ANNUAL REPORT 2020

Dear business partners,
Dear Shareholders !

When a company with 98 years of history realigns itself for the future, the start can be bumpy. This is what happened at FP when the course was set for digital business models in 2016. The intended goals were ambitious, but the implementation was not consistent and the necessary change failed to materialize. Somehow FP did not achieve to make the Rubber Hit The Road, to get the right actions done. Fiscal 2021 is set out to change and execute well for a successful restart into the future. It's not a coincidence the program is called FUTURE@FP.

So where are we today?

FP has a strong franking machine business. As number three on the world market, the company has clearly focused on the segment for small and medium mail volumes. To a certain extent, this is an advantage, as individual customers are sending fewer and fewer letters and are more likely to switch to smaller franking machines. However, this -does not compensate for the overall sales decline of franking machines year on year due to the shrinking volume of mail worldwide. Over the past five years, the installed base of FP has shrunk by more than 20 percent in Germany alone, although less than the overall market decline. And with it, the demand for consumables and services associated with this base is also falling.

The future is digital

Digitalization is spreading rapidly in many areas, and the Corona pandemic may accelerate this development once again. We cannot yet accurately assess the impact today: will mail volumes decline more sharply on a one-off basis as a result of the pandemic, or will they also shrink at an accelerating rate in subsequent years? However, the trend is irreversible and we must act urgently. FP already has few digital products, however the revenue share is still too small to compensate for the declines in the franking business. Products developed from a technical perspective often provide no clear value for the customer. We will change that by transforming existing products and build new ones with a clear value proposition for customers and with business models that create an attractive customer experience.

Our way forward

With FUTURE@FP, we will transform the FP Group into a sustainably profitable, international technology group with innovative software solutions.

With the clear objective of picking up speed in the digital business and start growing, we are concentrating our activities in three business areas:

1. Franking and office solutions
2. Software & business process automation (BPA)
3. Mail services

These business units have clear responsibility for market development (go-to-market), the respective product roadmaps, development and delivery. They will own full P/L – Responsibility. This will empower them and enable us to serve our customers and markets better and more efficiently.

We will adapt our existing business "Franking and Office Solutions" to the changed market requirements in order to safeguard and further optimize profitability in this area. We will also expand our range of office and business solutions so that we can offer relevant added value to our more than 200,000 customers worldwide even in a world without paper.

The franking machine is one component helping companies to handle the broader set of physical, financial and information flows needed for conducting business. Exactly along the lines of helping our customer deal effectively with physical, financial and information flows there are opportunities for our SaaS and PaaS-based solutions such as FP Parcel Shipping, Vision360 (Mail Cost Accounting), FP Sign (Digital Signature), TransActMail and more. Putting it simple: We make peoples (home) office life easier.

As such we are moving away from largely hardware-focused products to SaaS business models that are validated as a solution with a clear value proposition for customers. It is our intention for the medium term, that the digital business areas will really contribute to the profitability of FP.

With the above mentioned adaptations and our PaaS and SaaS solutions we are driving forward the transformation of FP into an international technology group by enabling sales across several markets.

Change, and change now!

In order to drive this transformation forward in a targeted and speedy manner, we are now creating the foundation for tomorrow's success. Therefore, fiscal 2021 will be a transition year. We will align revenues and costs through measures "right-sizing" and "right-shoring" across functional areas.

The introduction of a new uniform ERP/CRM system is foundational for improving both effectiveness and efficiency and thereby profitability since its helps us to move to a much simpler and KPI driven way of working.

For bringing FP into the future the transformation program FUTURE@FP is largely not about cost reductions but about development and relevance. FUTURE@FP captures the actions we will take for increasing profitability, achieving growth through (re)-building new and existing SaaS and PaaS solutions, and still have a strong focus on the franking machine business.

With the measures already initiated, we are not only setting the course for a successful future, but are also clearly speeding up on our way to becoming a strong, sustainably profitable, international technology company. Without further delay.

We would be delighted if you - as a business partner or investor - would accompany us on this journey and we are looking forward to a constructive dialogue with you.

Your Board of Management

Carsten Lind
CEO

Martin Geisel
CFO

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

Dear shareholders and business partners,

The coronavirus pandemic had a lasting impact on our business and work in fiscal year 2020. While the effects of the pandemic were dramatic, they had less of a negative impact on the FP Group as a whole than at times was feared. The company responded decisively and took action to protect employees and safeguard earnings and liquidity. The last fiscal year was also an important time in our company's ongoing transformation into a strong tech company. Changes to the Management Board laid the foundations for substantive, measurable progress.

For the purposes of this report, we would like to note that two of the three current members of the Supervisory Board have only been members since mid-November of the year under review, as further explained below.

Supervisory Board and Management Board collaboration

In fiscal year 2020, the Supervisory Board performed the duties required of it pursuant to prevailing law, the Articles of Association and the Rules of Procedure, while continuously monitoring the Management Board's governance of the company and advising it regularly on company management.

The Management Board fulfilled its information and reporting obligations. It provided us with regular, prompt and detailed written and verbal information on all matters of strategy, planning, business performance, the risk situation, changes in risk and compliance relevant to the company and the Group. This also included information about where actual performance deviated from earlier targets and where business performance deviated from planning. Furthermore, the Chairman of the Supervisory Board, the Chairman of the Management Board and the other Management Board members regularly exchanged information.

The members of the Supervisory Board always had adequate opportunities to critically assess the reports submitted and resolutions proposed by the Management Board and to make their own suggestions. In particular, the Supervisory Board was directly consulted about all decisions of fundamental importance to the company at an early stage and discussed these with the Management Board in detail. The Supervisory Board examined the company's objectives, risk situation, liquidity planning and equity situation in detail on several occasions. As part of this, the Supervisory Board was also consulted about key operating issues. Where Supervisory Board approval was required for decisions or action by the Management Board by law or in accordance with the Articles of Association or the Rules of Procedure, the Supervisory Board members granted this after close examination and discussion.

The Supervisory Board and the Management Board considerably stepped up collaboration and the exchange of information on account of the current situation in fiscal year 2020 as a whole, with a focus on the FP Group's transformation process and the impact of and responses to the coronavirus pandemic.

Supervisory Board meetings

The Supervisory Board held four ordinary and six extraordinary meetings in the reporting year. Our regular discussions addressed revenue and earnings performance at Francotyp-Postalia Holding AG and the Group, as well as the financial position and results of operations. In light of the special circumstances resulting from the coronavirus pandemic, meetings were increasingly held as video or conference calls from March 2020 onwards.

The Supervisory Board also considered the 2019 annual and consolidated financial statements, together with the combined management report including the separate non-financial declaration and the combined declaration on corporate governance by the Management Board and the Supervisory Board. Quarterly reports and the half-year report were discussed with the Management Board at length prior to publication and with a particular focus on the impact of the coronavirus pandemic. The Supervisory Board also discussed and approved the annual and consolidated financial statements as at 31 December 2020 after the end of the reporting year, thus adopting the annual financial statements.

At multiple meetings, the Supervisory Board examined the monitoring of the accounting process, issues relating to the effectiveness of the internal monitoring system and its further development, the effectiveness of the risk management system and the internal audit system, compliance management and the development of the FP Group's strategic compliance measures. Furthermore, the Supervisory Board considered material legal disputes in detail. The Supervisory Board also examined Internal Audit's audit findings, audit processes and audit planning for the fiscal year 2020. Other areas of focus were liquidity planning and the current status of implementation of the company strategy.

The Supervisory Board also discussed preparations for the Annual General Meeting on 10 November 2020. The Supervisory Board approved the Management Board's decision to hold the meeting as a virtual Annual General Meeting without the physical presence of the shareholders and their authorised representatives in accordance with section 1 (2) of the Act Concerning Measures Under the Law of Companies, Cooperative Societies, Associations, Foundations and Commonhold Property to Combat the Effects of the COVID-19 Pandemic from

27 March 2020 (Federal Gazette no. 14 2020, page 570). The Supervisory Board also looked at company and investment planning for fiscal year 2020 and Management Board remuneration issues. The draft Management Board remuneration system prepared and approved by the Supervisory Board is to be presented to the 2021 Annual General Meeting and submitted for approval. This also takes into account the new provisions of the Shareholder Rights Directive II (ARUG II) and the new version of the German Corporate Governance Code. In addition, the current Supervisory Board remuneration system was evaluated and confirmed. Revised targets for the composition of the Supervisory Board were also agreed, including the skills profile and the diversity concept for the Supervisory Board, which are described in the declaration on corporate governance in accordance with section 289 f and section 315 d German Commercial Code (HGB). There was also a focus on corporate governance, the internal control system (ICS) and compliance.

Discussions of the company's strategic realignment and the medium-term goals of this realignment account for a large section of the report on the situation of the FP Group and on the implementation of the transformation process. The status of the implementation of the ACT strategy and in particular of the ACT project JUMP were thus regular topics of the Supervisory Board meetings.

The Supervisory Board, together with the Management Board, resolved to submit and publish a total of two declarations of compliance for fiscal year 2020 – including during the year – after reviewing the recommendations and suggestions of the German Corporate Governance Code (GCGC) and taking account of the version of the GCGC dated 17 February 2017. The latest declaration on corporate governance in accordance with section 161 AktG, which was submitted on 17 January 2021 and also takes into account the recommendations of the GCGC in the version dated 16 December 2019 ("2020 GCGC"), is available on the FP Group's website. The Management Board and Supervisory Board also report on corporate governance at the FP Group in the declaration on corporate governance.

As a result of new requirements under stock corporation law regarding the need for the Supervisory Board to approve certain transactions with related parties, the Supervisory Board and the Management Board also adopted an internal process for compliance with approval requirements. There were no transactions subject to approval or disclosure requirements in the reporting year.

There were no conflicts of interest involving Management Board or Supervisory Board members in the past fiscal year that would have had to have been disclosed to the Supervisory Board without delay.

Members' attendance rate at meetings of the Supervisory Board and its committees was 100 %.

Each individual Supervisory Board member's attendance at meetings is presented below:

SUPERVISORY BOARD MEETINGS

	Attendance	**Meetings (total)**	**Attendance in %**
Dr Alexander Granderath (Chairman since 11 November 2020)	3	3	100%
Lars Wittan (Deputy Chairman since 11 November 2020)	3	3	100%
Klaus Röhrig (Chairman until 10 November 2020)	10	10	100%
Botho Oppermann (member of the Supervisory Board and Deputy Chairman until 10 November 2020)	7	7	100%
Dr Mathias Schindl (member until 10 November 2020)	7	7	100%

The members of the Management Board attended Supervisory Board meetings. At times, the Supervisory Board also regularly met without the Management Board. Agenda items at these meetings related either to the Management Board itself or to internal Supervisory Board matters.

Members of the Supervisory Board are individually responsible for participating in training and further development activities required for their jobs, for example relating to changes in legal frameworks and new technology. They are supported by the company in doing so. Information events are attended where necessary for targeted training.

To ensure quick and efficient onboarding of new members of the Supervisory Board, they can meet with members of the Management Board and line managers to discuss key and topical issues and to gain an overview of relevant topics for the company.

Report on work of the committees

No committees were formed because the Articles of Association prescribe that the Supervisory Board must consist of three members. Accordingly, the members of the Supervisory Board perform its work together at all times.

Audit of the annual financial statements and consolidated financial statements

In accordance with the statutory provisions, the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, was appointed by the Annual General Meeting on 10 November 2020. The Supervisory Board commissioned the auditor appointed by the Annual General Meeting for fiscal year 2020, set out the key areas on which the audit was to focus and determined the auditor's fee. Prior to this, it reviewed and assessed the selection, independence, qualification, rotation and efficiency of the auditor and the services performed by the auditor and reviewed the quality of the audit.

The auditor stated to the Supervisory Board that there is no reason to assume bias on the part of the auditor. The Supervisory Board subsequently obtained a statement of independence from the auditor. The Supervisory Board regularly exchanged information with the auditor during the audit.

KPMG audited the annual financial statements for the fiscal year from 1 January 2020 to 31 December 2020 prepared by the Management Board in accordance with HGB and the management report of Francotyp-Postalia Holding AG, which is combined with the management report of the FP Group. The auditor issued an unqualified audit opinion. The consolidated financial statements of Francotyp-Postalia Holding AG for the fiscal year from 1 January 2020 to 31 December 2020 and the management report of the FP Group, which is combined with the management report of the company, were prepared in accordance with section 315e HGB in line with the International Financial Reporting Standards (IFRSs), as adopted by the EU. Both the consolidated financial statements and the combined management report also include an unqualified audit opinion by KPMG. Patrick Waubke and Sascha Klein have signed as auditors since fiscal year 2020 and Patrick Waubke has been the auditor responsible for the audit since fiscal year 2018.

The auditor conducted the audit in compliance with section 317 HGB and the EU Audit Regulation, taking account of the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as the International Standards on Auditing (ISA). The auditor also found that the Management Board has established a suitable information and monitoring system, the design and use of which is appropriate for identifying developments that threaten the continuation of the company at an early stage.

The financial statement documents and the audit reports for fiscal year 2020 were discussed at length at the Supervisory Board meeting on 22 April 2021. The auditor reported on the key audit findings and, in particular, the key audit matters described in the auditor's report, including the audit procedures carried out. It also provided information on its findings regarding the internal control system in connection with the accounting process and the early risk detection system and was available for additional questions and information. The proposed measures related to the control environment, the structural organisation, processes and tools are to be implemented in fiscal year 2021 after being evaluated by the Management Board and the departments. There were no objections raised after auditing and discussing in detail the annual financial statements, the consolidated financial statements and the combined management report in the Supervisory Board. The Management Board prepared the annual financial statements and the consolidated financial statements. The Supervisory Board approved the annual financial statements and the consolidated financial statements. This also applies for the CSR report. The annual financial statements of Francotyp-Postalia Holding AG are therefore adopted.

Francotyp-Postalia Holding AG's dividend policy remains unchanged. Its aim is to involve shareholders in the company's growth. In view of the developments and risks associated with the spread of the coronavirus SARS-CoV-2 and the net loss of EUR 4.5 million for fiscal year 2020, the company is continuing to focus on preserving and increasing available Group liquidity so as not to jeopardise the FP Group's strategic and operational objectives in the long term. The Management Board and the Supervisory Board will therefore propose to the Annual General Meeting that no dividend is distributed for fiscal year 2020 and that the retained profit of EUR 9.2 million (previous year: EUR 13.7 million) will be carried forward.

Personnel changes on the Supervisory Board and Management Board

In connection with the upcoming elections to the Supervisory Board at the 2020 Annual General Meeting, we took a close look at succession planning for the Supervisory Board and prepared the Supervisory Board's proposals for the nomination of Supervisory Board members. When selecting potential candidates, the Supervisory Board gave consideration to its targets for the board's composition, including the skills profile and the diversity concept for the Supervisory Board, as well as to the shareholder structure.

Meetings in fiscal year 2020 also dealt with the planning and the implementation of changes to Management Board members, the new system of Management Board remuneration and related measures to establish profit-based bonuses and other bonuses. Details on Management Board remuneration can be found in the remuneration report. General Management Board issues were also discussed, in some cases relating to benefits for former Management Board members.

There were two personnel changes on the Francotyp-Postalia Holding AG Supervisory Board in the reporting year. Botho Oppermann and Dr Mathias Schindl resigned from the Supervisory Board at their own request at the end of the Annual General Meeting on 10 November 2020. Dr Alexander Granderath and Lars Wittan were elected as the two new Supervisory Board members at the Annual General Meeting on 10 November 2020.

The members of the Supervisory Board sincerely thanked the departing members for their good, constructive and, in some cases, long-standing work.

Dr Alexander Granderath was elected as Chairman and Lars Wittan as Deputy Chairman at the constituent meeting of the Supervisory Board on 11 November 2020. Klaus Röhrig is the third member.

The Supervisory Board then moved on to the Annual General Meeting resolution and decided to revoke the appointment of Rüdiger Andreas Günther as member and Chairman of the Management Board with immediate effect for good cause. Carsten Lind, who had already been appointed by the Supervisory Board as a member of the Executive Board from 1 June 2020. The Supervisory Board also redefined the areas of responsibility for members of the Management Board, effective 27 November 2020. The Management Board contract with Patricius de Gruyter that ends at the end of May 2021 will not be renewed. The company thanks Rüdiger Andreas Günther and Sven Meise for their dedication and wishes them all the best for the future.

On behalf of the Supervisory Board, I would like to thank all members of the Management Board, employees and the employee representatives of Francotyp-Postalia Holding AG and all Group companies for their hard work and commitment and constructive collaboration in the past fiscal year.

Berlin, 28 April 2021

For the Supervisory Board

Dr. Alexander Granderath
Chairman of the
Supervisory Board

Shares

Stock markets dominated by coronavirus pandemic in 2020

After a successful 2019, global stock markets suffered substantial losses in spring 2020 following the spread of the coronavirus pandemic, with the Euro Stoxx 50, the US S&P 500 and Nasdaq, the US exchange for tech stocks, all declining substantially at times. Nevertheless, international equity markets picked up again quickly, boosted by government stimulus packages and securities purchases by central banks. Towards the end of the year, positive reports about COVID-19 vaccinations prompted stock market gains. The leading US index, the Dow Jones, even achieved a new record high of 30,606 points.

The German share index (DAX) made gains at the start of the 2020 stock market year, reaching an initial high for the year of 13,789 points on 19 February 2020. However, this was followed by a sharp slump as a result of the pandemic, with the DAX sinking to an annual low of 8,442 points on 18 March 2020. German stock exchanges also began to pick up again in the second quarter and the DAX surpassed the 13,000-point mark again in July. Towards the end of the year, the DAX even hit a new record high of 13,903 points, closing December 2020 at 13,719 points and representing a slight increase of 3.5% over the year.

The trend in Germany's small cap index, the SDAX, was similar to that of the DAX in 2020. The SDAX initially started the year at 12,646 points, before falling to an annual low of 7,996 in March. It rallied towards the end of the year to close at 14,765 points, up 18.0 % over the year.

FP shares recover in H2 2020

FP's shares began 2020 on the stock market at a price of EUR 3.47 and continued to rise over the following weeks, reaching a high for the year of EUR 4.19 on 17 February. In March 2020, Obotritia Capital KgaA disclosed that it had exceeded the 25% threshold for shareholdings in Francotyp-Postalia Holding AG. The company has a 28.01 % stake, making it FP's largest single shareholder.

The increasing spread of COVID-19 and the lockdown imposed consequently created considerable uncertainty on capital markets. The FP share price also reduced significantly in March, bottoming out at EUR 2.68 on 6 April. The share price then began to gain ground again, surpassing the EUR 3 mark and continuing to fluctuate between EUR 3.00 and EUR 3.40 for the remainder of the year. Good Q3 figures temporarily pushed up the share price. It continued to rise on the day of the Equity Forum on 18 November, when the company was presented in front of numerous investors, achieving an interim high of EUR 3.64. The FP share declined again slightly in the weeks that followed, closing 2020 at EUR 3.20. FP's shares thus declined slightly in value in 2020, finishing the year down 7.2 %.

Shares of the two listed competitors performed differently. Whereas one picked up by 52.9 %, the European competitor's share suffered an annual loss of 27.1 %.

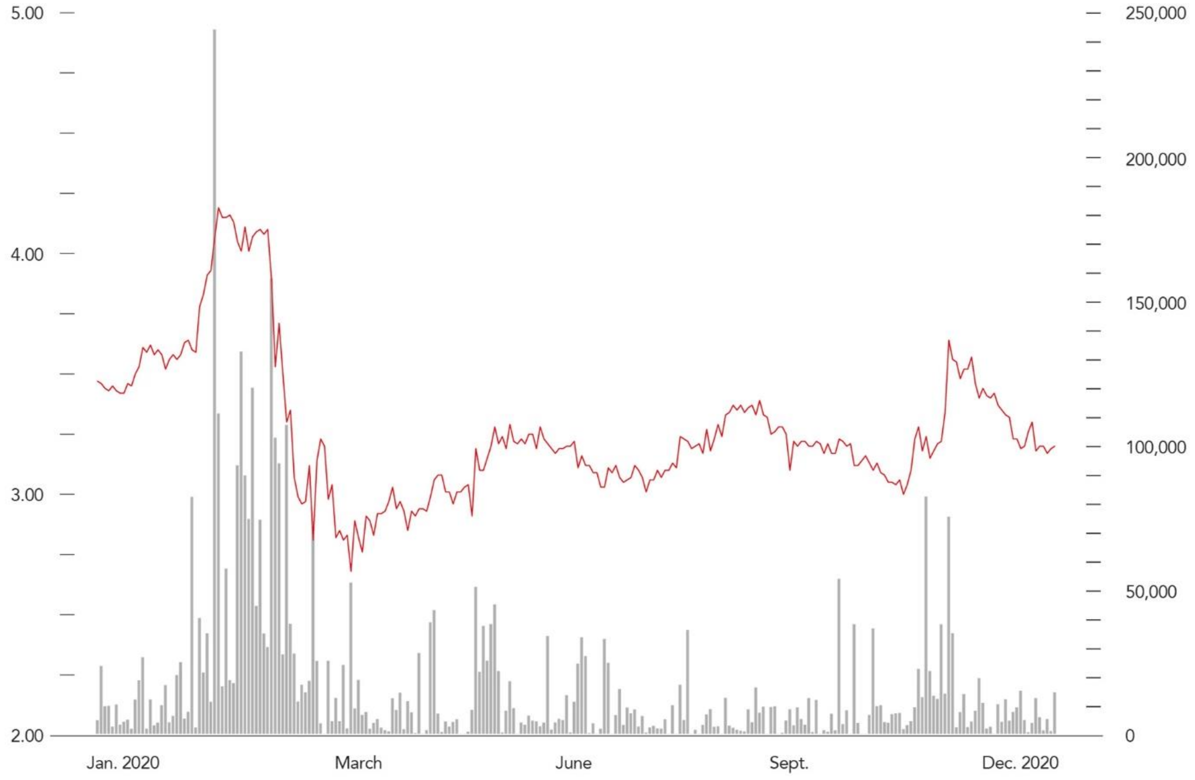
The volume of FP shares traded daily on the Xetra platform increased in comparison to the previous year to an average of 16,727. The largest figure – 243,689 shares traded on a single trading day – was reached on 14 February.

