend the balance sheet. However, we are nevertheless pleased about this, because we can retain the interest on these accounts.

The **other liabilities** position, which at just under EUR 54 million seems to be quite high at first glance, contains not only the Teleporto funds but also deferred profits of EUR 12.2 million and purchase price components for the acquisition of freesort and iab of EUR 16.8 million. Purchase prices for the two companies were already negotiated to the end of 2006 and purchase agreements signed, but the purchase price not fully paid.

Let me talk briefly about the financial impact of the IPO. The IPO resulted in net inflows of almost EUR 47 million. As we announced at the time, we used the funds for buying the two companies freesort and iab. Today we still have almost EUR 18 million available from the IPO.

I would also like to speak to you briefly about the financing structure at Francotyp-Postalia. Companies owned by a financial investor often have the reputation of having a high level of debt. With us, this was never the case and is absolutely not the case today. With an equity ratio of 26.1 percent we are very soundly financed. To the end of the year, we had net financial liabilities of EUR 33 million, approximately equivalent to our EBITDA. You see our balance sheet still allows scope for growth, over and beyond funds from the IPO. Even if we had invested the remaining EUR 18 million from the IPO, we would still have a ratio of net financial liabilities to EBITDA of below 1.5. In this case we would still be financed on the conservative side. We have thus by no means exhausted our financial scope on the borrowing side.

Ladies and gentlemen,

With the key word growth – I have now reached the second part of my speech in which I would like to talk about the positioning and future plans of Francotyp-Postalia.

From our report on 2006, you see that the company has had an extremely successful recent history. We are confident of continuing this success story in the future. In this connection, you should not allow yourself to be irritated by the figures for the first quarter. A fleeting glance at the pictures may lead one to assume that we were not as successful in the period as we had been in the past. Unfortunately the capital market did not look very closely, which is why unfortunately our share price lost in value. But there is absolutely no reason for pessimism. The figures are behind on a year-on-year basis due to the fact that the first quarter of 2006 was impacted by non-recurring effects – at that time we benefited in Germany from the decertification of the value card machines. What is more, in 2006 there were changes in the postal rates in Germany and in the USA. For us this always means good business, because the change needs to be fed into the franking machines and the customer pays us to do this.

Furthermore, in this year we have a considerably lower dollar price, resulting in our losing another almost EUR 1 million. If one adjusts the quarter for these special effects, the operating business improved by e eight ercent. In May this year, another change in postage rates in the USA has already brought in USD 3 million. In terms of sales we reached in the USA the record figure of 3,000 rented units in April and May this year. We thus remain on track, as the expression goes.

However, in order to remain successful on a sustained basis, it is not enough to leave everything the way it is. We believe that we have to prepare ourselves for the future in an active manner. In addition to the IPO, we have already taken important steps.

Ladies and gentlemen,

Out key focus is the strategic alignment of Francotyp-Postalia. Earlier, the company dissipated its energies so that we initially had to throw the ballast overboard and to concentrate on the core business of franking machines for the lower and medium segment. Here we achieved the turnaround within a short period, because this core business is stable with strong margins. But it also needs to be said quite clearly – the business with franking machines is not a strong growth market. For this reason. we decided to supplement the Mailroom division, which covers predominantly franking machines, with the Mailstream division – a new segment with the potential for strong growth. I would now like to tell you something about the two divisions, but to place the focus on our new division.

In the Mailroom division we develop franking machines, manufacture and sell them. At the beginning of last year, with GPS Procurement PTE Ltd. we founded a joint venture in Singapore. The business operations of this company focus on the pre-assembly of assemblies for franking machines. In addition, we also market third-party inserting machines.

The market for franking machines is a very stable market which is growing slowly. At the end of 2006 we have a total of approximately 263,000 franking machines installed. We are the clear market leader in Germany and Austria with a market share of almost 50 percent. On a global basis, we have the No. 3 spot with a market share of 9 percent. Just these figures make it quite clear that our growth markets are predominantly outside Germany. We want to concentrate primarily on North America, but also have in our sights on Europe with the markets of Great Britain, the Netherlands, Scandinavia and Italy.

How are we positioned?

The market for franking machines is divided into clear segments. The small customers are in the so-called A segment, the B segment covers the medium-sized customers and the C segment is made up of the large customers. We made a clear decision for the A and B segments. There are good reasons for this.

Firstly, in this customer area Francotyp-Postalia has been known for over 80 years, epitomising top quality and excellent service.