Equity analysts recommend share as buy

The FP share was followed by Baader Bank, Warburg Research and GSC Research in 2020. All analysts recommend buying the share; their average price target is EUR 4.40. This further confirms the associated price potential of the share. A Warburg analyst increased his price target to EUR 5.10 at the end of the year.

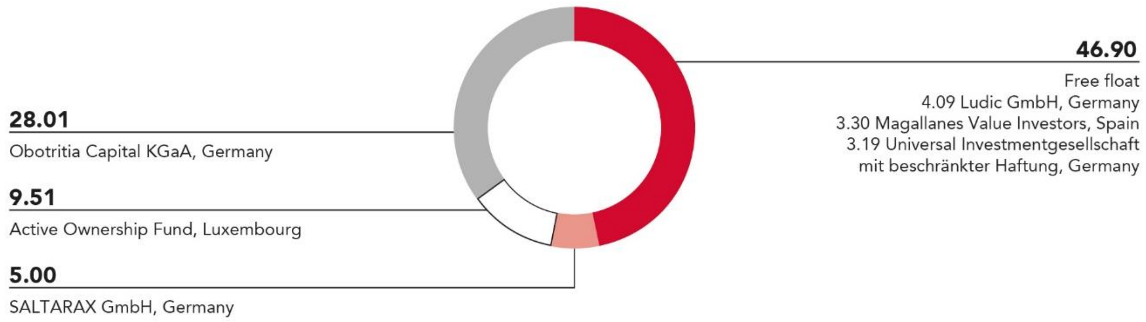
PERFORMANCE OF THE FRANCOTYP-POSTALIA SHARE (01.01.2020–30.12.2020)

Share price in EUR, volume in shares



Broad Shareholder Base

SHAREHOLDERS STRUCTURE IN PERCENT



As at January 2021

FP Virtual Annual General Meeting

Once a year, the Annual General Meeting offers all FP Group shareholders the opportunity to engage in direct dialogue with management. FP's Annual General Meeting was held virtually this year due to the coronavirus pandemic. 57% of the voting share capital was represented at the virtual Annual General Meeting in Berlin on 10 November 2020. A vote of no confidence in the former CEO Rüdiger Andreas Günther was on the agenda. 84% of shareholders in attendance approved this proposal. Formal approval was also not granted for the actions of the former CEO in fiscal year 2019.

The proposed resolution on the discharge of the members of the Supervisory Board for the fiscal year 2019 was approved by a large majority. All other items on the agenda were also approved by a large majority. Annual General Meeting resolutions also resulted in changes to the Supervisory Board. Dr Alexander Granderath, an independent management consultant and formerly the long-standing managing director of the German companies of the ISS A/S Group, and Lars Wittan, Chief Investment Officer of Obotritia Capital KGaA, were appointed as new Supervisory Board members. Botho Oppermann and Mathias Schindl resigned from the board.

Talks with investors intensified

The FP Group maintained its IR activities in fiscal year 2020 despite the coronavirus crisis. In light of the spread of the coronavirus pandemic, most talks with investors took place online or by telephone. This ensured that capital market participants were able to engage in open, transparent and regular discussions with the FP Group. FP's Management Board and Investor Relations team made use of one-on-one meetings, investor conferences and roadshows to present the company and highlight its potential. For instance, FP's Management Board presented the company at several digital events.

The new CEO Carsten Lind attended the annual German Equity Forum on 18 November 2020 and introduced FP digitally to over 100 national and international investors. The German Equity Forum is Europe's most important platform for equity capital financing for medium-sized enterprises.

Following the release of quarterly figures, the FP Group again made use of conference calls to talk with investors. The associated presentations have been made available on the company's website for the benefit of all interested parties. Visitors and capital market participants can find all further relevant background information on the company's homepage at www.fp-francotyp.com[1]. Together with annual and half-year reports, the FP Group's quarterly reports, financial presentations and press releases can also be found here. All the latest developments, such as announcements about voting rights or directors' dealings, can be found there.

In the fiscal year 2021, the company will continue its dialogue with investors and expand its IR activities, including in virtual format. FP's presence at international roadshows and capital market conferences will be continued in order intensify existing contacts and establish new contacts with investors.

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

1)This cross reference is not part of the audit of the financial statements by KPMG AG Wirtschaftsprüfungsgesellschaft.

KEY SHARE DATA	
Number of shares	16,301,456
Type of shares	Bearer shares
Share capital	€ 16,301,456
Number of shares outstanding	16,044,063
Voting rights	Each share grants one vote
SCN	FPH900
ISIN	DE000FPH9000
Stock exchange symbol	FPH
Trading segment	Official market (Prime Standard)
Stock markets	Xetra and regional German exchanges
Designated sponsor	Stifel Europe Bank AG, Baader Bank
Coverage	Warburg Research, GSC Research, Baader Bank
Announcements	Electronic Federal Gazette
Closing price (Xetra)	EUR 3.20
High (Xetra)	EUR 4.19 (17.02.2020)
Low (Xetra)	EUR 2.68 (06.04.2020)
Market capitalisation as at 30.12.2020	EUR 51.3 million
Earnings per share (basic)	EUR -0.94
Earnings per share (diluted)	EUR -0.94

COMBINED MANAGEMENT REPORT

FOR THE FINANCIAL YEAR 2020

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

Non-binding convenience translation from German

1. Principles of the Company and the Group

1.1 General information

Francotyp-Postalia Holding AG (hereinafter referred to as “FP Holding”, the “company”, or “parent company”) is entered in the commercial register of the Charlottenburg Local Court in Berlin (registration number: HRB 169096). Francotyp-Postalia Holding AG’s registered office is at Prenzlauer Promenade 28, 13089 Berlin, Germany.

Francotyp-Postalia Holding AG is the parent company of direct and indirect subsidiaries and holds indirect shares in an associate (hereinafter referred to as “the FP Group”, “FP” or “Francotyp-Postalia”).

Francotyp-Postalia Holding AG’s shares are admitted to trading in the Prime Standard (regulated market segment with additional post-admission obligations) of the Frankfurt Stock Exchange.

This report combines the FP Group’s Group management report with Francotyp-Postalia Holding AG’s management report. It should be read in context together with the consolidated financial statements and the annual financial statements, including the notes. The consolidated financial statements and the annual financial statements are based on a number of assumptions and accounting policies, which are described in more detail in the notes. The consolidated financial statements were prepared in line with IFRS, as adopted by the European Union. The annual financial statements of Francotyp-Postalia Holding AG were prepared in accordance with the German Commercial Code (HGB).

The combined management report contains statements relating to the future about business, financial performance and income. These statements are based on assumptions and forecasts, which in turn are based on information available at present and current estimates. They are subject to a number of uncertainties and risks. Actual performance may thus differ significantly from expected performance. Beyond legal requirements, Francotyp-Postalia Holding AG is not obliged to update statements relating to the future.

The combined management report for fiscal year 2020 is prepared in euro (EUR), the functional currency of Francotyp-Postalia Holding AG. Unless stated otherwise, all figures are rounded to euro millions (EUR million) to one decimal place. This may result in rounding differences and the percentages shown may not be exactly comparable to the figures to which they relate. The management report has been prepared for the reporting period from 1 January to 31 December 2020.

1.2 Business activity

The FP Group’s business activities focus on products and services for efficient mail processing, the consolidation of business mail, and digital solutions and Internet of Things (IoT) applications for businesses and authorities. The company, which has subsidiaries in various industrialised countries and a dense worldwide network of dealers, divided its business activities into three product areas in fiscal year 2020: Franking and Inserting, Mail Services and Software/Digital.

FP has subsidiaries based in ten different countries and is represented by its own trading network in an additional 40 countries. With a company history spanning 98 years, FP possesses special competencies in the areas of actuating elements, sensor systems, cryptography and connectivity.

The parent company largely performs the tasks of a traditional management holding company. As it has no operating business itself, the financial position of the company depends on the results of the subsidiaries.

1.2.1 Product areas

Franking and Inserting product area

In the Franking and Inserting product area, the FP Group develops franking and inserting systems. FP sells and leases these systems and offers customers a comprehensive service package. One main revenue generator is the aftersales business, which generates recurring revenue chiefly from the sale of consumables such as tape or ink cartridges, services, software solutions for cost centre management and the Teleporto service.

Mail Services product area

The Mail Services product area comprises the franking service – collecting unfranked outbound post and providing the franking – and the consolidation service – sorting the post by postcode and delivering it in batches to a regional office of Deutsche Post AG or an alternative postal distributor. This business is operated by the FP Group with eight sorting centres throughout Germany, being one of the leading independent consolidator of business mail on the German market.

Software/Digital product area

The Software/Digital product area comprises the business with hybrid mail services and solutions for secure digital communication. With its hybrid mail services, the FP Group offers its customers universal complete solutions for incoming mail processing (FP Input). This involves digitising all incoming mail, analysing it according to the customer's specific criteria, evaluating it and then feeding it into the customer's data or document system in an electronic form. In addition, FP also handles output management

(FP Output), i.e. printing, inserting, franking and handover to the mail delivery services. The FP Group's secure digital communication services primarily comprise products for long-term storage and protection of electronic documents using encryption and signature software, such as FP Sign, a cloud-based electronic signature solution. The Software/Digital product area also includes the FP Group's range of products for the Internet of Things (IoT).

1.2.2 Significant sales markets and competitive position

With its franking systems, the FP Group is represented on the most important markets in the world, which include Germany, the US, the UK and France. Having installed 213,000 franking systems, the FP Group is the third-largest supplier in the world. In Germany and Austria, the FP is the market leader. Global sales are handled in three regions – North America, Central Region (Germany, Austria and Switzerland) and Middle Europe (remaining European countries) – through subsidiaries and a worldwide dealer network.

In many markets, the letter volume is shrinking as a result of digitization. Also, in fiscal year 2020, the FP Group witnessed an ongoing trend towards smaller franking systems. The FP Group has traditionally focussed on this market segment and has franking systems especially for smaller and medium volumes of letters with the Post-Base family.

In the Mail Services product area, the FP Group guarantees the extensive collection of business mail and has thus established itself as an consolidator on the German market thanks to a nationwide structure with eight sorting centres in Langenfeld, Hamburg, Hanover, Berlin, Leipzig, Frankfurt, Stuttgart and Munich. The FP Group has its own printing and scanning centre in Berlin for its hybrid mail services business in the Software Solutions segment. There is also a printing centre at the Austrian Group company in Vienna.

FP competes with some established providers for digital products and wins customers through targeted performance commitments.

1.3 Objectives and strategy

The old cannot be the new

The FP Group has been working under a new strategy since 2016. Alongside the franking machine business, this aims to tap digital business areas, which should generate strong growth for the Group. Implementing this strategy proved more difficult than originally planned. Fiscal year 2021 will now be a year of transformation. It will lay the groundwork for improving the FP Group’s profitability. A strong basis in our digital business models is essential for the future, not only to make up for shrinking revenue in the core business of franking and inserting, but also to steer the Group towards business areas where it can expect acceptable margins in the years ahead.

Objectives and implementation of strategy

FP has three product areas: Franking and Inserting, Mail Services and IoT/Digital. The Franking and Inserting market are declining. Mail Services is highly competitive and is also affected by the general decline in mail volumes. Neither the revenue nor the earnings generated to date in Software/Digital were able to offset the downturn in the core business. Given this, the strategy was amended at the start of 2021, requiring a comprehensive reorganisation.

Step 1: Focus

The business structures must be adapted to current circumstances. Infrastructure within the Group is to be transitioned to a modern, uniform ERP/CRM system. The staff increase in recent years with a view to planned revenue growth is being adapted to take account of the company’s current situation. The number of subsidiaries that carry out the same or similar activities will be reduced to a minimum. These measures reduce the cost base and are necessary in order to improve profitability. Annual savings of approximately EUR 10 million are expected once these measures have been completed. This stage also includes consistently assessing the strategic value and contribution of the business units for the Group.

Step 2: Further development

Improving profitability and streamlining structures helps FP operate successfully in the four future business areas:

1. Franking and Office Solutions
2. Software and Business Process Automation (BPA)
3. Internet of Things (IoT)
4. Mail Services

FP has the potential and the financial power to dynamically expand the other business areas (chiefly Software and BPA and IoT) on the basis of a core business (franking machines) that enjoys strong cash flows. This includes targeted M&A activities that support the new business model. At the same time, profitability should improve measurably thanks to the new business activities, as margins in these areas tend to be higher. IoT will be reported under "Software and BPA" until it reaches critical mass.

Step 3: Create value

Digital business activities are becoming a key element of the business model. Their profitability creates value and boosts the Group's corporate value.

The new operating model

FP will thus evolve into an international technology group in the next few years. Organisation in the business units puts customers at the heart and serves the market through agile business units. Lean management structures ensure clear responsibilities combined with the greatest possible degree of flexibility, agility and accountability. Service areas support the operating units on the basis of cost-efficient, highly-effective processes. The goal is to substantially improve profitability, bolstering the value of the Group.

The business units

Franking and Office Solutions

The products FP offers to customers in this segment are not limited to franking machines and related hardware – its range also extends to other office supplies and solutions from the digital product spectrum. Parcel Shipping and Vision360 marked the first steps in this direction. Further suitable solutions can also expand the range by way of collaboration or M&A. The aim is to offer customers a comprehensive solution for their office. These offer significant potential in Europe and the US. The business unit already accounts for a high share of recurring revenue.

Software and BPA

Solutions in this segment ensure efficient communication and automated process workflows for customers. Products include hybrid mail, transACTmail, back office and front office automation, DE-Mail, FP Sign, Parcel Shipping and products from third party providers. FP uses this business unit to address the fast-growing market of process automation. Strategic additions are intended to expand the solutions portfolio, for example in the area of cloud applications, in order to provide customers with secure and efficient processes.

IoT (Internet of Things)

FP has the technology to offer customers special IoT solutions from a single source. In future, focus markets such as property management, waste management and energy, should have end-to-end complete solutions comprising hardware and software to ensure that use of the technology is quick and uncomplicated. The NeoMonitor portal, which would make onboarding customers extremely simple, is currently in the process of preliminary verification. The aim is to provide the customer with efficient analysis, management and automated service management.

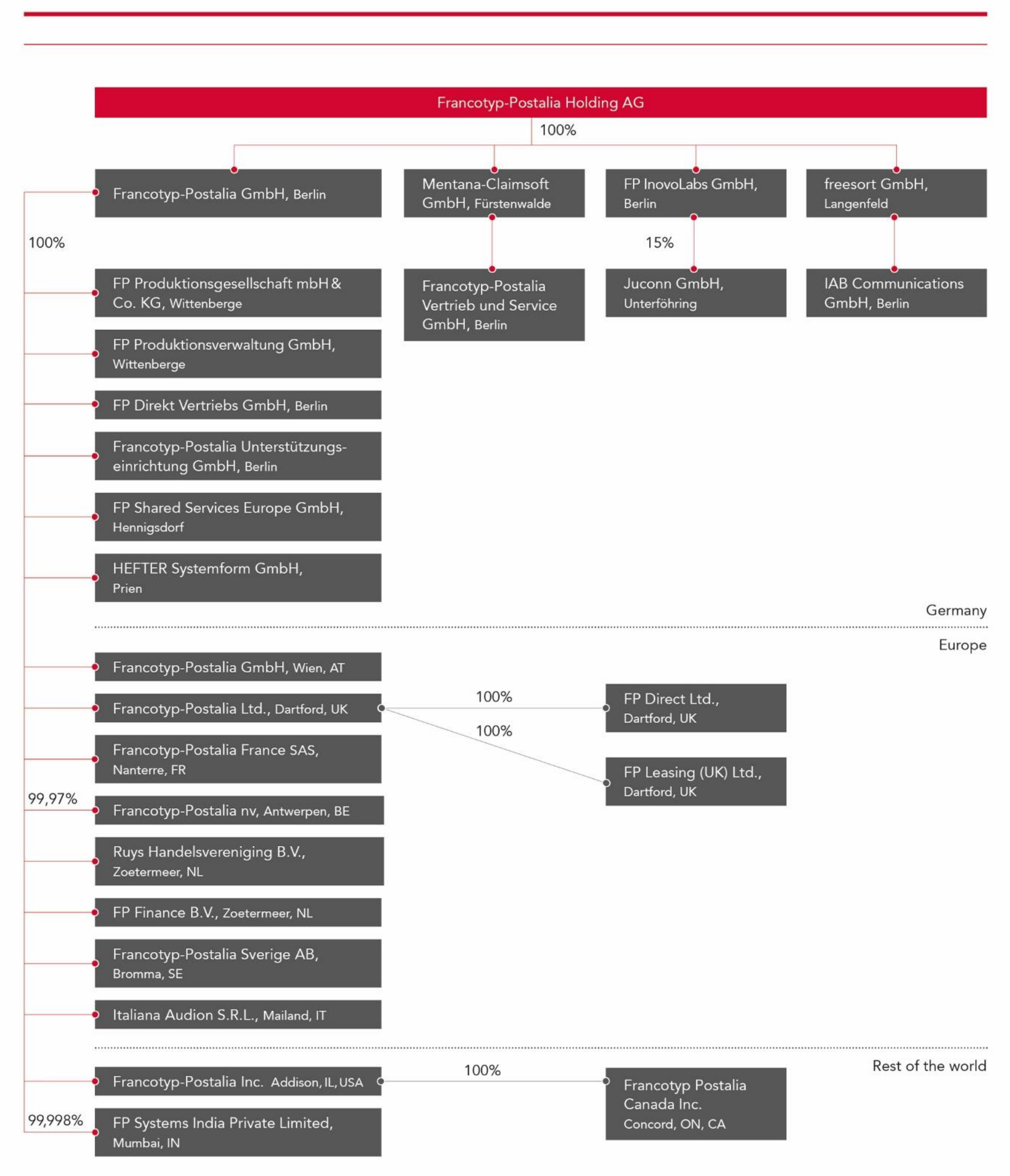
Mail Services

This business area specialises in consolidating large letter volumes. Collection, postage-optimised sorting and delivery to postal service providers take the pressure off companies with a high volume of letters and helps reduce the costs that this entails. As a volume business, the business area makes only an insignificant contribution to the FP Group's earnings and so it is currently undergoing a strategic review.

1.4 Organisation

1.4.1 Group structure and locations

The chart below shows the legal structure of the Group as at 31 December 2020. For further information, please see note 4 Consolidated group in the notes to the consolidated financial statements.

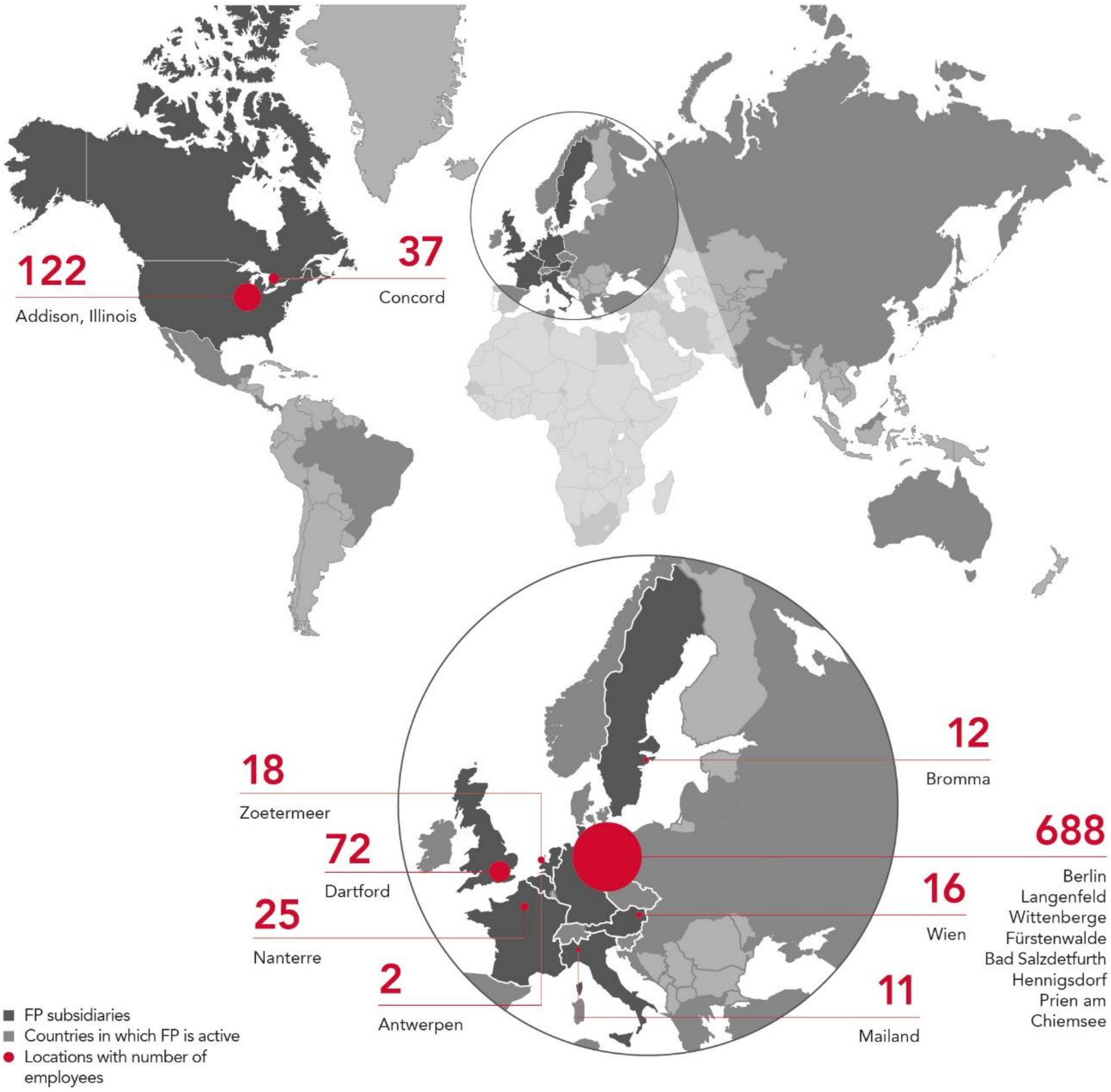


The headquarters and main offices of the FP Group are located in Berlin. Key departments such as Controlling, Accounting, Tax and Treasury/M&A, HR, Procurement, IT and Group Controlling are based in Berlin. The development of franking systems and new digital products and business models also takes place there.

Since 2012, the FP Group has been manufacturing its franking systems exclusively in Wittenberge, Brandenburg in Germany.

FP has subsidiaries on the markets in Germany, the UK, the Netherlands, Belgium, Austria, Italy, Sweden, the US, Canada and France. It also has a dense global network of dealers for distributing its franking and inserting systems. An overview of the subsidiaries can be found in the notes to the consolidated financial statements. Sales have been consolidated in three large regional organisations since 2019: North America, Central Region (Germany, Austria, Switzerland) and Middle Europe (rest of Europe and international dealers).

OUR LOCATIONS WORLDWIDE



1.4.2 Management and controlling

The FP Group is managed by the Management Board independently. At the end of the fiscal year 2020, it consisted of three members who are appointed by the Supervisory Board. The members of the Management Board are jointly responsible for managing the business. Please see section V. Management Board and Supervisory Board (additional disclosures in accordance with German Commercial Code (HGB)) in the notes to the consolidated financial statements for information on the Management Board members' responsibilities according to the schedule of responsibilities.

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

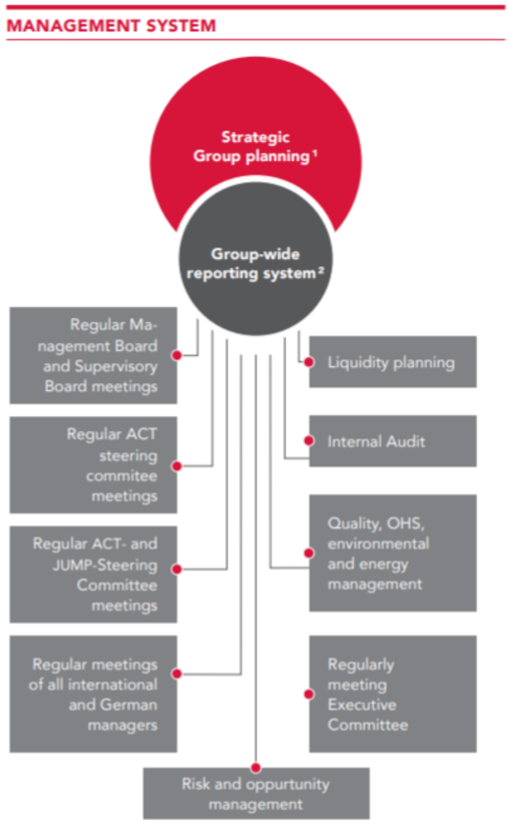
The Supervisory Board with three members monitors and advises the Management Board. Details on the work of the Supervisory Board in fiscal year 2020 can be found in the “Report of the Supervisory Board”.

Group's Declaration on Corporate Governance Pursuant to Section 315d HGB in Conjunction with Section 289 f HGB

The declaration on corporate governance[2]) for Francotyp-Postalia Holding AG and the FP Group sections 289 f, 315 d HGB) contains further information on corporate governance and monitoring, including the declaration of compliance in accordance with section 161 AktG, and is published at http://www.fp-francotyp.com/FP/unternehmen/investoren/corporategovernance.

1.5 Management

1.5.1 Management system



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

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

The structure and organisation of the global FP Group will be changed and optimised according to a new target operating model in the fiscal year 2021. At the same time, a uniform ERP/CRM landscape will be introduced to efficiently support processes worldwide. As well as restructuring the Sales organisation, the internal procedures were also further reviewed and realigned during fiscal year 2020 to make them more process-oriented. Many administrative functions that were previously carried out locally are now concentrated in two Shared Service Centres, one in North America and the other in Berlin/Brandenburg. The shared service centre in Henningsdorf, near Berlin, began operations at the start of 2020.

1.5.2 Financial performance indicators

Group management to date has essentially been carried out using the following financial performance indicators:

- Revenue,
- EBITDA,
- adjusted free cash flow.

The FP Group thereby ensured that decisions take sufficient account of conflicting priorities: growth, profitability and liquidity.

Revenue is used to gauge market success. The Group uses earnings before interest, taxes, depreciation, and amortisation (EBITDA) to measure operational performance and the performance of the individual business units. Free cash flow is derived from the net cash flow from operating activities less capital expenditure. For the adjusted free cash flow, the free cash flow was adjusted for investments in finance lease assets and M&A and for payments for the ACT project JUMP.

The EBITDA margin (EBITDA in relation to revenue) will be used in addition to EBITDA. Free cash flow will be merely an additional parameter in the future.

The most important key financial performance indicators for FP Holding were:

- Income from investments
- Net profit/loss for the year

Income from investments includes income from profit transfer agreements and expenses from loss absorption.

Net profit/loss for the year represents profit and loss from the company's income statement. Net income before taxes will be used instead of net profit/loss for the year in the future.

1.5.3 Non-financial performance indicators

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

2)The declaration on corporate governance is not part of the audit by KPMG AG Wirtschaftsprüfungsgesellschaft.

The quality indicator measures changes in product quality based on annual servicing incidents in relation to the average weighted installed base of machines. Ongoing changes such as the introduction of new products or the optimisation of existing ones are also taken into consideration. Until now, this indicator has been measured only in Germany and applied on a comparative basis to the international subsidiaries, for example to help calculate costs. It has been called PQI – Germany and supplemented by the indicator PQI – International since 2020. The Product Quality Indicator – International is likewise calculated from the average installed base of machines and the annual number of servicing incidents. However, it aggregates all data from Belgium, Germany, the UK, Italy, Canada, the Netherlands, Austria, Sweden and the US, i.e. those countries that supply the FP Group with data on service incidents to help identify opportunities for improvement. As the value for the PQI – International is calculated in a different way to that for the PQI – Germany and will first be reported on for 2020, it has also been calculated for 2019 in order to compare the trend. Both PQIs cover only products currently being manufactured in Wittenberge (this has been the case since 2019). Figures for PostBase Vision have been included in the indicator since 2020.

New developments in our PostBase franking systems have allowed us to significantly increase quality over the past few years. The PQI – Germany improved by 8.6% from 11.6 in 2019 to 10.6 in 2020 (previous year figure of 9.6 in 2019 adjusted). The reason for this is the systematic improvement in quality that has been implemented in the current product series. The PQI – International improved by 4.8 % from 47.4 in 2019 (prior-year figure of 45.4 in 2019 adjusted) to 45.1 in 2020.

We are anticipating slight improvements in both the PQI – Germany and PQI – International in 2021 as we will be continuing to increase our product quality through improvement projects devised by the quality groups.

The improvement indicator also records the quality of FP products, especially the quality of new franking systems. It was previously based on the amount of parts used for improvements to machines already delivered and measures the ratio of costs for parts warranty claims to total revenue. Since 2019, and retrospectively for 2018, the nf IQ has been calculated based on costs for parts warranty claims and the revenue generated by franking machines. The FP Group records the necessary data on a monthly basis; an analysis of past years shows that the indicator embarks on an upward trend when a new generation of franking systems is introduced. After adjusting the calculation basis, the nf IQ for 2019 amounted to 0.65. The nf IQ rose to 1.0 in 2020, a result of launching PostBase Vision in several countries. As already explained, this is standard when new products are launched. nf IQ is expected to improve in fiscal year 2021 as the measures from the regular quality circles take effect.

The FP Group chiefly uses these two non-financial performance indicators internally with respect to the issue of sustainability. Additional non-financial performance indicators are also reported in our sustainability report. The quality indicator and the improvement indicator describe sustainable increases in product and service quality. Improvements in the two indicators serve to ensure customer satisfaction and thus the Group's financial success. This also helps to ensure more sparing use of material and human resources.

Quantitative information on the parent company’s non-financial performance indicators is currently not applied for management purposes.

1.6 Research and development

1.6.1 Presentation and explanation of research and development activities

1.6.1.1 Focus

As a technology company, innovation is crucial. The transfer of monetary data streams and secure communications have helped to build up our special expertise in the development of functionalities that meet the requirements of the different postal authorities and companies across the globe. These competencies characterise the DNA of FP with its components of sensor systems, actuator technology, connectivity and cryptography.

The work of the Research and Development department is focused on product development for relevant innovative solutions, physical products and software for the company's target markets. Activities of basic research that primarily do not have an economic purpose are less of a priority.

1.6.1.2 Objectives

The overriding objective of research and development is to support key aspects of the strategy by developing innovative products and overhauling existing ones based on the evaluation of markets and technology. This is particularly true in FP's digital business areas giving rise to the following main priorities:

- Maintaining the core business
- Strengthening digital products
- Expanding the IoT as a business area

The optimum utilisation of resources and expertise is crucial to achieving these goals. The tried-and-tested use of agile development methods enables FP to adapt products dynamically to market requirements. At the beginning of a project, there is an idea, which is not carried out rigidly in the sense of a conventional "waterfall model", but can be continuously improved through early contact with customers and marketing. In addition to the agile execution of projects, FP is also making increasing use of agile methods in the product definition phase. These design sprints already result in quick market feedback during the inception phase of the product idea. FP now uses agile processes and methods integrated into a mature multi-project management environment on all projects where this is practical.

1.6.1.3 Core areas of expertise

Development activities are focused on FP's core areas of expertise

- Secure infrastructures
- Cryptography (security and encryption software)
- Sensor and control solutions
- Software

Secure infrastructures

FP develops and operates secure infrastructures that underpin billing services, supplementing hardware components with solutions-based services. Customers often use these services on a “pay-as-you-use” basis. FP develops the corresponding hardware and software components for billing services and provides suitable solutions.

Cryptography (security and encryption software)

Secure billing services require modern encryption technologies, i.e. cryptography. FP offers a range of different security solutions to this end. In the case of franking systems, these essentially enable the high-security transmission of monetary values and sensor data. In the IoT environment, meanwhile, they ensure that all types of data can be transmitted from its place of origin to various cloud services, while retaining its unique identity.

Sensor and control solutions

The tried-and-tested interface technology from FP allows data to be obtained from almost all sources such as industrial management systems, energy meters and all types of analogue and digital sensors and made available for evaluation and use in digital services. The applications created using this technology are extremely versatile. Work began in 2020 on developing more new interfaces such as the local metrological network interface (LMN) and controllable local system interface (CLS), for value-added services for smart meter gateways.

Software

Software is of critical importance to the success of FP products. In order to drive its software development in a focussed manner, FP is increasingly consolidating its software development in competence centres. Alongside “simple” machine control, software development today also encompasses PC and web applications, embedded software and servers used to manage data, carry out cryptography and implement cloud solutions. These are developed in two different areas of competence. The first comprises application development, which focuses on PC and server software, cloud applications and the development of mobile applications for the Android and iOS operating systems. The second area focuses on developing embedded software, primarily industrial IoT, and on further developing the products in the core business of Franking and Inserting.

1.6.1.4 Activities

Specifically, work in the product areas in 2020 focused on:

Franking and Inserting product area

Development activities related to franking machines focussed on product maintenance work. The existing range of models was further optimised on the basis of customer requests or to improve security. All franking systems are being re-approved in accordance with the new IEC62368-1 safety standard. They were also tested for electromagnetic compatibility and electrostatic discharge. Approval of PostBase Vision in additional countries was prepared or finalised.

Digital products (excluding IoT)
Application development focussed on refining the private cloud-based digital signature solution FP Sign. Progress was made in switching to a .NET Core-based enterprise solution to improve the signature solution's scalability, creating the groundwork for serving an increasing number of customers. A variety of functions and convenience features were also added. The trend towards remote working in the last fiscal year considerably amplified interest in solutions such as FP Sign.

Further development of Parcel Shipping, the parcel shipping solution for the US, also took centre stage. In addition to enhancing functionality, integrated reporting was also expanded to include different analytical evaluations that can also be provided for other product areas.

Expanding the IoT as a business area
With regard to IoT applications, numerous different gateways for series production were developed and production was transferred to Wittenberge. Technical safety approvals were also completed for various gateways.

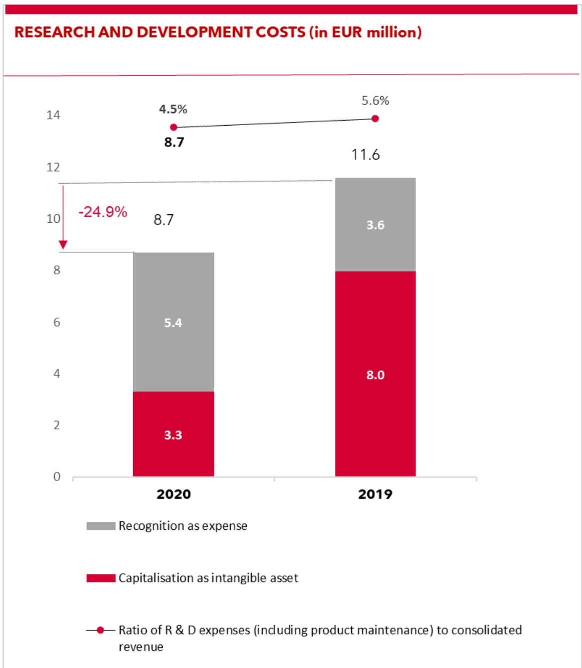
Development work then focussed on software development. Gateways record data and transfer it securely. Customers benefit from data availability and the corresponding evaluation. A portal is to be developed for this that allows efficient onboarding of new customers. This portal would allow customers to individually evaluate the data. Apps and a dashboard are to be developed to ensure that the gateways can begin operating quickly and to provide a standardised evaluation of the data, so that customers can receive a turnkey end-to-end solution.

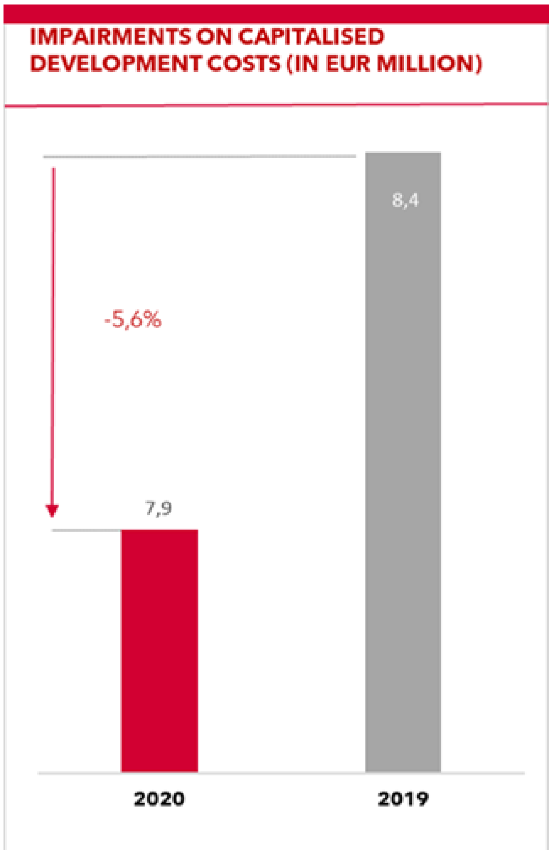
Changes in research and development activities compared to the previous year

The focus of R&D activities has changed over the last year. Previously, they centred around hardware products, whereas now the focus is increasingly shifting to related software solutions. This aims to offer customers end-to-end solutions that can be used not only to record data, but also to analyse and assess it. This will likely be one of the keys to generating significant growth in the area of digital products in the future. In doing so, we do not intend to develop all solutions ourselves. Where the opportunity presents itself, we will also selectively and inorganically expand our expertise in this area.

1.6.2 Quantitative information on the results of research and development activities

The ratio of R&D expenses to consolidated revenue declined from 5.6% in the previous year to 4.5% in the reporting year.





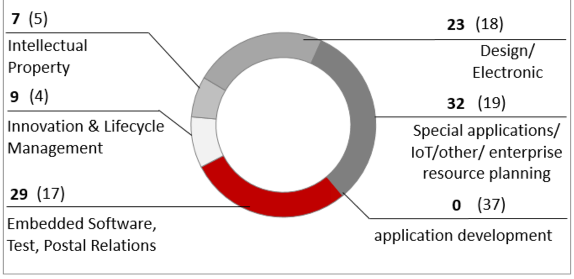
1.6.2.1 Research and development costs

Research and development costs came to EUR 8.7 million in the reporting year after EUR 11.6 million in the previous year. This represents a decline of 25% and is attributable chiefly to lower R&D activities in fiscal year 2020. At EUR 3.3 million, the share required to be capitalised as intangible assets is far lower than in the previous year. Furthermore, impairments on capitalised development costs decreased by 6% to EUR 7.9 million. Impairments thus far exceeded the newly capitalised development costs.

1.6.2.2 Number of employees in research and development

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

(in %, previous year in brackets)



b. Research and development employees

At the end of 2020, 55 employees (previous year: 78) were permanent staff in the research and development divisions of the FP Group (including subsidiaries), which represents 5.6% of the Group's total workforce (previous year: 7.2%). This change resulted mostly from shifting capacities to other areas of the Group, predominantly to Global IT. Additional external employees are temporarily recruited for certain projects, as required. At the end of 2020, external staff accounted for up to 14.5% of the permanent R&D workforce (previous year: 7%).

1.6.3 Outlook

Customer focus is our top priority. This is why R&D activities will be substantially redesigned in fiscal year 2021. Responsibility, both for development projects and for the resources required for these, will be integrated into the business units in full. This aims to ensure that products and solutions reliably meet the expectations of the market in question and that the revenue expectations corresponding to the development cost are fulfilled. In addition, increasing use will be made of specialised service providers in future to supplement and affordably expand existing expertise.

2. Economic conditions

2.1 Macroeconomic and industry-specific conditions

Global gross domestic product (GDP) slumped in 2020 on account of the coronavirus pandemic. The International Monetary Fund (IMF) estimates the decline at 4.4%. While the economic downturn was somewhat milder in emerging markets, GDP contracted considerably in industrialised countries, which are particularly relevant to the FP Group. In the USA, FP's largest foreign market in terms of number of customers and revenue, economic activity suffered a significant downturn in 2020. Economic performance in the eurozone and Germany was also very weak, with the economic slump particularly severe in the eurozone, as the figure below shows:

TABLE OF GDP PERFORMANCE IN 2020

World	-4.4%
United States	-4.3%
Eurozone	-8.3%
Germany	-6.0%

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

The euro/US dollar exchange rate plays an important role when it comes to the FP Group's exports to the US and other markets. Amidst fluctuations, the euro gained significantly against the US dollar over the course of 2020, finishing up at USD 1.22 as at 31 December 2020, some 9 % above the previous year's closing price. On average, the euro traded against the US dollar at approximately 2 % above the level in the previous year during fiscal year 2020. Due to the uncertainties in the context of the Brexit trade agreement between the UK and the EU, the rate of the pound sterling, which is also important to the FP Group, continued to fluctuate in 2020. With a closing price of 0.90 pound sterling, the exchange rate remained well above the 0.85 recorded at year-end 2019. The euro thus traded against the pound sterling at around 6 % above the level in the same period of the previous year during fiscal year 2020. The euro also picked up against the Canadian dollar in 2020 (+7%) but declined slightly against the Swedish krona (-4%). A weaker euro exchange rate has a negative impact on the revenue and earnings development of the FP Group insofar as some of the revenue is generated in these currencies and converted into euro at Group level. The FP Group processes post in foreign and domestic markets. According to statistics from the Universal Postal Union, over 285 billion letters are still being sent around the world each year, albeit with a downward trend (2019; global figures for 2020 are not yet available; a 4.1 % decline is expected). COVID-19 prompted a substantial fall in mail volumes in most countries (USA: -9.4 %; Germany: -9.5 %), far higher than previously forecast for the years ahead. This downturn was particularly pronounced in advertising mail, although this stabilised again in part. Given this, it is assumed that the rates of decline will return close to original rates again moving forward. By contrast, the parcel market is enjoying strong growth, which was again shored up by COVID-19. Globally, annual growth of over 15 % is anticipated for the next 3-4 years. Over 100 billion parcels were sent globally for the first time in 2019, a figure that is expected to increase further to up to 130 billion in 2020. In Germany, over 4 billion parcels are expected to be sent in 2020, with forecast growth rates of 6-7 % for the years ahead.

Although the extent to which the SARS-CoV-2 pandemic will influence the fall in mail volumes in the medium term cannot be quantified at present, it is expected that the decline could accelerate. This is partly because the crisis is likely to give a boost to digitization and partly because potential negative economic trends could reduce mail volumes. Faster growth is anticipated for the parcel market, at least for the time being.