Secondly, the A market segment is growing considerably more strongly than the market as a whole. Our A market is growing relatively strongly, because new and cheaper machines are accessing new customers.

Thirdly the B segment is interesting for us because in comparison to the A segment, many letters are sent and the requirements for franking machines and additional services are correspondingly large.

Fourthly the C segment is a declining market, as increasingly many large companies are doing without franking machines and switch to private carriers or use alternatives to the franking machine.

The Business with franking machines is very attractive. The margins are excellent as you can see from our figures. What is more, income is very stable. We not only sell the machines, but also rent them, thus obtaining regular income. We also earn good money in the after sales area. For example, the franking machines may be operated using specially approved cartridges which only we market. In addition, loading the machines with postage can only be done via us, thus guaranteeing steady income.

I have already stated that we want to grow primarily in the USA, in Canada and in Great Britain. These are volume markets in which we can obtain great leverage. We want to expand primarily the rental business. In Italy new electronic franking machines are to be launched this year. We are expecting considerable growth here. Overall, we are planning to grow in the Mailroom division by 5 percent on an organic basis this year. You see that in our traditional business, which we have been operating since 1923, there is certainly scope for very profitable growth.

Ladies and gentlemen,

I have already stated that we do not want to be satisfied with this. In order to make Francotyp-Postalia fit for the future on a sustained basis, we have thus added a further division under the name Mailstream. We achieved this extension on the basis of two acquisitions we implemented at the end of last year. On many occasions I have talked about freesort GmbH and iab internet access GmbH – on this slide you can see that the two companies constitute their own division.

But I do not actually want to go into detail about the companies as such, but into their business model.

From the perspective of the group, I consider it especially important to mention one aspect. I told you that with franking machines we concentrate on smaller customers from the A and B segments for good reasons. In the Mailstream division, the situation is exactly the opposite. Here it is the larger customers which are interesting for us, that is those from the B and C segments. While we are able to offer certain customers, who already know us well, further services, we are also accessing a completely new customer segment.

Our Mailstream consists of three parts:

- Consolidation business,
- Outsourcing and
- Software Solutions /Hybrid Mail.

I would like to present you all three parts in more detail.

The Consolidation business is operated by our subsidiary freesort. What is behind this? Actually it is quite simple – we collect letters from customers, sort them and deliver them to Deutsche Post. From an certain volume of letters upwards per day, there is a discount on postage. But as most companies do not reach this volume per day, we bundle the letters of many customers together and share with them the saving on postage.

However, what sounds so simple as collection and sorting is then a complex process in practise. All of you who have seen a sorting centre know what I am talking about. Today we have six sorting centres in Germany, to the end of the year, we want to have eight, in the final stage ten. Theoretically each of these sorting centres can sort 200,000 letters per day.

Why are we involved in this business?

Actually, there are five good reasons for this.

Firstly, we obtain access to potential customers via our franking machines. The customers have known us and have held us in high esteem for many decades.

Secondly, together with the franking machines, we can offer the customers a highly interesting combined offer. We can present them with a calculation that an investment in a new franking machine plus consolidation amortises itself within a few months. By the way, the possibility of presenting a combined offer distinguishes us from all our competitors.

Thirdly, we can now also access the higher segment with an interesting offer.

Fourthly, and this is a strategic point, in addition to control over the mailroom, we also gain control over the road i.e. over the transportation of the letters. For the customer, switching to a private carrier becomes considerably less attractive if we can offer him more favourable postage rates. In the process, we also support our franking machines business, which is closely connected today with Deutsche Post.

Fifthly, and this is for you as shareholder the most important point, the consolidation business can also generate very high margins. When a sort location has capacity utilisation of 75 percent, it can generate an EBITDA margin of 30 percent.

As you can see, we have given careful consideration in respect to our step into the consolidation business. If you look at the figures of freesort in the first quarter, you will see that the company is still in the red. But this is due primarily to the fact that we are posting high depreciation figures as a result of capital expenditure in sort centres and high start-up costs in the sales area. This year, we want to sort a total of more than 100 million letters, thus moving into the black. From 2008, we then want to earn real money on a sustained basis. The overall market in German has a size of approximately EUR 100 million and it is our medium-term target to gain a quarter of it.

The Outsourcing and Software Solutions units are attached to our subsidiary iab. Here we hold a majority stake. To our pleasure, the founder has remained on board and also retains a stake. The business model for outsourcing is easily told - the customer sends his letter electronically to a print centre. There it is printed out, enveloped, franked and sent out. Correspondence where outsourcing is generally used is generally regular communication. This covers recurring letters in the same format, e.g. invoices, but not advertising.