3. Course of Business

Comparison of actual/forecast Group business performance

The table below shows the financial and non-financial performance indicators of the FP Group.

COMPARISON OF ACTUAL/FORECAST BUSINESS PERFORMANCE IN 2020

in EUR million	2020 forecast*	ACTUAL 2020
Revenue	*Decline in revenue to between EUR 195 million and EUR 203 million; based on the half-year figures and its assessments regarding the further development of the pandemic, the Management Board specified its forecast on 27 August 2020. A strong decline in revenue had originally been forecast for 2020.*	195.9
EBITDA	*EBITDA ranging from EUR 24 million to EUR 28 million (forecast specified on 27 August 2020). A strong decline in EBITDA had previously been forecast for 2020.*	8.0
Adjusted free cash flow**	*Substantial decline in adjusted free cash flow.*	15.4
Quality indicator – Germany	*Slight improvement year on year (previous year: currently 47.4***) after adjusting the calculation basis.*	45.1
Improvement indicator	*Slight deterioration year on year (previous year: 0.65) after adjusting the calculation basis.*	0.96

1) * Assuming constant exchange rates for foreign currencies.
2) ** Adjusted for investments in finance lease assets, M&A and payments for the ACT project JUMP. Previous year: EUR 12.4 million (adjusted).
3) *** Prior-year figure of 45.4 adjusted in 2019

3.1 Comparison of the actual/forecast business performance of FP Holding

The forecast for fiscal year 2020 envisaged a sharp downturn in income from investments and net profit/loss for the year.

In fiscal year 2020, FP Holding generated far lower income from investments of EUR 5.9 million (previous year: EUR 23.6 million) and was thus in line with its forecast figure. The main reasons for this marked deviation were lower profit transfers due to more strained operating performance in comparison to the previous year on account of the pandemic, non-recurring effects in the form of derecognitions and impairments of internally generated intangible assets at a subsidiary in fiscal year 2020, and the recognition of restructuring provisions.

FP Holding thus posted a net loss of EUR 4.5 million in the reporting year, in line with the sharp decline forecast for this performance indicator.

3.2 Course of Business

Fiscal year 2020 was dominated by the coronavirus pandemic. The takeover of the business activities of HEFTER Systemform GmbH also played a part in planned revenue performance. The FP Group also enjoys a sound equity base, liquidity and – thanks to the existing syndicated loan agreement – financial flexibility and reserves.

Despite this, the FP Group largely failed to achieve its strategic targets (ACT) in fiscal year 2020 and so changes were made to the strategy at the end of 2020/start of 2021.

Due to the economic effects of the coronavirus pandemic, the FP Group anticipated a substantial year-on-year decline in revenue and EBITDA in fiscal year 2020 (assuming constant exchange rates). Adjusted free cash flow did not shrink, attributable essentially to investment savings of EUR 10 million compared to the previous year. Based on the half-year figures and its assessments regarding the further development of the pandemic, the Management Board specified its forecast on 27 August 2020. For 2020 as a whole, FP anticipated a decline in revenue to between

EUR 195 million and EUR 203 million and EBITDA in a range of EUR 24 million to EUR 28 million. With regard to adjusted free cash flow, FP still expected a significant year-on-year decline.

FP met this target for revenue and adjusted free cash flow, but operating profit fell short. Earnings before interest, taxes, depreciation, and amortisation (EBITDA) would have almost achieved the expected level of EUR 24 million to EUR 28 million if not for negative non-recurring effects. These non-recurring effects are attributable to focussing on profitable growth and streamlining the corporate structure. As a result, expenses totalling EUR 9.0 million are to be recognised for restructuring measures in the 2020 consolidated financial statements. These comprise provisions for severance payments due to personnel changes on the Management Board and at senior management level and provisions for personnel restructuring to adjust the cost base to the lower revenue level (FUTURE@FP). In addition, the intangible asset for the ERP/CRM project, which is in development, was derecognised in the amount of EUR 4.1 million because the concept is no longer viable. Operating EBITDA before non-recurring effects is EUR 21.1 million. Reported EBITDA, including the non-recurring effects, is EUR 8.0 million.

4. Position of the Group

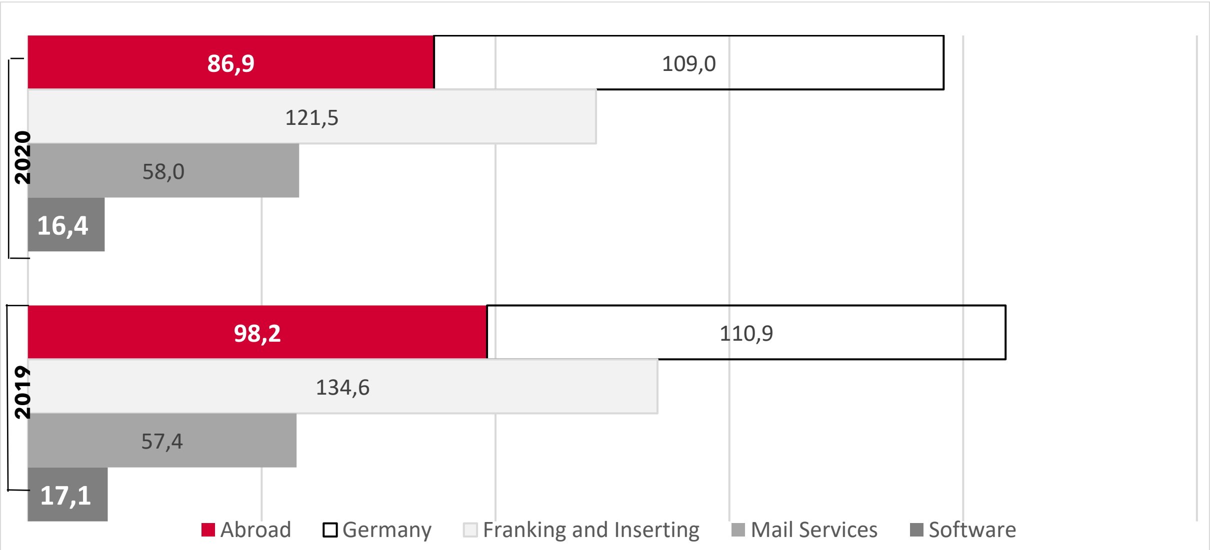
Francotyp Postalia Holding AG's consolidated financial statements were prepared in line with IFRS, as adopted by the European Union.

4.1 Earnings Position of the Group

Changes in the material items in the consolidated statement of comprehensive income were as follows:

in EUR million	2020	2019	Change in %
Revenue	**195.9**	**209.1**	**-6.3%**
Change in inventories	-0.4	0.0	n/a
Own work capitalised	7.8	18.6	-58.1%
Overall performance	**203.3**	**227.7**	**-10.7%**
Other operating income	4.5	2.9	55.2%
Cost of materials	93.9	101.6	-7.6%
Employee benefit expenses	67.8	60.2	12.6%
Expenses from impairment losses and income from reversals of impairment losses on trade receivables	1.2	1.9	-36.8%
Other operating expenses	36.8	33.5	9.9%
EBITDA	**8.0**	**33.3**	**-76.0%**
Amortisation, depreciation and impairment	21.9	27.4	-20.1%
Net interest income	0.9	0.4	125.0%
Other financial result	-1.0	0.6	-266.7%
Losses of companies accounted for using the equity method	-0.6	-1.0	40.0%
Income taxes	-0.4	-4.2	90.5%
Consolidated loss/profit	**-15.1**	**1.7**	**-988.2%**

4.1.1 Revenue development



The FP Group generated revenue of EUR 195.9 million in fiscal year 2020, compared to EUR 209.1 million in the previous year (EUR 197.7 million or -5.5% year on year adjusted for currency effects).

2020 was dominated by the coronavirus crisis. Despite this, FP performed relatively well in a tough market environment and posted solid revenue, proof of the robustness of the business model.

This is particularly true of the strategically important markets of the US and in France, where FP performed well in the reporting year. In fiscal year 2020, the Group realized revenue in the traditional franking and inserting business amounting to EUR 121.5 million that was down on the previous year's figure of EUR 134.6 million. This sound performance is based on the PostBase product family. Nonetheless, revenue in the core business with franking systems cooled off significantly in 2020, not least in response to the coronavirus pandemic. This includes revenue contributions from the takeover of the business activities of HEFTER Systemform GmbH, Prien am Chiemsee (EUR 4.8 million) in February 2020 and negative currency effects (EUR - 1.8 million). In the previous year, revenue included high service income from fee-based software updates in connection with postage changes in Germany.

Business performance has still not returned to normal on account of the still strained coronavirus infection levels in key markets and the resulting restrictions. Nevertheless, given the existing product range, which is based around the smaller letter volumes segment, and the high share of recurring revenue, the Group still enjoys a solid business model and its core business is comparatively well positioned for the future. Nevertheless, the downwards market trend in the franking machine business around the world is reflected in the FP Group's revenue figures in 2020, too.

In the German domestic market, the FP Group's revenue in the fiscal year 2020 fell by 1.7 % year-on-year to EUR 109.0 million.

In the Franking and Inserting product area, the FP's revenue in Germany was down 4.9% in fiscal year 2020, declining from EUR 36.9 million to EUR 35.1 million. Revenue in the Mail Services product area increased by 0.9 % year on year. The Mail Services business regarding the collection, franking and consolidation of business mail was again positive following the successful reorganisation. Revenue rose to EUR 58.0 million in fiscal year 2020 after EUR 57.4 million in the previous year. The coronavirus pandemic also had a profound impact in this product area, with the processed mail volume down significantly in the second quarter and slightly in the third and fourth quarters after a slight rise in first quarter of 2020. However, the realignment initiated at the end of 2018 with a focus on profitable revenue is showing results. Deutsche Post AG's increase in postage tariffs in 2019 also contributed to a positive overall development in 2020. By contrast, revenue in the Software/Digital product area decreased by 3.7 % year on year to EUR 16.4 million in the reporting period. Both IoT business and new digital products such as FP Sign came under strain as a result of the coronavirus pandemic. While the digital signature solution FP Sign saw a significant improvement in the order pipeline thanks to the pandemic, customers were noticeably reluctant to invest in IoT applications. The Software/Digital product area is currently undergoing validation, with a focus on business models with a clear value proposition for the customers and significant potential to be scaled up for FP.

The FP Group's largest foreign market in fiscal year 2019 was again the US, where revenue declined by 7.8 % from EUR 52.6 million to EUR 48.4 million. Adjusted for currency effects, revenue decreased by 5.4 % in the US in the reporting period. FP Group revenue in the UK shrank by 23.8% from EUR 14.5 million to EUR 11.0 million in fiscal year 2020 due to the pandemic and ongoing uncertainties surrounding Brexit. Adjusted for currency effects, revenue in the UK was down 22.8% in the reporting period. The exchange rate effects across all currencies were negative, totalling EUR 1.8 million in the year under review. Adjusted for currency effects, the FP Group's foreign business generated revenue of EUR 88.7 million in fiscal year 2020.

REVENUE BY PRODUCT AND SERVICE

in EUR million	2020	2019	Change %
Product sales (Franking and Inserting)	30.4	32.2	-5.5
Service/customer service	21.8	26.4	-17.5
Consumables	23.9	24.3	-1.5
Teleporto	8.0	8.4	-4.8
Mail Services	58.0	57.4	0.9
Software/Digital	16.4	17.1	-4.1
Revenue in accordance with IFRS 15	**158.5**	**165.7**	**-4.4**
Finance Lease	9.7	14.7	-34.1
Operate Lease	28.0	29.1	-3.8
Revenue in accordance with IFRS 16	**37.7**	**43.7**	**-13.7**
Reduction in revenue due to currency effects from hedge accounting	-0.3	-0.3	0.0
Revenue total	**195.9**	**209.1**	**-6.4**
Non-recurring revenue	38%	23%	63.5
Recurring revenue	62%	77%	-19.0

The fall in product sales income in the core business in fiscal year 2020 was mainly due to lower revenue in key markets. In the service business, the business model proved robust in the coronavirus pandemic, and FP also generated higher revenue with fee-based software updates in connection with postage changes in Austria in particular. The business with consumables proved relatively robust in the reporting period, despite considerable declines as a result of coronavirus. Revenue within the scope of IFRS 16 was down slightly on the previous year's level in 2020. A significant decline in lease revenue as a result of the pandemic, especially in the UK, was offset by the positive effect of this year's takeover of the business activities of HEFTER.

4.1.2 Own work capitalised

Own work capitalised saw a substantial decline to EUR 7.8 million in fiscal year 2020 (down 58.1 % year on year). The development costs reported in own work capitalised decreased significantly to EUR 3.6 million, down EUR 10.3 million on 2019. In the previous year, investments were capitalised in the development of the new Post-Base Vision with the customer portal discoverFP and in a new ERP/CRM system. During the reporting year, capitalised development costs related mainly to the development of new IoT products as well as further investments in PostBase Vision with discoverFP. The additions to leased products reported therein fell to EUR 4.0 million in 2020 compared with EUR 4.4 million in the previous year, primarily due to the pandemic.

4.1.3 Other operating income

The increase in other operating income in the reporting year of EUR 1.6 million is largely due to income from governmental coronavirus assistance in Germany, Rest of Europe, the US, and Canada. Income from lapsed liabilities rose slightly to EUR 0.8 million (previous year: EUR 0.6 million).

4.1.4 Cost of materials

The FP Group's cost of materials decreased by EUR 7.7 million to EUR 93.9 million in the fiscal year 2020 compared with EUR 101.6 million in the previous year, mainly as a result of the decline in revenue in the franking and inserting product area. Expenses for raw materials, consumables and supplies thus decreased to EUR 33.0 million in the year under review compared with EUR 35.3 million in the previous year. The cost of purchased services, which is mainly attributable to Mail Services, was also down year on year, coming to EUR 60.9 million versus EUR 66.4 million in the previous year, while the cost of purchased postage remained at the previous year's level of EUR 52.6 million. The cost of materials ratio improved to 47.9% in the year under review (previous year 48.6%).

4.1.5 Employee benefit expenses

Employee benefit expenses picked up by 12.7% year on year to EUR 67.8 million in fiscal year 2020 (previous year: EUR 60.2 million). This chiefly reflected expenses for severance payments resulting from changes to the Management Board and senior management, as well as the restructuring expenses required for FUTURE@FP totalling EUR 9.0 million. Various factors also had an impact in the reporting year. Employee benefit expenses rose as a result of the takeover of employees of HEFTER in February 2020, although costs were also reduced in connection with additional measures introduced in the second quarter to contain the coronavirus pandemic, including the use of short-time working and similar instruments.

Savings of EUR 5.5 million as part of implementing the ACT project JUMP had a positive impact on employee benefit expenses. Despite this, the staff cost ratio rose significantly to 34.6% in fiscal year 2020 compared with 28.8% in the previous year. The positive impact of JUMP measures was offset by higher personnel costs here, due mainly to a rise in new hires at company headquarters.

4.1.6 Expenses from impairment losses and income from reversals of impairment losses on trade receivables

The EUR 0.7 million decrease in expenses from impairment losses and income from reversals of impairment losses on trade receivables to EUR 1.2 million in the reporting year is based on mainly decreased individual default risks.

4.1.7 Other operating expenses

Other operating expenses picked up by 10.0 % in fiscal year 2020, rising from EUR 33.5 million to EUR 36.8 million. This was driven predominantly by expenses from the disposal of development project for the introduction of a new ERP/CRM system that had not been completed but were no longer viable (EUR 4.1 million), and a EUR 1.5 million rise in consulting costs. The effect was partially offset by a EUR 1.9 million decrease in staff-related costs and a EUR 1.0 million decline in travel expenses.

4.1.8 EBITDA

The EBITDA of FP Group amounted to EUR 8.0 million in fiscal year 2020 compared to EUR 33.3 million in the previous year. The FP Group's EBITDA margin decreased substantially to 4.1% after 15.9% in the previous year. The EBITDA was mainly impacted by one-off expenses for severance payments due to personnel changes in the Management Board and senior management and restructuring measures (FUTURE@FP) to adjust the cost base to the lower revenue level (EUR 9.0 million) as well as disposals of intangible assets (EUR 4.1 million). In the previous year, the figure was reduced by EUR 2.3 million in expenses for the JUMP project. EUR 2.5 million in income from the active use of governmental coronavirus assistance, mainly in the US, Canada, Europe and Germany buoyed EBITDA.

4.1.9 Amortisation, depreciation and impairment

Amortisation, depreciation and impairment declined by 20.0% year on year in fiscal year 2020, decreasing from EUR 27.4 million to EUR 21.9 million. Impairment on intangible assets of EUR 3.0 million (previous year: EUR 2.7 million), thereof EUR 0.7 million related to the impairment of goodwill affecting the InovoLabs cash-generating unit, had a negative effect.

Amortisation, depreciation and impairment decreased on account of the adjustment made in the previous year to the useful life of leased products across the Group, which was changed to 7 years.

4.1.10 Net interest income

The increase in net interest income in fiscal year 2020 of EUR 0.5 million to EUR 0.9 million resulted primarily from EUR 0.2 million rise in interest income from finance leases and the EUR 0.2 million decline in other interest expenses compared with the same period of the previous year.

4.1.11 Other financial result

The FP Group posted a negative other financial result in fiscal year 2020 of EUR 1.0 million (previous year: positive result of EUR 0.6 million). This development is due primarily to currency effects affecting the measurement of items in the statement of financial position at the reporting date.

4.1.12 Shares in profits and losses of companies accounted for using the equity method, after tax

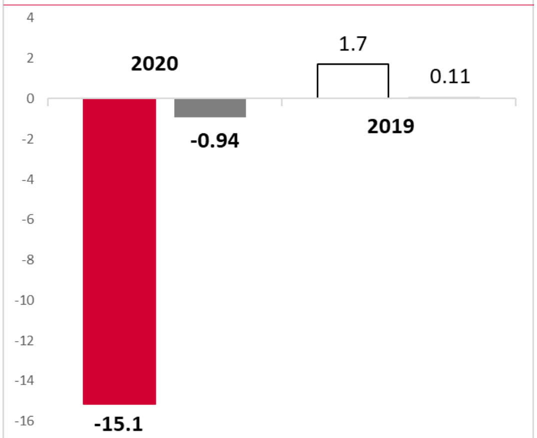
In the fiscal year 2020, the FP Group realised a share of loss of EUR 0.1 million (previous year: EUR 0.1 million) from the shareholding in Juconn GmbH, which is included at equity in the consolidated financial statements. In addition, against the background of delayed business development and scaling compared to the original expectations at the time of acquisition, the company recognised an impairment loss of EUR 0.5 million in the reporting year (previous year: EUR 0.9 million) in the course of the impairment test.

4.1.13 Income taxes

Income tax expenses totalled EUR 0.4 million in the fiscal year (previous year: EUR 4.2 million). This corresponds to a tax rate of 3% (previous year: 71.3%). The tax rate essentially results from unrecognised deferred taxes on temporary differences and tax loss carryforwards.

4.1.14 Consolidated profit/loss

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



Consolidated profit/loss declined to EUR -15.1 million in fiscal year 2020, falling well into negative territory on account of the non-recurring effects incurred in the reporting year. The FP Group posted earnings per share (EPS) of EUR -0.94 (basic/diluted) in fiscal year 2020 compared with EUR 0.11 (basic/diluted) in the previous year.

4.1.15 Summary of results per segment

The segments report according to local accounting standards. The following table shows the revenue and EBITDA of the segments.

SUMMARY OF RESULTS PER SEGMENT

	Revenue			EBITDA		
in EUR million	2020	2019	Change in %	2020	2019	Change in %
Production[1)]	3.9	4.5	-14.6%	5.4	26.7	-79.9%
Sales Germany[1)]	108.6	109.8	-1.1%	2.6	3.9	-33.0%
International Sales[1)]	84.4	91.3	-7.6%	15.8	13.3	18.9%
Central Functions[1)]	0.0	0.0	0.0%	-13.4	-10.8	24.4%
Group reconciliation (adjusted)	-1.1	3.4	-133.0%	-2.5	0.2	-1,154.2%
Group	195.9	209.1	-6.3%	8.0	33.3	-76.1%

1) Revenue with external third parties and EBITDA, according to local accounting standards.

4.2 Financial position of the Group

4.2.1 Principles and objectives of financial management

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

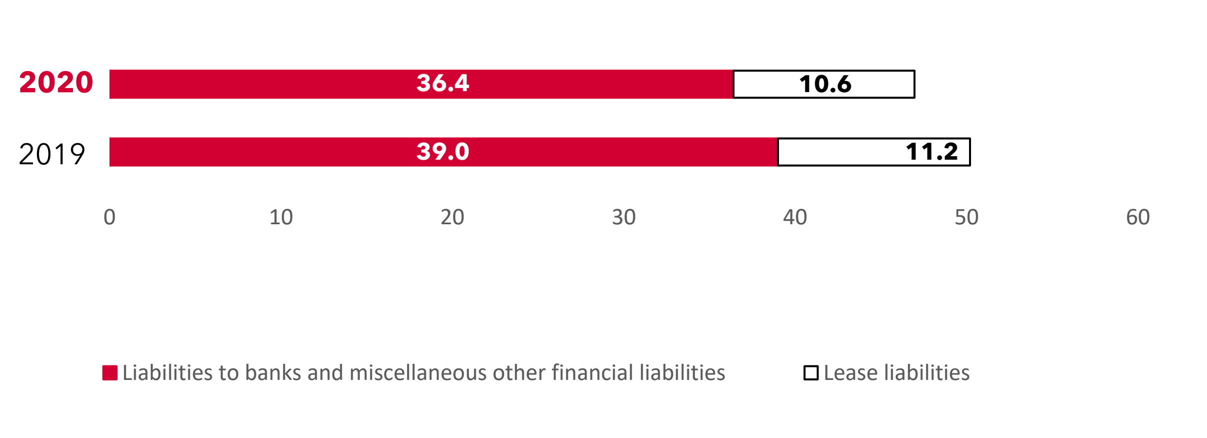
4.2.2 Dividend-bearing net profit and dividends

The FP Group's dividend policy remains consistent as a basic principle, also based on implementing its new growth strategy. Given the coronavirus pandemic, FP is focusing on securing and expanding existing Group liquidity in order to secure the FP Group's strategic and operational goals in the long term. No dividend distribution is planned on account of the negative effects in fiscal year 2020 and the resulting consolidated loss.

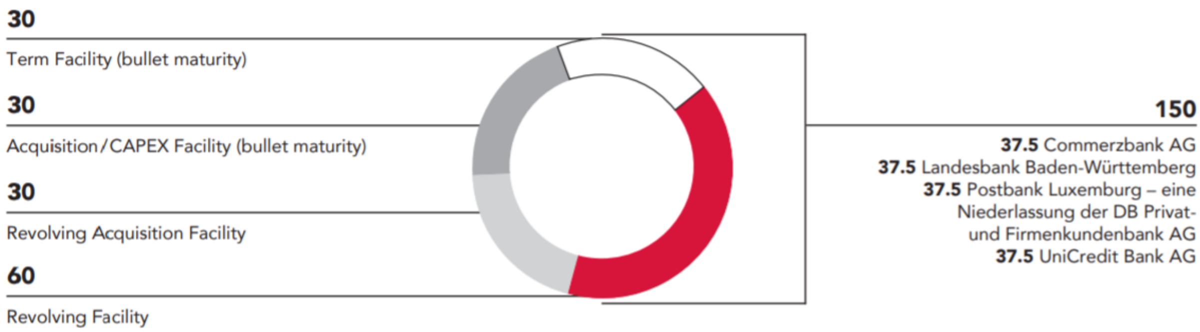
4.2.3 Financing analysis

To finance itself, the FP Group uses primarily cash flow from operating activities, along with existing loan agreements with financial institutions and financing leases.

FINANCIAL LIABILITIES (in EUR million)



SYNDICATED LOANS (in EUR million)



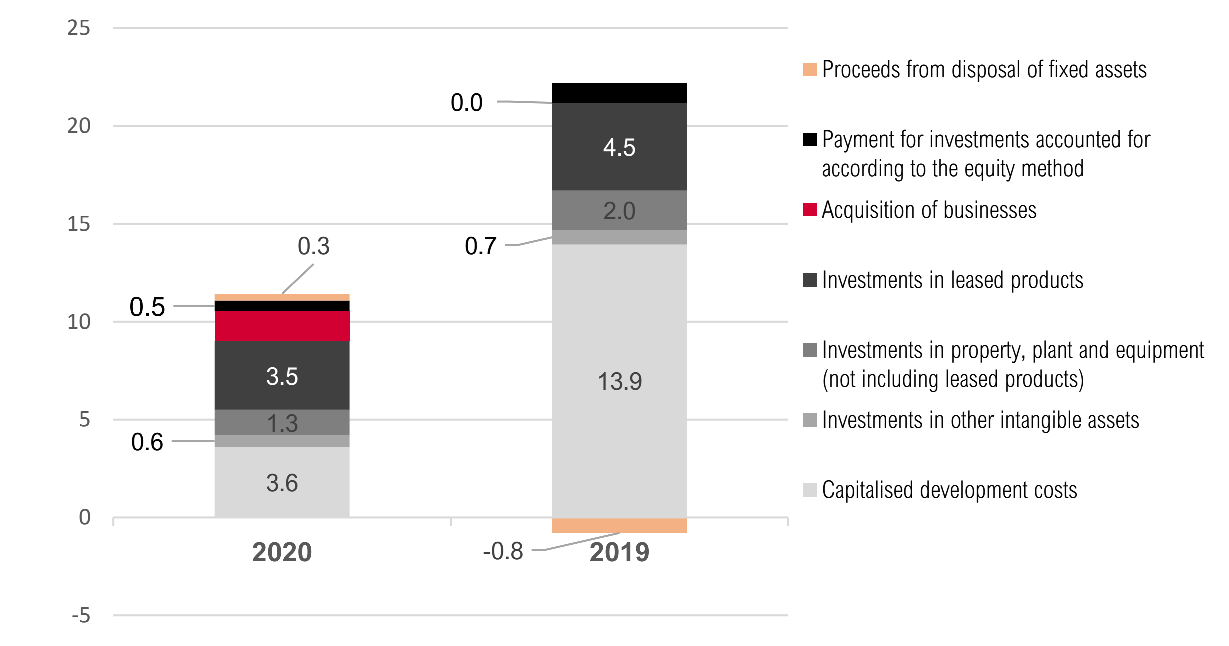
The syndicated loan agreement for a financing volume totalling EUR 150 million concluded with a strong syndicate of international banks in 2016 and renewed and extended early in fiscal year 2018 has a term to 28 September 2023. The financing documents on the basis of the British Loan Market Association (LMA) include an option to increase the loan by EUR 50 million.

Other key conditions of the syndicated loan agreement include the option to utilise part of the loan facility in foreign currencies. Furthermore, the FP Group has entrepreneurial headroom to enter into additional financial obligations. Overall, the syndicated loan agreement forms a forward-looking basis for the FP Group's financial stability and flexibility.

Information on changes to equity of the Group in fiscal year 2020 can be found in Section 4.3.2 Equity.

4.2.4 Investment analysis

INVESTMENTS (in EUR million)



In fiscal year 2020, the FP Group also continued to make significant investments in future growth, including in product development, production and other core and supporting processes and in franking systems for lease markets.

Influenced by the introduction of more cost control and liquidity management measures in the second quarter as a result of the coronavirus pandemic, investments in 2020 as a whole were significantly lower than in the previous year at EUR 11.4 million compared to EUR 21.4 million. In connection with the implementation of the strategy, the FP Group invested EUR 3.1 million in the development of new products (previous year: EUR 8.0 million). Investments in the capitalisation of development costs totalling EUR 3.6 million (previous year: EUR 13.9) million also include investments of EUR 0.2 million (previous year: EUR 5.5 million) in the global introduction of a uniform ERP/CRM landscape. The FP Group also invested EUR 1.5 million in the acquisition of HEFTER Systemform in the reporting year and thus further strengthened its core business and expanded its product portfolio. The FP Group invested a total of EUR 1.0 million in the acquisition of 15 % of the shares in IoT specialist JUCONN GmbH. Investments in leased products, mainly in the US, the UK, Canada and France, fell to EUR 3.5 million in fiscal year 2020 (previous year: EUR 4.5 million).

4.2.5 Tax loss carryforwards

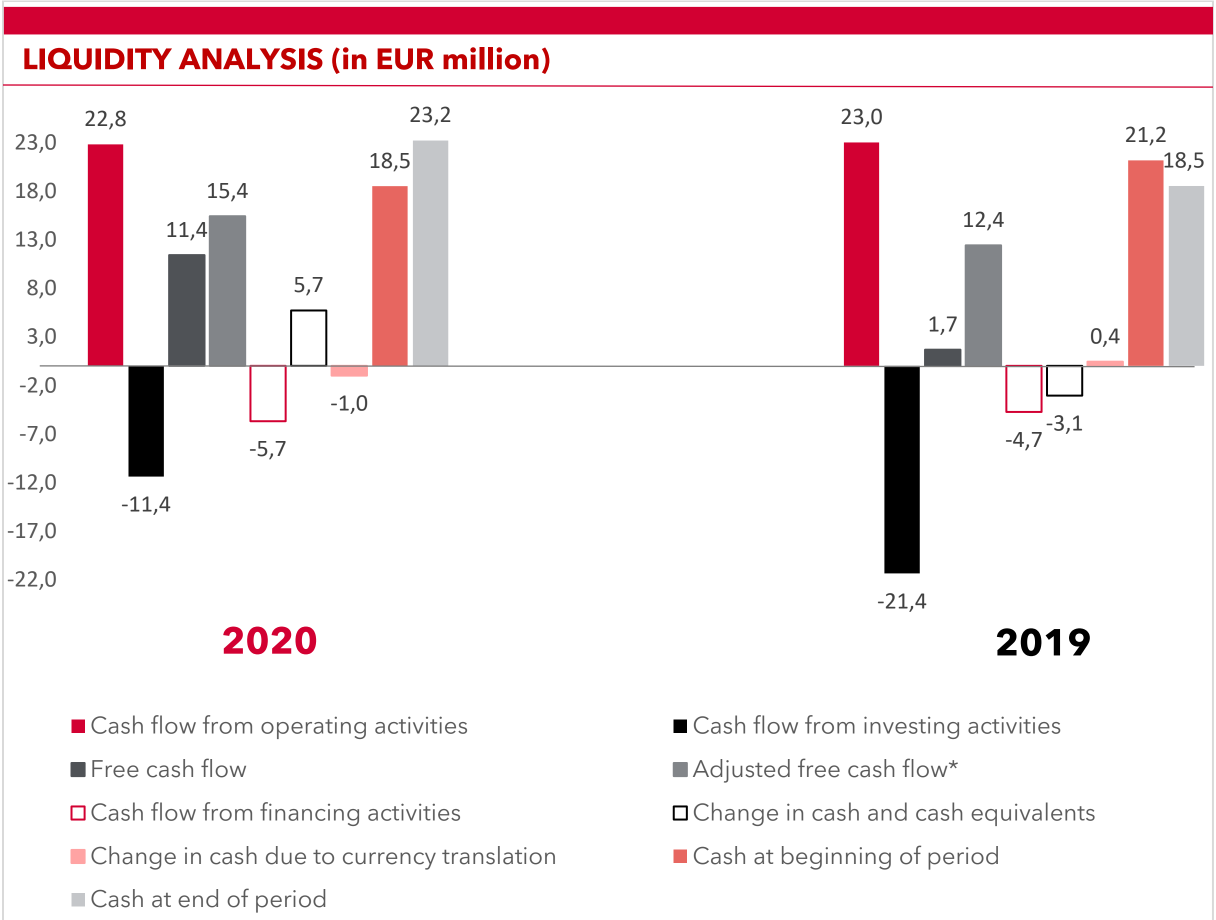
The FP Group had unrecognised tax loss carryforwards of EUR 15.2 million as at 31 December 2020 (previous year: EUR 8.3 million).

4.2.6 Liquidity analysis

LIQUIDITY ANALYSIS (IN EUR MILLION)

	2020	2019
Cash flow from operating activities	22.8	23.0
Cash flow from investing activities	-11.4	-21.4
Free cash flow	***11.4***	***1.7***
Adjusted free cash flow*	***15.4***	***12.4***
Cash flow from financing activities	-5.7	-4.7
Change in cash and cash equivalents	**5.7**	**-3.1**
Change in cash due to currency translation	-1.0	0.4
Cash at beginning of period	18.5	21.2
Cash at end of period	**23.2**	**18.5**

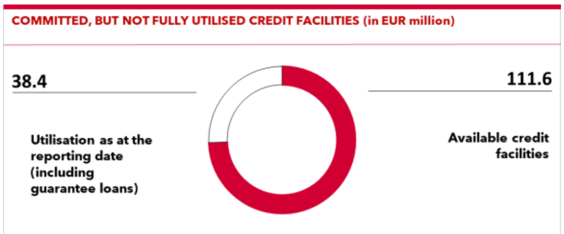
1) **Adjusted for investments in finance lease assets and M&A and payments for the ACT project JUMP.*



The FP Group successfully focussed on cost control and liquidity management in fiscal year 2020 in light of the coronavirus pandemic. At EUR 22.8 million, operating cash flow in 2020 was down only slightly on the previous year's figure of EUR 23.0 million. This also includes proceeds from governmental coronavirus assistance of EUR 2.5 million. The EUR 0.9 million reduction in net working capital helped improve operating cash flow.

Cash flow from investing activities experienced a sharp downturn in fiscal year 2020. Driven by stricter measures imposed starting in the second quarter as a result of the coronavirus pandemic, cash flow from investing activities declined from EUR -21.4 million in the previous year to EUR - 11.4 million in fiscal year 2020. Please see the section on Investment Analysis (Section 4.2.4) for more information about further changes. Free cash flow rose to EUR 11.4 million (previous year: EUR 1.7 million) and adjusted free cash flow to EUR 15.4 million (previous year: EUR 12.4 million) in fiscal year 2020 thanks to strong operating cash flow and lower investments.

The change in cash flow from financing activities in fiscal year 2020 was chiefly attributable to repayments of lease liabilities of EUR 3.8 million (previous year: EUR 3.9 million) and repayments of liabilities to banks of EUR 2.2 million (previous year: EUR 0.4 million).



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

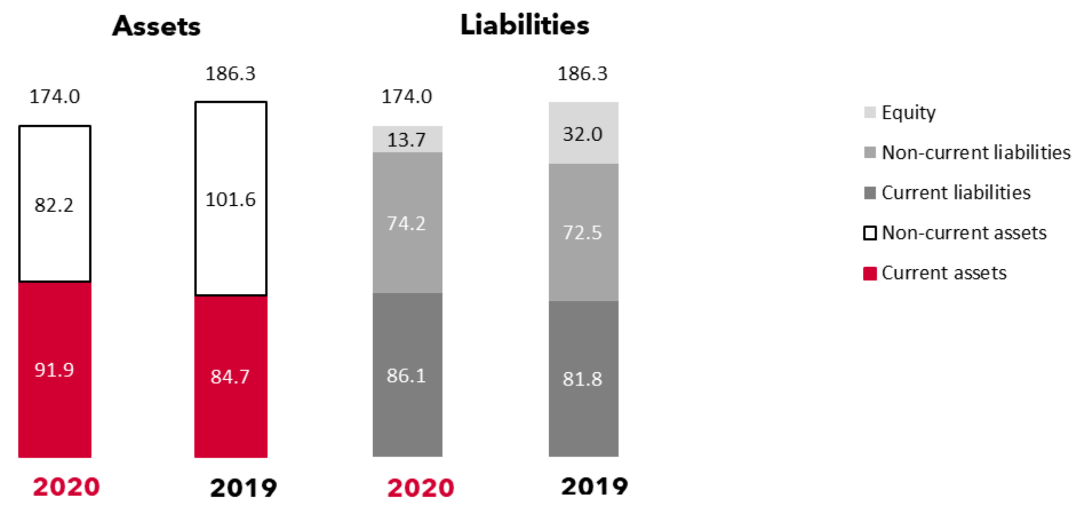
$$\text{Leverage} = \frac{\text{Total net debt}}{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}} \leq 3{,}0\times$$

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

As per the agreement, non-recurring effects are adjusted for calculating the covenants. The credit conditions were complied with consistently throughout the reporting year. In fiscal year 2020, the FP Group was able to meet its payment obligations at all times.

4.3 Asset position of the Group

STATEMENT OF FINANCIAL POSITION STRUCTURE (in EUR million)



The FP Group's statement of financial position as at 31 December 2020 was shaped by the implementation of the strategy, operating business performance in fiscal year 2020 under the influence of the coronavirus pandemic and by measures taken as part of FUTURE@FP.

4.3.1 Non-current and current assets

NON-CURRENT AND CURRENT ASSETS

in EUR million	2020	2019
Intangible assets	28.3	38.8
Property, plant and equipment	24.9	29.2
Right of use assets	10.3	11.2
Associates	0.0	0.6
Other financial assets	16.3	17.4
Other non-financial assets	1.0	2.8
Deferred tax assets	1.3	1.5
Non-current assets	**82.2**	**101.6**
Inventories	11.5	12.4
Trade receivables	17.7	18.1
Other financial assets	13.7	14.2
Other non-financial assets	12.9	9.5
Cash and cash equivalents	36.1	30.5
Current assets	**91.8**	**84.7**

Non-current assets declined by EUR 19.4 million from EUR 101.6 million to EUR 82.2 million.

The EUR 10.4 million decrease in intangible assets chiefly reflects the disposal of development projects that had not been completed but were no longer viable (EUR 4.1 million), and the amortisation of internally generated (EUR 7.9 million) and purchased (EUR 2.2 million) intangible assets. The amortisation of internally generated intangible assets came to EUR 1.7 million and the amortisation of purchased intangible assets and customer lists to EUR 0.6 million. Goodwill impairment was recognised at EUR 0.7 million. This decline was partly offset by additions to internally generated intangible assets (EUR 2.8 million), purchased intangible assets (EUR 0.9 million) and development projects in progress (EUR 0.8 million).

The EUR 4.3 million decrease in property, plant and equipment stemmed essentially from the decline in leased products due to negative currency effects (EUR 1.4 million) and impairments (EUR 4.6 million), which were partially offset by additions (EUR 3.5 million). Depreciation of technical equipment and machinery caused this item to decrease by EUR 1.0 million.

Current assets picked up by EUR 7.2 million from EUR 84.7 million to EUR 91.8 million. This was driven mainly by the EUR 5.6 million upturn in cash and cash equivalents and the EUR 3.4 million rise in income taxes receivable. Declines in inventories, trade receivables and other financial assets had the opposite effect.

4.3.2 Equity

As at 31 December 2020, the share capital of Francotyp-Postalia Holding AG amounted to EUR 16.3 million, divided into 16,301,456 no-par value bearer shares (previous year: 16,301,456).

As at 31 December 2020, the company held 257,393 treasury shares (previous year: 397,393) or 1.6% of the share capital. The calculated value of treasury shares is openly deducted from equity. The difference of the purchase price is offset against capital reserves. For additional information on own shares, see section IV (26) of the notes to the consolidated financial statements. More information about authorised and contingent capital as well as conversion and option rights can be found in the explanatory report by the Management Board in accordance with sections 289a (1) and 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code).

Group equity decreased by EUR 18.3 million from EUR 32.0 million to EUR 13.7 million. This predominantly reflects negative total comprehensive income of EUR -18.7 million.

4.3.3 Non-current and current liabilities

NON-CURRENT AND CURRENT LIABILITIES

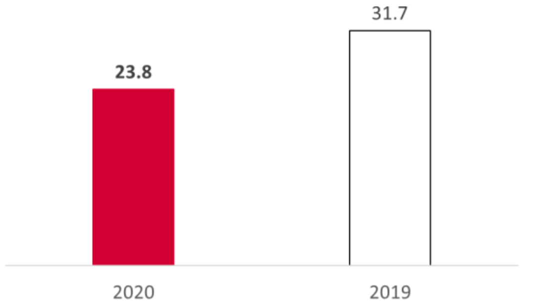
in EUR million	2020	2019
Provisions for pensions and similar obligations	20.5	20.6
Other provisions, deferred tax liabilities and other liabilities	8.0	5.8
Financing liabilities	43.3	46.2
Other financial liabilities	2.0	0.0
Other non-financial liabilities	0.5	0.0
Non-current liabilities	**74.2**	**72.5**
Tax liabilities	3.8	2.7
Other provisions	15.8	9.6
Financing liabilities	3.7	4.1
Trade payables	14.1	14.6
Other financial liabilities	32.8	34.4
Other non-financial liabilities	16.0	16.4
Current liabilities	**86.1**	**81.8**

Non-current liabilities rose by EUR 1.7 million from EUR 72.5 million to EUR 74.2 million, due chiefly to the EUR 2.0 million rise in non-current personnel provisions and the EUR 1.7 million increase in non-current liabilities from derivatives. The EUR 2.0 million downturn in liabilities to banks and the EUR 0.9 million decrease in finance lease liabilities had the opposite effect.

Current liabilities picked up by EUR 4.3 million from EUR 81.8 million to EUR 86.1 million. This can be attributed mainly to the increase in current personnel provisions (up by EUR 4.6 million) and in other provisions (up by EUR 1.6 million), which were partially offset by a decrease in current liabilities from derivatives of EUR 1.3 million.

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

DEVELOPMENT OF NET DEBT (in EUR million)



*2019 figures based on the new IFRS 16 standard

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

Because cost control and liquidity management measures were introduced as a result of the coronavirus pandemic, the FP Group's net debt increased considerably (-25 %) in 2020. As at 31 December 2020, equity decreased to EUR 13.7 million, a decline of EUR 18.3 million compared to the previous year (EUR 32.0 million).

4.3.4 Leasing

As a lessor, the FP Group offers both operating and finance leases. These business models are reflected in the Group's statement of financial position and income statement. As at 31 December 2020, the "leased products" item under non-current assets contained assets with a carrying amount of EUR 15.5 million (previous year: EUR 18.3 million), which are mostly leased to customers under operating leases. Finance leases with customers are reported in finance lease receivables; the non-current and current amounts totalled EUR 22.3 million as at the end of the reporting period (previous year: EUR 24.1 million).

4.4 Overall statement regarding the earnings, financial and asset position of the Group

Fiscal year 2020 was affected by significant, negative non-recurring effects. Costs incurred as a result of derecognising or recognising the amortisation of intangible assets and recognising restructuring provisions clearly left their mark on the Group's net assets, financial position and results of operations.

The FP-Group achieved expectations regarding revenue, exceeded them for adjusted free cash flow and the EBITDA forecast was not achieved on account of the non-recurring effects. The Management Board judges the business performance in fiscal year 2020 to have been generally unsatisfactory. There have been no significant changes in the economic situation of the Group up to the date of preparation of the combined management report.