The market for outsourcing is growing strongly. We are of the opinion that as a result of our traditional business we are in an excellent position to participate in this growth. After all, we have customer access for our new service. This does not apply so much to our smaller customers in the A segment. They process both their regular letters and individual communications, i.e. individually written letters, via our franking machines. However, our medium-sized customers in the B segment use our franking machines for their individual communications, but often send their regular letters to a local server, then to a printer and then do the enveloping themselves. We offer these companies the possibility of outsourcing the entire process. The customer can send his letter to us on an electronic basis and we do the rest. We do this considerably more cheaply than he can do himself.

With this offer, we integrate ourselves more strongly into the workflow of our customer. With the outsourcing we move upwards in the process chain and are no longer the supplier only of a machine, but the provider of a process solution. The customer has known us for years, and need not go to someone else should he make a decision to outsource his entire correspondence. In Outsourcing we thus use our existing customer contacts, and have an enormous advantage against competitors.

Ladies and gentlemen,

Let me now come briefly to the last unit of our Mailstream division. While the two units Consolidation and Outsourcing concentrate primarily on the German market, the Software Solutions unit allows us to internationalise our business. Our company iab has developed software which makes the outsourcing solution possible. The basis is communication between the customer and our print centre in Berlin. On his screen the customer has an icon. He clicks it, writes a letter and then sends it. We take care of the rest in the way I described to you earlier.

But this software can also be used for other purposes than to communicate with our own print centre. As it is compatible with all common standards, it may be used in many places. The software makes it possible to generate and print documents on a context-free basis from Microsoft documents, i.e. the software is purely contents and not program-oriented and is thus considerably more flexible.

How can we make use of this software? Initially we can offer it directly to our customers. Of course they can deploy it together with the complete outsourcing. Many customers do not want to outsource correspondence, for reasons of tradition, data protection considerations or for other reasons. In this case, he can also buy the software and use it internally. If the customer uses our software, he continues to print the letters himself and also sends them himself. But he has one great advantage – via a local server he can have the correspondence run on a central printer. In this case he does not need a printer for each PC or at least for each department. This cost saving is attractive for many companies. Of course it is feasible that the customer does not buy the software, but rather acquires a license. The result would be steady income streams, such as gives us pleasure in the franking machine business. But irrespective of whether sale or licensing, the charm of the software business is that a successful market presence allows considerable additional income without significant additional expense.

But the possible areas of application for the software are much broader. Why should it not be possible one day for a person an a business trip to receive a document on his Blackberry and to have it printed out at the next print centre using our software? Or he sends on the document immediately as a letter. We also regard it as feasible to work with a postal organisation which services a large area. Let us take Canada as an example. If the Canadian Post can offer cheaper postage to its customers for sending a letter from Toronto to Vancouver because the letter travels from Toronto to Vancouver on the basis of our software, this is an attractive offer. Or, and this is even more visionary – why should it not be possible for a letter going from Hamburg to Vancouver to be printed first in Vancouver and then delivered to the customer from a print centre there? This saves transportation costs and postage. You see that these are still visions, but we have a large number of ideas as to how we can earn money with the software on the basis of sales or licences. And you can rest assured that we will not run out of ideas too quickly. You should thus be intrigued as to the applications I will report on at next year’s Annual General Meeting. By the way, I am too.

Ladies and gentlemen,

Over the last few minutes, I tried to give you a summary of the past, not only on the basis of raw data and facts. I also tried to make you acquainted with our strategic considerations and decisions. I hope I succeeded in doing what is very important for me – to show you clearly that even today Francotyp-Postalia is much more than a thoroughbred manufacturer of franking machines. Francotyp-Postalia stands for profitable, sound basis business in the Mailroom division, coupled with very promising growth perspectives in the new Mailstream division. We have a good positioning, but are not satisfied and will not rest on our laurels. We very much hope for your support on our common path.

Ladies and gentlemen,

I have now come to an end of my comments on the situation in the company. As this point I do not want to go individual into all the items which have been presented you for resolution at the Annual General Meeting. You can see them on the agenda. In my opinion, all the items are uncritical and do not require any comment from the Management Board. Of course, we are more than willing to discuss them with you if this is required. Now I am looking forward to your questions.

Many thanks for your attention!