5. Position of the company

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

5.1 Earnings position of the company

in EUR million	2020	2019	Change %
Revenue	4.2	3.1	36.7%
Other operating income	0.5	0.9	-49.1%
Cost of materials	1.0	0.4	141.8%
Employee benefit expenses	10.9	7.1	53.5%
Other operating expenses and amortisation and depreciation	6.5	7.7	-15.6%
Income from investments	5.9	23.6	-75.0%
Net interest income	1.3	0.3	340.3%
Taxes on income and earnings (income (+), expense (-))	2.0	-3.6	-156.3%
Earnings after taxes	-4.4	**9.1**	-148.7%
Net profit/loss	-4.5	**9.1**	**-149.4%**

5.1.1 Revenue

While FP Holding's service functions remained unchanged, the EUR 1.1 million increase in FP Holding's revenue in fiscal year 2020 resulted from increased Group allocations for consulting services to domestic subsidiaries.

5.1.2 Other operating income

Other operating income in the year under review essentially comprised income relating to other periods from the reversal of provisions and from funding (previous year: essentially income relating to other periods from the reversal of provisions).

5.1.3 Cost of materials

The rise in the cost of materials from purchased services in the year under review resulted mainly from higher advertising costs passed on and other personnel expenses year on year.

5.1.4 Employee benefit expenses

Employee benefit expenses grew by EUR 3.8 million in fiscal year 2020, stemming primarily from provisions for severance payments, paid terminations and additions to other personnel provisions. Furthermore, the number of Management Board members increased from three to four midway through the year. The average number of employees remained on par with the previous year at 42.

5.1.5 Other operating expenses and amortisation and depreciation

This includes legal and consulting costs and expenses for Group allocations. The EUR 1.2 million decrease in the reporting year was essentially due to lower advertising expenses (down EUR 0.5 million), other personnel expenses (down EUR 0.2 million), travel expenses (down EUR 0.1 million) and Group allocations (down EUR 0.1 million). Amortisation, depreciation and impairment decreased by EUR 0.2 million in fiscal year 2020.

5.1.6 Income from investments

The sharp decline in income from investments from EUR 23.6 million in the previous year to EUR 5.9 million in fiscal year 2020 is due essentially to a EUR 18.0 million decrease in profit transfers. In turn, this was driven partly by strained operating performance compared to the previous year as a consequence of the coronavirus pandemic. Lower profit transfers are also a result of non-recurring effects in the form of derecognitions and impairments of internally generated intangible assets at a subsidiary in the fiscal year and the recognition of restructuring provisions. These profit transfers were boosted in the previous year by re-estimating the useful life of leased products across the Group for non-current assets, which amounted to EUR 3.1 million.

5.1.7 Net interest income

Interest expenses remained unchanged on the previous year at EUR 1.2 million, resulting primarily from interest charged on the bank loan and interest expenses for taxes. Interest income is essentially generated from loans and short-term loans to affiliated companies. Higher net interest income in fiscal year 2020 is a result mainly of a EUR 1.0 million increase in interest income for loans and receivables to affiliated companies.

5.1.8 Taxes on income and earnings

Income from taxes on income and earnings of EUR 2.0 million (previous year: expenses of EUR 3.6 million) resulted primarily from reversing deferred tax liabilities (EUR 2.5 million). Actual taxes relating to other periods (EUR 0.5 million) have the opposite effect.

5.1.9 Net income/loss for the year

FP Holding posted a net loss of EUR 4.5 million in fiscal year 2020 (previous year: net profit of EUR 9.1 million), chiefly due to the marked decline in income from investments and higher personnel expenses.

5.2 Financial position of the company

LIQUIDITY ANALYSIS (IN EUR MILLION)

	2020	2019
Cash flow from operating activities	2.2	4.9
Cash flow from investing activities	0.0	-3.8
Free cash flow	**2.2**	**1.1**
Cash flow from financing activities	-1.9	-1.1
Change in cash and cash equivalents	**0.3**	**0.0**

Lower cash flow from operating activities in fiscal year 2020 is mainly attributable to net loss. This was offset by the effects from the increase in provisions and tax liabilities (EUR +8.1 million, previous year: EUR - 3.4 million) and from the decrease in trade receivables and other assets (EUR +3.9 million, previous year: EUR - 5.6 million).

In light of investment savings, cash flow from investing activities came to EUR 0.0 million (previous year: EUR - 3.8 million).

The rise in the cash outflow from financing activities in the year under review was due to higher repayments of liabilities to banks of EUR - 2.2 million (previous year: EUR - 0.6 million). This was countered by the lack of a dividend payment (previous year: EUR - 0.5 million).

As of 31 December 2020, FP Holding had unused credit lines amounting to EUR 111.6 million (previous year: EUR 109.5 million). FP Holding was able to meet its payment obligations at all times in fiscal year 2020.

5.3 Asset position of the company

CONDENSED STATEMENT OF FINANCIAL POSITION OF FP HOLDING (IN EUR MILLION)

	31/12/2020	31/12/2019
Non-current assets	81.5	80.0
Current assets	37.9	43.0
Prepaid expenses	0.4	0.6
Assets	**119.8**	**123.6**
Equity	63.2	67.4
Provisions	14.6	9.1
Liabilities and deferred tax liabilities	42.0	47.2
Liabilities	**119.8**	**123.6**

5.3.1 Non-current assets

Net current assets increased in fiscal year 2020, primarily due to the rise in borrowing to affiliated companies in the amount of EUR 1.6 million.

5.3.2 Current assets

The decrease in current assets in the year under review was mainly caused by lower intra-Group receivables (decline of EUR 5.0 million). This change was linked to intra-Group financing for subsidiaries and lower receivables from profit transfer agreements.

5.3.3 Equity

Equity declined in fiscal year 2020, primarily on account of the net loss of EUR 4.5 million. FP Holding's equity ratio declined from 54.5 % to 52.8 % in the year under review.

5.3.4 Provisions

Overall, provisions increased by EUR 5.5 million from EUR 9.1 million to EUR 14.6 million. The increase in provisions in fiscal year 2020 was attributable chiefly to the EUR 4.1 million rise in other provisions from EUR 5.5 million to EUR 9.6 million. The upturn was due mainly to higher provisions for personnel expenses, which were up by EUR 4.4 million. This was offset chiefly by the EUR 0.5 million decrease in provision for outstanding invoices.

Provisions for taxes and interest on taxes increased to EUR 4.0 million (previous year: EUR 2.7 million). The additions to provisions for tax payments and interest on taxes were made in light of the risk provisions for audits in previous years.

5.3.5 Liabilities and deferred tax liabilities

The decline in liabilities and deferred tax liabilities of EUR 5.2 million in fiscal year 2020 stemmed largely from a EUR 2.6 million fall in deferred tax liabilities (due to the reduction in the carrying amount of internally generated intangible assets recognised in the tax group as a result of derecognitions and impairments) and a EUR 2.2 million decline in liabilities to banks as a result of repayments.

5.4 Overall statement regarding the earnings, financial and asset position of the company

Fiscal year 2020 was affected by significant, negative non-recurring effects. Costs incurred as a result of derecognising or recognising the amortisation of intangible assets and recognising provisions for redundancy payments and restructuring provisions clearly left their mark on the company’s net assets and results of operations as a result of lower profit transfer in connection with this. The financial position essentially benefited from lower investing activities, offset by a downturn in operating earnings and the repayment of bank loans.

The steep decline in the FP Holding AG’s two performance indicators matched the forecast for fiscal year 2020. The Management Board judges the business performance in fiscal year 2020 to have been generally unsatisfactory. There have been no significant changes in the economic situation of the company up to the date of preparation of the combined management report.

6. Risk and opportunity report

Risks and opportunities are defined in the following as influencing factors or events that may result in the management’s targets for short-term or medium-term Group performance being exceeded or missed. The aim of opportunity management is to identify these opportunities at an early stage and pursue them. In turn, risk management is intended to ensure that risks are not only identified in time, but that countermeasures are promptly instigated to control and, where necessary, minimise the impact on the company and the Group.

Risk and opportunity management system

Francotyp-Postalia Holding AG and its subsidiaries are exposed to an array of risks as part of their business activities. These are inextricably linked to entrepreneurial activity.

The Management Board has overall responsibility for the risk and opportunity management system of the FP Group. Risk and opportunity management is closely intertwined with compliance management and is an integrated aspect of corporate governance. A system for monitoring risks has been set up in line with section 91(2) of the Aktiengesetz (AktG – German Stock Corporation Act). The risk and compliance situation is regularly analysed and the risks identified are assessed, managed and controlled. This system is used not only for the early detection of risks that could potentially threaten the continued existence of the FP Group.

Detailed market and competition analyses and forecast scenarios, together with intensive examination of relevant value and cost drivers, serve to determine opportunities.

Aims and strategy

The most important aim of risk and compliance management is to identify potential risks at an early stage, reliably assess how likely they are to occur and what impact they may have on business performance, to manage them and – where possible and within reason – to limit them. At the same time, opportunities for success must be protected, provided these do not entail inappropriate levels of risk. On this basis, suitable measures are implemented to manage risks in line with the company strategy.

Different strategies are used depending on how the risks are assessed. Risks that could have severe repercussions for Group performance or even endanger the going concern of FP are, as far as possible, avoided. The effects of less significant risks are limited. For example, certain maximum levels are stipulated, controls are conducted regularly and systematically and/or consistent separation of functions is ensured. Risks are outsourced where possible or reasonable, for example to insurance companies or suppliers. Risks that are intrinsically linked to business activities are taken on knowingly and in a controlled manner.

The FP Group's risk strategy stipulates an innovative yet risk-averse approach in the traditional business area of Franking and Office Solutions, while a healthy risk appetite is adopted in the investments made in the growing Software and BPA and IoT product areas, which underpins the Group's vision for the future.

Structures and processes

The structures and processes of risk management are standardised across the Group. The risk assessment is carried out twice a year using defined risk categories, i.e. potential risks to which the FP-Group is exposed are identified and assessed. It is conducted locally and documented using standardised reporting formats. Within the risk categories, a number of risk types are considered and analysed by each reporting entity. Individual reports prepared on this basis are then validated in Governance, Risk & Compliance and consolidated into an overall risk position for the Group. The result of this structured process is used to prepare the risk report, a written communication to the Management Board and Supervisory Board. This information is then incorporated into regular business analyses by the Management Board, site managers and business area heads and is used to develop a course of action.

Risk management is supplemented by an Internal Control System (ICS) in order to actively limit relevant risks using suitable control measures and to regularly review the control activities established to check that they are appropriate and effective. The scope and effectiveness of the system are monitored on an ongoing basis and, where necessary, expanded to include new control measures such as policies or process instructions. The early risk detection system is evaluated by the auditor as part of the annual audit to assess that it is suitable for identifying, assessing and communicating any risks that may potentially endanger the going concern of the FP-Group with an adequate degree of probability and in a timely manner.

Compliance management system

The Management Board is responsible for compliance with the law and internal policies, and ensures compliance with these throughout the Group companies. Questions of compliance are regularly discussed between the Supervisory Board or the Chairman of the Supervisory Board and the Management Board. The corporate culture of the FP Group is characterised by trust and mutual respect, and by the will to adhere strictly to laws and internal regulations. Nonetheless, statutory violations due to individual misconduct can never be completely ruled out. Employees and third parties have the opportunity to report misconduct at the Group to the Compliance Officer in person, via e-mail or by other means. Anonymous reports are also followed up. The FP-Group is very keen to minimise the risk of compliance violations as far as possible, to uncover misconduct and to deal with it systematically. Regulations and principles are set out, together with the responsible handling of insider information, in the code of conduct, which provides all employees with guidance regarding corporate integrity in business. Executives and employees receive training on the code of conduct and are able – and expected – to consult the Compliance Officer whenever they have any doubts. Internal Audit carries out risk-orientated audits of compliance with regulations.

Internal control system and risk management system relevant for the consolidated financial reporting process

The accounting-related internal control system is an integral component of the comprehensive company-wide control and risk management system. As part of the FP Group's general ICS, its aim is to ensure that financial reporting is reliable and transparent. To achieve this aim, FP has implemented suitable structures, processes and controls. These should ensure that the results of the accounting process are free from error and submitted on time.

Risks to the integrity of financial reporting are identified and assessed implicitly and on the basis of the experience of the persons responsible.

The internal control system at the FP Group is predominantly supported by a functioning internal management system based on efficient processes, along with process-integrated, organisational security measures such as access restrictions in IT or payment guidelines. Process-integrated controls reduce the probability of errors and support the detection of errors that have already occurred.

The accounting-related ICS is designed by the Management Board and the Supervisory Board monitors its effectiveness. As the parent company, Francotyp-Postalia Holding AG prepares the FP Group's consolidated financial statements. This process is preceded by the financial reporting of the Group companies included in the consolidated financial statements. Both processes are monitored by means of a stringent internal control system, which ensures both true and fair accounting and compliance with the relevant legal stipulations. Cross-segment key functions are managed centrally, whereas the Group's companies prepare their financial statements locally and in accordance with local statutory requirements. The annual financial statements of all major Group companies that are consolidated are subject to an external audit.

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

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

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

Risk management system with regard to financial instruments

The FP Group has a centralised financial management, whereby FP Holding coordinates the consolidated financial requirements, secures liquidity and monitors and manages currency, interest rate and liquidity risks across the Group. The goal of financial risk management is to limit financial risks from changes in exchange rates and interest rates through finance-oriented activities. Derivative financial instruments are used exclusively for the purpose of hedging underlying transactions. Currency risks result from the Group's international activities, specifically in the US, Canada and the UK. FP Holding identifies these risks in cooperation with the Group companies and uses appropriate measures to manage them, e. g. entering into forward currency transactions. Interest rate risks result from medium- and long-term financial liabilities. The purpose of liquidity planning is to identify liquidity exposure risks at an early stage and to minimise it throughout the Group. A monthly rolling liquidity forecast is used to monitor and manage liquidity. For further information on risks from financial instruments, including currency and interest rate risks and the corresponding hedging activities, please refer to section 6.1.3 of this risk report and the disclosures in the notes to the consolidated financial statements in section IV (23) Financial instruments.

Risk assessment

Governance, Risk & Compliance ensures the implementation of a uniform risk strategy and methodology for identifying, analysing and evaluating opportunities and risks as well as the subsequent seizing of opportunities and management of risks.

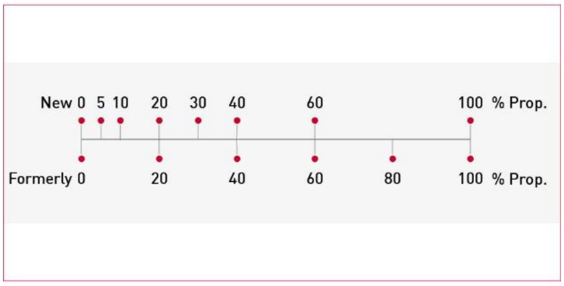
All risks with loss potential of at least 8% of the Group EBITDA budget for 2021 are reported on here, the same process as for internal reporting. Risks are assessed "net", i.e. taking account of any action already taken to reduce them.

Risk matrix of the FP Group

Based on a "traffic light" system, red and orange risks attract particular focus in risk management.

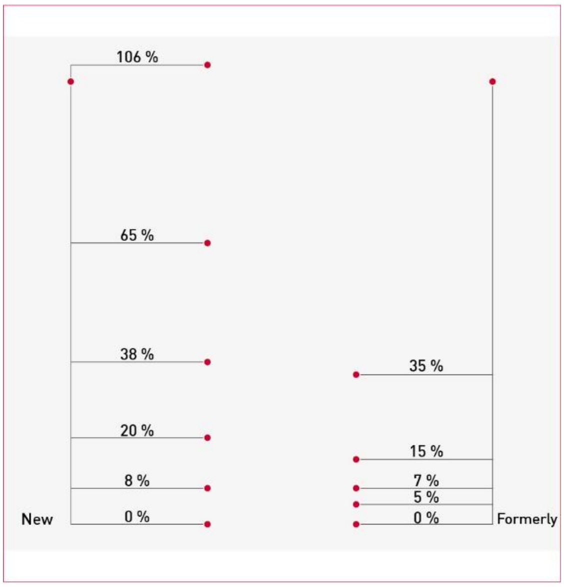
Risks are assessed using a Group-specific assessment matrix, which – as in previous years – takes account of the probability of occurrence and the potential extent of the loss caused by possible events and uses this data to determine priorities. Gradual changes compared to the previous year were made as part of further refining the risk management system.

In order to more efficiently allocate the FP Group's prevention resources, risks in the lowest probability category (0-20 % p.a., occurrence up to every five years in the long-term average) are considered in more detail and divided into the categories 0-5 %, 5-10 % and 10-20 %. Risks are not further subdivided where the probability of occurrence is over 60 %, as close attention is already paid to events that are very likely to occur. The intermediate probability categories reflect this idea, increasing towards the top end of the probability scale:



New assessment metric: probability of occurrence - comparison of new probability of occurrence (above) and old (below)

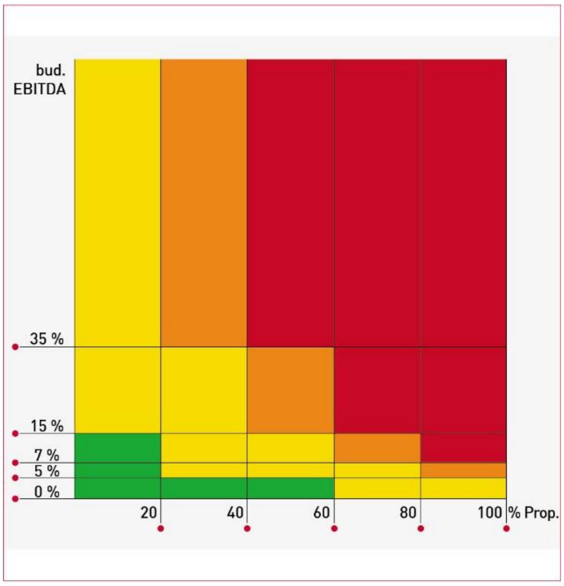
The assessment of loss potential is still based on the impact a risk would have on forecast Group EBITDA if it were to occur. The loss classes were also amended here to provide more consistent intervals between the classes. The size of the classes still varies, but the overall distribution has been smoothed out. Intervals now consistently increase by a factor of 1.5. Class limits were also amended to provide a more nuanced picture of whether the occurrence of the risk would actually endanger the existence of the company. This would not be the case for a loss of 35 % of Group EBITDA:



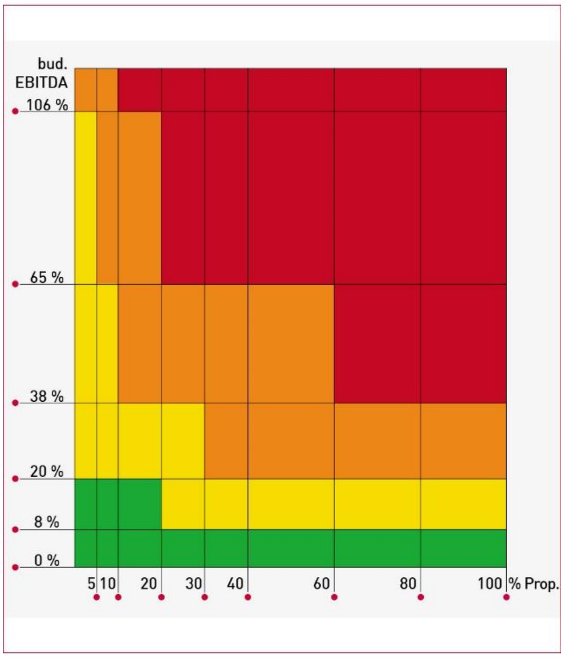
New assessment metric: loss potential - comparison of new intervals (left) and old (right), each as percentage of EBITDA budget

However, the greater differentiation described results in a change to the assessment matrix. The current practice of assigning a higher weighting to potential loss compared to probability of occurrence allows FP to focus risk management more on managing severe risks and risks that might threaten the company's continued existence. This is a change from the previous system, under which risk management focussed on events where prevention was very limited and that did not pose a risk to the company's continued existence and did not even constitute a material risk. Events with a low loss potential that are almost certain to occur are actively managed by the specialist department responsible.

Old assessment metric



New assessment metric



The result of this is that risks with a loss potential of e.g. EUR 13 million that would threaten the continued existence of the company, which were previously classified as red only when the probability of occurrence exceeded 40% (occurring at least every 2 ½ years), are now assigned to this group when probability exceeds 10% (occurring every 5 to 10 years). A new time reference of one year is also established for probability of occurrence.

The FP Group also continues to use a four-tier traffic light system (green, yellow, orange, red) to classify risks. The following nomenclature is used:

Risk classification

Material risks	(red)	Threatens continued existence
	(orange)	Material risks
Immaterial risks	(yellow)	Medium risks
	(green)	Minor risks

Both kinds are deemed to be material, with red risks even threatening the company's continued existence. Active efforts are also made to reduce yellow and green risks where this makes good business sense, i.e. where the costs of further diminishing the risk are not expected to outweigh the reduction in the expected extent of loss.

FP is planning additional changes to risk management methods for fiscal year 2021, chiefly in related to risk identification methods, in order to establish a greater focus on the Group's strategic success factors.

6.1 Risks faced by the FP Group

Reported risks

All risks with an estimated loss potential of 8% or higher of the EBITDA budget for 2021 at the time of reporting – regardless of their probability of occurrence – are reported below. This means that only risks in the lowest loss class are not reported. The probability of occurrence covers a 12-month timeframe. If not explicitly stated, the risks apply to all of our segments.

Risk assessment

As shown above, changes have been made to the separation of risk classes in comparison to the previous year. In order to make it easier to compare changes in risk to the previous year, the risk assessments given for the previous year have been adjusted to fit the new matrix and are therefore systematically reduced in comparison to the corresponding disclosures in the last risk report.

The 2021 EBITDA budget is EUR 11.5 million, compared to EUR 33 million for 2020. As the intervals for the loss classes are defined as a percentage of the EBITDA budget, these intervals have shifted significantly in absolute euro terms. This shift is not incorporated in the adjustment of the old valuations to the new matrix. This means that the old valuation is based on the new matrix but still on the EBITDA budget applicable at the time of the old valuation. A risk for which there has been no change to the loss potential in absolute terms must now be grouped into a higher loss class.

These two effects described regarding the old valuations offset each other. They can cancel each other out or, in individual cases, one may dominate. FP would like to ensure that the risk assessments are comparable over time as far as possible.

6.1.1 Market-related risks

Macroeconomic risks

The last fiscal year has clearly shown that the FP Group is exposed to various risks regarding the macroeconomic environment. For example, general conditions affect customers, some of whom were faced with a decline in their business, cash flows and financing options. This caused customers to delay or cancel their planned investments. Suppliers were also in a similar situation, which meant that they were unable to meet orders or the standards of service and quality agreed. A continued deterioration in economic conditions in fiscal year 2021 could have a significant impact on net assets, the financial position and results of operations, including due to additional impairment on goodwill or other assets.

Competitors

The franking machine manufacturer sector has become increasingly consolidated and global in recent years, and FP's main competitors have substantial financial resources and technological abilities. In some areas, these rivals compete mainly over price. They may have the advantage of lower production costs for certain products. There is no guarantee that FP will always be able to successfully hold its own against competitors. Heightened competition can result in lower profit margins or loss of market share, which could have a serious adverse effect on net assets, financial position and results of operations. Quantifying the specific impact of the macroeconomic environment and the state of competition on FP is extremely unreliable and so we have opted not to do so.

Changes in customer needs as a result of the digital transformation

Probability of occurrence	Loss potential	Current	Previous year
10-20 %	38-65 %		

For many years, volumes of letter mail have been declining by between 3 % and 5 % p.a. on all markets and the intensity of competition has been increasing. In many areas, digitization is replacing traditional mail services and this development is expected to prove a long-term trend. This is a risk for FP, both in terms of sales of new franking machines and related consumables and services. The latter represent a significant proportion of the Group's recurring revenue and earnings. If the decline in the core business were to accelerate, this would hurt revenue and EBITDA.

FP's own measures have no impact on the extent or speed of the decline in demand for franking machines. Nonetheless, FP can observe or attempt to reliably estimate for the future the machine segments in which the slowdown in demand will be faster than in others, thus focusing the development of its products on products types with more stable sales markets. FP also analyses competitor behaviour and may act in a way that complements this if required. In previous years, for example, it has successfully achieved strong growth in a market that a competitor – FP believes – abandoned too early on. Ultimately, however, FP is limited to operating intelligently on the market and cannot change fundamental market developments.

There have been no changes to the risk assessment compared to the previous year. While the surge in digitization stemming from the coronavirus pandemic bolstered demand for certain digital products, it has not markedly sped up the decline in mail volumes more than expected as a result of the pandemic-induced recession.

6.1.2 Operational risks

Implementation of strategic and operational projects and measures

Probability of occurrence	Loss potential	Current	Previous year
20-30 %	38-65%		

All markets on which FP operates are affected by rapid technological change. Future operating success hinges on the ability to develop, produce and sell new and innovative products or to modify existing products to adapt them to customer requirements. There are numerous inherent risks to these processes, including the risk that FP is unable to anticipate the direction of technological change or that profitable new products and applications are not developed and marketed in time. Project risks also include the risk of significantly exceeding the planned and appropriate development costs.

Processes are redefined and redesigned organisationally and technologically so that FP's structures reflect changes to the business model. These projects and measures may have an adverse effect on day-to-day business, they may fall behind schedule or be overbudget, and targets associated with the changes may be missed despite careful planning and implementation. Specific examples of this include, in particular, the Group-wide rollout of a new, standardised ERP and CRM system.

The risk assessment is unchanged on the previous year. The risk occurred in fiscal year 2020 and has since received far more attention from management. In addition, a series of both technical and personnel decisions have been made to reduce the risk. Nevertheless, the projects have made only minor progress compared to the previous year and have not become less complex.

Impairment of intangible assets

Probability of occurrence	Loss potential	Current	Previous year
10-20 %	20-38%		

FP taps new business areas by developing new products and solutions. Internally generated development costs are capitalised as part of development if these meet the requirements of IAS 38. Intangible assets are also generated as part of the current introduction of an ERP/CRM solution. These intangible assets are tested for impairment at the end of each reporting period. They are subject to an ad hoc impairment test during the year if a triggering event occurs.

There is fundamentally a risk that the tests may reveal impairment. This would be recognised in profit and loss. Impairment losses do not affect the FP Group's EBITDA but do have an impact on consolidated net income and thus on equity. If the recognition criteria no longer apply, the asset must be derecognised through EBITDA. This may mean that the planned EBITDA is not achieved.

The material intangible assets were derecognised and amortised in fiscal year 2020, as this was necessary under IAS 36 and 38.

Acquisitions/M&A/divestments

Probability of occurrence	Loss potential	Current	Previous year
20-30 %	20-38 %		

The management regularly assesses potential company acquisitions or technologies that have the potential to strengthen the market position and bolster future growth. Acquisitions may result in goodwill that is recognised as an intangible asset. These transactions are subject to risks. If an acquired company does not achieve the expected results or cannot be successfully integrated into existing business, this may have a material and sustained negative impact on net assets, the financial position and results of operations.

FP also assesses the economic position and strategic importance of certain business areas, which could lead to changes in the assessment of impairment. This could result in a need for impairments, including goodwill and other intangible assets, which may entail considerable negative effects for net assets, the financial position and results of operations. Divestments can also present additional risks, for example as a result of difficulties separating business activities, services, products and staff or because staff are distracted from day-to-day business. Despite careful planning, it cannot be guaranteed that these risks or other material risks can be successfully addressed.

FP addresses this risk chiefly by carefully analysing the targets, their synergy potential and how well they can be integrated. Company acquisitions at FP require the approval of the Supervisory Board. The Management Board is monitored by the Supervisory Board to ensure that growth targets that can be achieved only exogenously are not achieved at the cost of unreasonable purchase prices.

The risk is currently considered greater than it was previously as FP increasingly views targeted acquisitions an additional way of developing the company.

Discontinuation of key components

Probability of occurrence	Loss potential	Current	Previous year
< 5 %	20-38 %		

FP procures components for the product range from third parties. If key components are discontinued before the machine model that uses them is replaced by a new generation, they must be replaced by other components after a buffer period. If the new product generations are not developed on schedule, production of the previous model continues on a temporary basis. Production failure cannot be ruled out in the event of a significant delay.

FP's strategic procurement ensures the availability of key components in close collaboration with the production and development departments. As well as building up buffer inventory, this includes suppliers' contractual obligations, monitoring their financial stability, analysing alternative manufacturers and the amount of time expected to qualify these.

The higher risk assessment compared to the previous year is due to the fact that a key component will no longer be available beyond the planned product life cycle of the machine model that uses this component.

Contractual penalties

Probability of occurrence	Loss potential	Current	Previous year
5-10 %	20-38%		

Contractual penalties are included as standard in tender conditions in the highly competitive Mail Services market, in particular for public-sector customers. These penalties are generally far higher than the margins associated with the contracts. A loss that results in a contractual penalty would have correspondingly serious repercussions for results of operations. The risk assessment depicted shows a scenario where technical problems result in multiple contractual penalties simultaneously.

In the last fiscal year, FP introduced and completed measures that increase the security and stability of control systems used in product operations in Mail Services and reduce the restart time in the event of a malfunction.

The higher risk assessment compared to the previous year reflects the sharp decline in the EBITDA budget. In absolute terms and measured solely by the Mail Services EBITDA budget, the risk is stable.

Employee demotivation, burnout and departure risk

Probability of occurrence	Loss potential	Current	Previous year
30-40 %	20-38%		

Workplace changes can cause employees to feel uncertain about their own future, their role at the company or future working conditions in the FP Group. This risks a loss of motivation amongst some staff, which could impact negatively on productivity and, in particular, on their keenness to proactively embrace initiatives in the interests of the Group. In addition, it may result in employees whose experience and expertise are valuable to the Group leaving FP.

FP endeavours to communicate specific changes planned – including those relating to staff – clearly and at an early stage so as to ensure planning security for the employees not affected. Where appropriate, an attempt is made to counterbalance personnel reductions by redirecting processes to prevent overloading.

This topic was a serious risk in the last fiscal year, too, and will remain so in the current fiscal year 2021.

6.1.3 Financial risks

Outside financing

Probability of occurrence	Loss potential	Current	Previous year
5-10 %	>106 %		n/a

The FP Group uses credit facilities to finance the business. The current conditions of the syndicated credit facility, EUR 38.4 million of which was used at the end of 2020, include a change of control clause. Under these conditions, the lending banks are entitled to terminate all outstanding syndicated credit facilities if a shareholder holds more than 30% of shares in Francotyp-Postalia Holding AG. The current assessment reflects both the change of control and the probability of the banks asserting the clause.

A change of control is assumed if a single shareholder or multiple shareholders acting in concert acquire additional shares in the company, causing their shareholding to rise to over 30%. Most shares in FP are in free float. A change of control therefore cannot affect FP. However, FP maintains dialogue with syndicate banks about what might prompt them to use a change of control as a reason to call in loans. The risk is managed through this communication and any corresponding feedback for Group policy decisions.

In the previous year, one shareholder rapidly increased his shareholding to over 28% without disclosing his intention to FP. An additional increase to over 30% was thus reported as possible to probable last year. It was not considered possible to reliably predict banks' response to this. The pace has since slowed and so the risk is assigned to a lower probability category this year.

Covenant risks

Probability of occurrence	Loss potential	Current	Previous year
<5%	>106%		

In line with standard practice, FP has agreed financial covenants and thresholds for these with its syndicated loan providers. The loan can be called in if these are exceeded or not met.

The situation regarding the agreed covenants at FP remains stable. There have been no changes to the assessment compared to the previous year. Covenants are monitored on an ongoing basis.

Defaults on receivables

Probability of occurrence	Loss potential	Current	Previous year
20-30 %	8-20 %		

In principle, it must be assumed that the difficult economic situation resulting from the coronavirus pandemic may lead to an increase in defaults on receivables. FP's customer structure is dominated by many small and medium-sized companies. The risk of insolvency is therefore estimated to be somewhat higher than for large corporations and so FP might be affected more than the economy as a whole. The inherent increased risk is countered by targeted receivables management.

Liquidity risk

FP defines liquidity risk as the risk that the FP Group will become insolvent. FP has put the Group's liquidity position through ongoing stress tests in view of the coronavirus crisis. This involved running through various scenarios. As in the previous year, FP does not experience a liquidity bottleneck by the end of 2021 in this scenario, even without taking up additional borrowing. Possible liquidity effects as a result of the risks from outside financing described above are excluded here. The risk has been downgraded in comparison to the previous year thanks to the positive liquidity trend, even under the tough conditions presented by the pandemic. Please see section 31 of the notes ("Financial instruments") under section 4 Liquidity risks for an evaluation of the risk.

Risks from financial instruments

FP never uses financial instruments to speculate. It employs them exclusively for hedging purposes. The use of financial instruments therefore does not create any risks for FP as there are always offsetting items with opposing changes.

FP is exposed to risks that can be hedged using financial instruments. These are:

- Exchange rate risks from revenue in USD and GBP
- Interest rate risks from the use of loans
- Market price risks from the purchase of parts made from plastic commodities where the suppliers can and are permitted to pass on higher commodities prices to FP

All three risk types are already in the lowest loss class even without entering into hedging transactions and so they are not reported. This is also why FP does not currently work with defined risk limits. FP does not currently hedge interest rate risks and market price risks for the procurement of production resources. Relating to currency risk, there is currently a net foreign currency cash flow of approximately EUR 5-7 million in the relatively stable currencies of USD and GBP, which are partially but not fully hedged.

6.1.4 Risks from the SARS-CoV-2 pandemic

The business activities of the FP Group, its suppliers, customers and supply chains can be adversely affected by natural disasters, including the impact of the coronavirus pandemic. If the effects of these events cannot be minimised, business activities, operating results (EBITDA), the financial position and cash flow can come under significant strain. The coronavirus pandemic is currently affecting countries, regions, employees, supply chains and markets across the world. It brought about disruptions and travel restrictions for employees and temporary business closures at customers, suppliers and in other sections of the supply chain. The table below summarises the risks resulting from the coronavirus pandemic. It does not consider the fact that some effects have already been detailed and assessed in other sections of the risk report and that others do not exceed the materiality threshold. Accordingly, only qualitative descriptions are included here.

Some employees have been asked to work from home on a full or part time basis as a result of the coronavirus pandemic. This can increase susceptibility to cyber risks and other IT risks. The coronavirus pandemic has already had a negative impact on the financial position and results of operations in the short term and this is expected to continue moving forwards. The extent of these effects depends on future developments, which are extremely uncertain and impossible to predict. These developments may include how fast the virus continues to spread, the geographic regions affected, the duration of the pandemic, the impact on supply chains and on the financial position of suppliers and customers, action taken by various government authorities in response to infections, the potential impact on the global and local economies in which FP operates, and policies introduced to stabilise the economy. Furthermore, the coronavirus pandemic may also exacerbate many of the other risks described in this risk report.

- The franking and inserting product area is characterised by a relatively robust business model with a high proportion of recurring revenues, which generally reacts rather slowly to economic influences. This is due to the high proportion of rental and leasing business in total revenue from franking and inserting machines and a high after-sales share in consumables and service.
- Increasing digitization as a result of the pandemic may lead to a sustained surge in digitization, which may accelerate the decline in letter volumes in the medium term. While FP, due to its specialisation in small franking machines, could also benefit from this if customers switched to smaller franking machines when letter volumes declined, an accelerated decline in the overall market would affect the industry as a whole, including FP.
- The Mail Services product area covers the collection, franking and sorting (consolidation) of our customers' outgoing mail. Here, too, a decrease in the volume of letter correspondence due to economic influences and, if necessary, increased digitization as a result of the pandemic has a direct impact on revenue. In comparison to the overall economy, this area is likely to be affected slightly more than average.
- The Software/Digital product area comprises the business with hybrid mail services and solutions for secure digital communication. The hybrid services segment could in fact benefit from a medium-term surge in digitisation. Digital solutions are highly dependent on a limited number of FP development experts. A significant reduction in development capacity as a result of increased sick leave could temporarily affect FP's ability to develop functioning solutions as planned. In addition, a reduction in development capacity could also slow down the generally planned further development of the product and solution portfolio and thus also the planned growth in this area.

6.1.5 Other risks

In the three areas of

- Regulation, law and compliance
- Tax risks
- Cyber security risks
- Reputational and brand risks
- Environmental and sustainability risks

the risk assessment did not identify any significant risk potential that this report would have to cover.

6.1.6 Overall statement on the Group's risk situation

The table below provides an overview of the FP Group's risk situation as at the reporting date and of changes in risks compared with the previous year. The following ten risks constitute reportable risks for the FP Group as things stand:

OVERVIEW ON RISKS IN THE FP GROUP

Risk	Current probability of occurrence[1)]	Current loss potential[2)]	Current risk class	Risk class in previous year[3)]
Changes in customer needs as a result of the digital transformation	10-20 %	38-65 %		
Implementation of strategic and operational projects and measures	20-30 %	38-65%		
Impairment of intangible assets	10-20%	20-38%		
Acquisitions, M&A, /divestments	20-30 %	20-38 %		
Discontinuation of key components	< 5 %	20-38 %		
Contractual penalties	5-10 %	20-38%		
Employee demotivation, burnout and departure risk	30-40 %	20-38%		
Outside financing	5-10 %	> 106%		n/a
Covenant risk	<5%	> 106%		
Defaults on receivables	20-30 %	8-20 %		

1) The probability of occurrence covers a 12-month timeframe.
2) The loss potential is given as a percentage of Group EBITDA budget for 2021.
3) The previous-year evaluation has been converted into the new assessment metric in place starting this year and so there may be some discrepancies between these figures and the figures in the risk assessment for previous fiscal years.

Overall statement on the Group's risk situation

The change in customer requirements and the resulting decline in core business with franking machines and consumables may have a significant impact on FP’s revenue performance in the long and – potentially – in the medium term. While this does not pose a risk to the company’s continued existence in the forecast period, in the long-term changes in customer requirements must be addressed by expanding the range of products and services. It is therefore vital that the digital business areas be developed – not only to offset the downturn but also to significantly boost the business profitability, thereby bolstering the value of the Group. Successfully achieving this transformation process is essential to FP’s medium and long-term prospects.

Furthermore, the current risk situation is shaped chiefly by continued organisational changes (strategic and operational projects and measures). Changes to responsibilities, processes, personnel resources and IT systems always pose implementation and adjustment risks. Furthermore, these may create issues regarding motivation among staff, resulting in higher turnover.

The FP Group is also exposed to a number of additional risks at the time of reporting and for the current planning period. The Management Board considers these risks manageable and does not consider the continued existence of the Group to be at risk in the planning period. Despite the comprehensive risk analysis, it cannot be conclusively stated that these risks will not occur.

6.2 Opportunities for the FP Group

The Management Board defines material opportunities as reported below as possible future developments or events that are known at the time of reporting and that may result in a deviation from the forecast or target that is very positive for the company.

Strategic opportunities

For various reasons, the FP Group currently assumes that the market for franking machines is stagnating or shrinking. This scenario could prove too defensive, as letters remain the preferred way of sending confidential or binding documents in many areas. Thanks to the focus on franking machines for smaller letter volumes, a decline in the volume of letters could even prove advantageous, as these can replace larger machines and therefore offer competitive advantages. Furthermore, FP still does not have a large installed base in many countries and it could still substantially expand its presence there.

FP can use its customer base to offer its customers a broader range of products. As part of sales partnerships, for example, complementary products can increase revenue and also create additional leads.

A key aspect of the growth strategy is the acquisition of companies or technologies to expand digital business areas. If suitable acquisition targets are identified and taken over more quickly than expected, the company may significantly outperform planned business development.

Work on opening up new digital business areas is moving full speed ahead. Business opportunities that cause expectations to be far exceeded or met more quickly than anticipated would also result in a positive deviation from short and medium-term forecasts.

Operating opportunities

As part of the transformation, numerous processes are currently being redesigned and different separate company units are being organised into business units. These are based on a standardised ERP/CRM platform and should work more quickly and more efficiently. Should these changes be completed far more quickly than planned, corresponding cost savings could also be made earlier than expected. Achieving true cross-selling with the existing customer base also requires the ERP/CRM platform. Faster implementation thus also unlocks the potential for unplanned revenue contributions.

The transformation process involves various “rightsizing” and “rightshoring” measures intended to ensure that the business units are supported by lean support functions and to reduce the cost base. In the broadest sense, this also includes reviewing the strategic contribution of individual areas of the company. If sales were made at short notice in a low-margin area, the potentially unexpectedly high income from this would have a positive impact on the financial position and results of operations and an overall positive impact on long-term profitability.

The Parcel Shipping product developed by FP allows customers to choose the best sender for their parcels and packages, thereby optimising their logistics. The numbers of parcels and packages being shipped is rising sharply, yet at present this product is offered only in the US. Rolling it out on other markets on which FP operates could produce unexpected additional revenue.

Customer interest in the FP Sign digital signature picked up during the pandemic. We believe “enterprise solutions” offer great potential here. These integrate the product into existing ERP systems, making it available to employees at large companies for daily use quickly and straightforwardly. If some larger accounts are developed in this area, revenue expectations for this product may be exceeded.

In the area of IoT, FP intends to create a truly end-to-end product aimed at specialised markets. Major companies operate in some of these markets, each of which – if convinced of the benefits of the FP solutions – has the potential to ensure revenue expectations are significantly exceeded.

6.3 Overall statement on opportunities

The FP Group's products and internal measures put it in a good position to systematically take advantage of opportunities in future markets for the Group. While the company targets its efforts towards seizing these opportunities, it is rather unlikely that this will result in short-term successes.

6.4 Company's risks and opportunities

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

7. Forecast report

The forecast for macroeconomic conditions, which takes account of the SARS-CoV-2 pandemic, is based on information provided by the International Monetary Fund (IMF) and the German Council of Economic Experts (GCEE).

The FP-Group wishes to point out that statements relating to the future are based on assumptions and estimates. Actual future developments and results may vary substantially from these assumptions and estimates.

7.1 Expected macroeconomic and industry-specific conditions

The economic climate has an influence on future industry growth and therefore also on the future business performance of the FP Group. Companies are more inclined to invest in a positive economic climate, which could have a positive impact on the franking and inserting business. In a robust economy, companies are more willing to innovate, which is favourable for the Software/Digital segment in particular.

Following the historic economic slump in 2020, at the start of 2021 the International Monetary Fund[3] (IMF) anticipated a strong recovery for the global economy this year. It expects the dynamic upturn seen in the second half of 2020 to continue and estimates that global gross domestic product (GDP) will grow by 5.5% in 2021. At the same time, it has stressed that this forecast is subject to major uncertainty on account of the coronavirus pandemic. The IMF expects growth of 3.9% in the eurozone in 2021. Germany's growth rate is estimated at 3.5%, with other bodies putting this at 3.0%. In the US, the FP Group's most important foreign market, GDP is even expected to climb by 6.5% in 2021 thanks to government assistance.

7.2 Expected business performance of the FP Group

Performance in fiscal year 2021 will be determined both by the general economic environment and by the measures taken to stabilise business and improve profitability. Unfortunately, it is not currently possible to precisely assess how exactly the coronavirus pandemic will develop and what effects this will have on the FP Group's net assets, financial position and results of operations.

The FP Group has been reporting declining business volumes in the core Franking business in many markets for some time now. This reflects the general fall in the mail volume combined with advances in digitization in many areas. We therefore expect revenue in the Franking segment to decline slightly in fiscal year 2021. As things stand at present, Brexit will take a serious toll on our UK business. The best way of making up for this downturn is to expand the product portfolio for customers. This includes products developed by the company itself such as FP Sign, a digital signature solution, and Parcel Shipping, a tool to select the best sender for parcels and packages. Furthermore, the range should be broadened to cover office supplies and products from third party suppliers. At present, it is difficult to assess whether and to what extent it will be possible to offset this general slump in core business. The measures taken should ensure that this is successful at least in the medium term.

In "Software and Business Process Automation" and "IoT", FP has repositioned itself to create the foundations for successfully expanding these business areas to a substantial area of the Group. A trend towards further negative effects for revenue and earnings is expected in fiscal year 2021. One key step is focussing on solutions that offer customers quick and efficient benefits. To accelerate the expansion in this area, this will also be supplemented by targeted,

[3] See https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update

inorganic developments. The aim is to tap higher-margin business areas in the medium term that boosts the Group's profitability in the long run.

We assume that the Mail Services business area will continue to be affected by the general decline in mail volumes and that we will see a slight decline in revenue in the financial year 2021. As this volume business does not make a material contribution to the Group's profitability, strategic reviews have been instigated.

The FUTURE@FP project already initiated significant savings with effect from January 2021, with the cost basis being adjusted to the revenue level below EUR 200 million. This should ensure that the EBITDA and EBITDA margin improve in comparison to 2020.

The development of the coronavirus pandemic will have a material impact on business performance. Restrictions aimed at containing infections levels also affect operating business, sales activities and travel. Renewed drastic measures imposed by authorities in the remainder of this year may have a considerable impact on the Group's net assets, financial position and results of operations.

7.3 Expected Development of Performance Indicators

	2021 forecast
Revenue	EUR 185 - 196 million
EBITDA	EUR 6 – 12 million
EBITDA margin	3 % - 6 %
Quality indicator – Germany and International	Slight improvement compared with 2020
Improvement indicator	Slight improvement compared with 2020

Business performance in 2021 will benefit from good general economic conditions. At the same time, however, there are still major uncertainties regarding the further development of the coronavirus pandemic and how this may influence business in the current fiscal year.

Despite the measures taken, we expect consolidated revenue to continue to decline slightly in fiscal year 2021. We expect this in the range of EUR 185 million to EUR 196 million, as against EUR 195.9 million in the previous year.

Operating EBITDA (earnings before interest, taxes, depreciation, and amortisation) came to EUR 8.0 million in 2020, representing an EBITDA margin of 4.1%. Measures to sustainably improve profitability by EUR 10 million each year will not yet take full effect in fiscal year 2021. Depending on how revenue performs, we therefore expect an EBITDA margin of between 3 % and 6 %.

The anticipated development of financial performance indicators for the fiscal year 2021 is based on the assumption of constant exchange rates.

The non-financial performance indicators are likely to improve slightly in 2021. A slight positive development compared to the previous year's figure is expected for both the quality indicator and the improvement indicator. This is particularly based on the assumption of stable and decliningwarranty costs and service incidents.

7.4 Company forecast report

Because of FP Holding's links with the Group companies, we refer to our statements in the report on expected developments in the Group management report, which particularly reflect the expectations for the parent company.

The forecast for fiscal year 2021 takes account of the latest developments connected with the SARS-CoV-2 pandemic. FP Holding is expecting a slight improvement in its income from investments and earnings before taxes in fiscal year 2021.

The company wishes to point out that statements relating to the future are based on assumptions and estimates. Actual future developments and results may vary substantially from these assumptions and estimates.

8. Takeover-related disclosures

8.1 Explanatory Report by the Management Board on Disclosures Pursuant to Sections 289a(1), 315a(1) HGB

Restrictions relating to voting rights or the transfer of shares

Each share entitles the holder to cast one vote at the Annual General Meeting. There are no restrictions relating to voting rights or the transfer of shares.

Direct or indirect investments in capital exceeding 10 % of the voting rights

As at 31 December 2020, the following direct and indirect shareholdings in the capital existed, which exceeded 10 % of the voting rights:

Name/company	Direct/indirect holding of more than 10% of the voting rights
Mr Klaus Röhrig, Austria	Indirectly
Mr Rolf Elgeti, Germany	Indirectly
Obotritia Capital KGaA, Germany	Direct

The above information is based in particular on notifications of voting rights pursuant to the German

Securities Trading Act (WpHG), which Francotyp-Postalia Holding AG received and published.

As communicated in writing on 10 March 2020, Obotritia Capital KGaA held a total of 28.0 % of the company's voting rights. The shares of Obotritia Capital KGaA are allocated to the shareholder Mr Rolf Elgeti. The number of voting rights last reported could have changed within the threshold from 25.0% to 29.99% since this time.

Voting rights notifications published by Francotyp-Postalia Holding AG can be accessed on the Internet at: https://www.fp-francotyp.com/en/voting-rights-notifcation/34d7329ef8d9abe0[4].

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

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

Statutory regulation in the Articles of Association on appointing and dismissing Management Board members and amending the Articles of Association
In accordance with article 6(2) of the Articles of Association of Francotyp-Postalia Holding AG, the Supervisory Board is responsible for determining the number of Management Board members, appointing them, and revoking their appointment. In accordance with article 6(3) of the Articles of Association, the Supervisory Board can appoint a Supervisory Board committee to sign, amend and terminate employment contracts of Management Board members.

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

Powers of the Management Board with regard to the possibility to issue or buy back shares Authorisations for authorised and contingent capital
The authorised capital resolved at the Annual General Meeting on 11 June 2015 laid out in section 4 paragraph 3 of the company's Articles of Association (Authorised Capital 2015/I) expired on the 10th of June, 2020. Contingent Capital 2015/I in accordance with section 4 paragraph 4 of the Articles of Association was rescinded.

[4])This cross reference is not part of the audit of the financial statements by KPMG AG Wirtschaftsprüfungsgesellschaft.

To provide management with room for manoeuvre, a resolution on new authorised capital (Authorised Capital 2020/I) was adopted at the Annual General Meeting on 10 November 2020. Section 4 paragraph 3 of the company's Articles of Association was amended accordingly. With the approval of the Supervisory Board, the share capital of the company can then be increased on one or more occasions by up to a total of EUR 8,150,000 by issuing new bearer shares against cash and/or non-cash contributions up to 9 November 2025. Shareholders have subscription rights to the new rights. In accordance with section 186(5) of the German Stock Corporation Act (AktG), the new shares can also be purchased by one or more banks or a syndicate of banks, with the obligation to offer these to shareholders for subscription.

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

On 10 November 2020, the Annual General Meeting also amended section 4 paragraph 4 of the company's Articles of Association to resolve to contingently increase the share capital of the company by an amount of up to EUR 6,464,000 by issuing up to 6,464,000 new bearer shares, each accounting for a pro rata amount of share capital of EUR 1.00 (Contingent Capital 2020/I). With the approval of the Supervisory Board, the Management Board is hereby authorised to issue, on one or more occasions and in full or in partial amounts, warrant or convertible bonds, profit participation certificates, participating bonds or combinations of these instruments (collectively referred to as "bonds") with a total nominal amount of up to EUR 50,000,000 up to 9 November 2025, and to grant the bearers or creditors (collectively referred to as "bearers") of the respective bonds options or conversion rights to acquire bearer shares of the company accounting for a total pro rata amount of share capital of up to EUR 6,464,000 in accordance with the further conditions of the bonds and to establish the corresponding option or conversion obligations. The bonds and the options and conversion rights/obligations can be issued with a duration of up to 30 years or as perpetual instruments. Bonds can also be issued in whole or in part against contributions in kind.

The individual issues can be divided into different types of bonds with equal rights.

The contingent capital serves to grant shares to the holders or creditors of warrant or convertible bonds, profit participation certificates or participating bonds (or combinations of these instruments) that were issued by the company or one of its direct or indirect Group companies as defined by section 18 AktG by 9 November 2025. This is carried out only to the extent that options or conversion rights from the above bonds are utilised or option or conversion obligations arising from these bonds are met, unless other means of settling the obligation are used. The new shares participate in profits from the beginning of the fiscal year in which they arise as a result of options or conversion rights being exercised or conversion obligations being fulfilled.

Shareholders have subscription rights to the bonds. The bonds can also be purchased by one or more banks or a syndicate of banks, with the obligation to offer these to shareholders for subscription (indirect subscription right). The Management Board is authorised, with the approval of the Supervisory Board, to disapply shareholders' subscription rights to bonds.

Contingent capital increase and 2020 stock option plan
For further explanation, please refer to the disclosures in the notes to the consolidated financial statements in section IV (26) Equity.

Authorisation to acquire treasury shares
On 10 November 2020, the Annual General Meeting authorised the company to purchase treasury shares in the amount of up to 10% of the share capital existing at the time of the Annual General Meeting's resolution and to use these shares for any purposes permitted by law up to 9 November 2025. The authorisation can be exercised in full or in part, and on one or more occasions.

The treasury shares may also – with the approval of the Supervisory Board and in particular in the context of business combinations or in the case of company acquisitions or investments – be offered and transferred to third parties against in-kind contributions, provided that the company acquisition or the investment is in the company's best interest and the amount to be paid for the treasury shares is not disproportionately low.

With the approval of the Supervisory Board, the treasury shares can be issued against cash contributions in order to list the company's shares on a foreign stock exchange on which the shares were not admitted for trading until now.

With the approval of the Supervisory Board, the treasury shares can be sold to third parties in exchange for cash payments if the price at which the shares are sold is not significantly lower than the market price. In total, the shares used on the basis of the authorisation granted under this section, issued in accordance with section 186 paragraph 3 sentence 4 AktG (with subscription rights withheld in exchange for cash contributions close to the quoted market price), may not exceed 10% of the share capital. Shares that have been issued or sold up to this point in time in direct or corresponding application of this regulation during the term of this authorisation are to be counted towards this limit. This limit also includes shares that are to be issued to service bonds (including profit sharing rights) with conversion or option rights or conversion obligations, provided the bonds or profit sharing rights are issued during the term of this authorisation with subscription rights being excluded in corresponding application of section 186 paragraph 3 sentence 4 AktG.

The Supervisory Board can offer the treasury shares to members of the Management Board instead of the cash remuneration owed by the company.

The treasury shares can, with the approval of the Supervisory Board, be used to service subscription rights duly issued and exercised under the 2015 stock option plan (agenda item 11 of the Annual General Meeting on 11 June 2015).

Please also see the information in the notes to the annual financial statements of FP Holding AG regarding the acquisition of treasury shares in accordance with section 160 (1) no. 2 AktG.

Significant agreements of the parent company subject to a change of control following a takeover offer and indemnification agreement of the parent company in the event of a takeover offer
A key agreement of the parent company Francotyp-Postalia Holding AG, which falls under the condition of a change of control following a takeover offer, is the current syndicated loan agreement, which includes a right of termination in the event of a change of control. If this occurs, FP would potentially have to conclude new financing agreements at less favourable conditions. No further agreements have been entered into with either third parties or subsidiaries.

In the event of a change of control, there are agreements with the members of the Management Board whose comply with the recommendation in section G paragraph G.14 of the German Corporate Governance Code in the version dated 16 December 2019.

9. Non-financial declaration

With regard to non-financial information, please refer to the comments in the separate non-financial report of Francotyp-Postalia Holding AG and its subsidiaries, including the non-financial declaration[5)] (sections 289b, 315b HGB), which is available online at https://www.fp-francotyp.com/sustainability-report.

10. Remuneration report

The report follows the recommendations of the German Corporate Governance Code (GCGC) in the version of 16 December 2019 (partially also the version of 7 February 2017), which came into force on 20 March 2020, and includes details in accordance with the requirements of the German Commercial Code (HGB), the German Accountancy Standard (GAS) and the International Financial Reporting Standards

[5)] The non-financial declaration is not part of the audit by KPMG AG Wirtschaftsprüfungsgesellschaft.

(IFRSs). The remuneration report forms part of the management report.

10.1 General remuneration system

The remuneration of the Management Board members is determined by the Supervisory Board based on a performance assessment. The criteria for determining the appropriate level of remuneration include the duties of the Management Board member in question, his personal performance, the economic situation, the success and the long-term future prospects of the business as well as the customariness of remuneration taking into consideration the peer group and the remuneration structure that otherwise prevails in the company.

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

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

Total remuneration for individual Management Board members includes the additional components of a bonus commitment for sustainable development of "earnings per share" and a participation via virtual shares.

10.2 Fixed components

10.2.1 Fixed remuneration

Fixed remuneration is recognised as annual fixed remuneration and paid out every month in the form of a salary.

Fixed remuneration for **Rüdiger Andreas Günther** (previous Chairman of the Management Board and CEO/CFO) has been EUR 430,000 (gross) per year since 1 July 2019 on account of a realignment of his service contract.

Fixed remuneration for **Carsten Lind** (new Management Board member since 1 June 2020 and new Chairman of the Management Board since 11 November 2020) is EUR 400,000 (gross) per year. In 2020, Carsten Lind's gross fixed remuneration came to EUR 233,333 (gross) pro rata temporis.

Gross fixed remuneration for **Patricius de Gruyter** (CSO) and **Sven Meise** (CDO/COO) is EUR 310,000 (gross) per year each.

10.2.2 Fringe benefits

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

10.3 Variable components

10.3.1 Variable remuneration

The variable remuneration ("bonus") for Mr **Rüdiger Andreas Günther** contains both short- and long-term elements. Unlike for the other members of the Management Board, however, this is not divided into an annual bonus and a long-term bonus. Mr Günther's bonus has minimum targets ("floor"), targets that correspond to a degree of attainment of 100% and targets up to a maximum amount of 175% ("cap"). Mr Günther is entitled to a bonus of EUR 520,000 (gross) if 100% of targets are met. The bonus is capped at EUR 910,000 (gross) (175 % target attainment). The bonus is not adjusted due to fluctuations in exchange rates or economic or political events. The bonus payment for fiscal year 2020 reduces pro rata temporis due to Mr Günther being dismissed and released during the year on 11 November 2020. The bonus targets for the fiscal year 2020 are based on the budget that the Management Board and the Supervisory Board agreed at the Supervisory Board meetings in November and December 2018 and that is designed to support the company's long-term successful development. Targets for the following performance indicators ("KPIs") were set for fiscal years 2019 to 2022: revenue in the Franking and Inserting segment; revenue in the Software/Digital segment; anticipated income from the JUMP programme (gross excluding costs); EBITDA (after considering all bonus payments to be made by the company to all members of the Management Board and before IFRS 16 effects); and adjusted free cash flow (applying an overall assessment over the four-year period). The first four of these KPIs carry equal weight and each contribute 22.5 % to the calculation of the variable remuneration component. The final KPI, adjusted free cash flow, is weighted at 10 % in the bonus calculation. If the degree of attainment of each KPI is between the floor (0 %) and 100 % or between 100 % and the cap, the relevant value will be included pro rata in the calculation of the variable remuneration component.

The following rule applies to the payment of the bonus for Mr Günther: 60% of the bonus for a completed fiscal year is paid together with the salary for the month following that in which the Annual General Meeting passes its resolution on the appropriation of the unappropriated surplus. A further 20 % of the bonus is paid in the following year together with the salary for the month following that in which a resolution is passed on the annual financial statements. The remaining 20 % of the bonus is paid one year later together with the salary for the month following that in which a resolution is passed on the annual financial statements. Payment of the two 20 % tranches is dependent on the minimum target ("floor") being reached in respect of at least one of the first four targets listed above in the fiscal year prior to the corresponding tranche being paid out. In terms of the long-term target of adjusted free cash flow, the degree to which the target has been met is ultimately assessed at the end of the four-year period based on the aggregate adjusted free cash flow values over this period. Advance payments were made in the individual years based on a degree of target attainment of 100 %. The amounts are adjusted at the end of the period under consideration based on the actual degree of target attainment and were offset against the advance payments. Any extra payments due to or overpayments owed from Mr Günther will be made when the variable remuneration component is calculated for fiscal year 2022. Should Mr Günther not have enough variable remuneration against which amounts to be repaid can be offset, they will be offset against other components of their remuneration (fixed salary, earnings per share or payments from virtual shares). Should these amounts also be insufficient for offsetting the amounts to be repaid, Mr Günther shall repay the amount that has not been offset within a month of the Annual General Meeting passing its resolution on the appropriation of the unappropriated surplus for fiscal year 2022.

The variable remuneration for Mr **Carsten Lind** includes a short-term variable remuneration component ("annual bonus") and a long-term variable remuneration component ("long-term bonus").

Mr Lind receives an <u>annual bonus</u> for his services to the company on the basis of the attainment of short-term targets. 100% target attainment was assumed for fiscal year 2020 and Mr Lind's annual bonus was measured on a pro rata basis depending on the start of the activity. Otherwise (i.e. from fiscal year 2021 onwards), figures that correspond to target degree of 100% and figures up to a maximum amount of 120% ("cap") are established for calculating the minimum bonus ("floor"). Mr Lind is entitled to a bonus of EUR 180,000 (gross) if 100 % of targets are met. The bonus is capped at EUR 360,000 (gross) (120 % target attainment). Payment of an annual bonus requires target attainment of <u>over</u> 80 %. Subject to a reduction in the remuneration in accordance with section 87 (2) AktG, the bonus is not adjusted due to fluctuations in exchange rates or economic or political events. The annual bonus is calculated based on the budget approved by the Supervisory Board for the fiscal year in question. The bonus is the sum of two key figures (consolidated revenue and EBITDA). Both key figures account for 50 % of the calculation. New key figures are agreed each year between the Supervisory Board and the Management Board member and are defined with sufficient clarity. They must take into account all bonus payments payable by the company.

The annual bonus is payable to the Management Board member, after deducting statutory taxes, together with the salary for the calendar month following the adoption of the resolution on the respective annual financial statements at the Annual General Meeting. If the resolution on the approval is delayed by more than six months after the end of the fiscal year, the Management Board member is entitled to a suitable advance payment of the expected annual bonus.

Payment of Mr Lind's <u>long-term bonus</u> depends on the long-term growth of the Group and is based on the relevant fiscal years for the four-year bonus period. Payment of a long-term bonus comprises the following sustainable target components ("sustainability components"):

- Virtual share options granted as an incentive to increase the company's share price over the bonus period ("sustainability component 1")
- Compliance by the company with ESG sustainability criteria (ESG = Environment, Social, Governance) over the bonus period ("sustainability component 2").

The two sustainability components are not cumulative and are both treated separately.

Details on <u>sustainability component 1</u> and the terms for the virtual share options are described below under section 10.3.2.

With regard to <u>sustainability component 2</u>, evaluating compliance with at least two agreed ESG sustainability criteria must be based on reliable indicator systems, taking account of recognised standards. Target figures are also established that must be achieved by the end of the bonus period. The main ESG sustainability criteria for sustainability component 2 and the process of evaluating compliance with the ESG sustainability criteria are set out and agreed in an addendum to the service contract. Target attainment for the ESG sustainability criteria agreed is measured after the end of the bonus period. Target attainment is measured during the year only in exceptional circumstances. The total amount paid out may not be negative. If the calculation results in a negative figure, then the long-term bonus paid out is zero. If multiple ESG sustainability criteria are agreed, these bear equal weighting when assessing target attainment for sustainability component 2. The amount paid out as a result of complying with sustainability component 2 is payable in the month after the end of the bonus period and in which compliance with the ESG sustainability targets was calculated.

Mr Lind receives annual advance payments on a presumed amount paid out of EUR 40,000 (gross) per year. The amounts are adjusted at the end of the bonus period based on the actual degree of target attainment and are offset against the advance payments. Any extra payments or overpayments will be made when the variable remuneration component is calculated for fiscal year 2024. The long-term bonus of the sustainability component also has two minimum targets ("floor"), targets that correspond to a degree of attainment of 100 % and targets up to a maximum amount of 120 % ("cap"). Mr Lind is entitled to a bonus of EUR 280,000 (gross) if 100 % of targets are met for the four-year period. The bonus is capped at EUR 560,000 (gross) (120 % target attainment). Payment of an annual bonus requires target attainment of over 80 %.

Amongst other things, the variable remuneration for the activities of the CDO/COO (Mr **Sven Meise**) and CSO (Mr **Patricius de Gruyter**) include a short-term variable remuneration component ("annual bonus") and a long-term variable remuneration component ("long-term bonus").

The annual bonus depends on financial performance indicators obtained after taking into account any bonus payments payable by the company. The budget approved by the Supervisory Board for the fiscal year in question and the degree to which the target was achieved are important factors for determining the annual bonus.

The short-term variable remuneration of the **CDO/COO** depends on the free cash flow and consolidated net profit generated. Both key figures account for 50% of the calculation. Figures that correspond to a degree of attainment of 100 % and figures up to a maximum amount of 110 % ("cap") are also established for calculating the minimum bonus ("floor"). Mr Meise is entitled to a bonus of EUR 50,000 if 90 % of targets are met. Mr Meise is entitled to a bonus of EUR 100,000 (gross) if 100 % of targets are met. Up to a target attainment of 105% (bonus of EUR 125,000), each percentage point is equal to EUR 5,000. Each percentage point above 105% is equal to EUR 15,000. The bonus is capped at EUR 200,000 (gross) (110 % target attainment). If the “consolidated net profit/loss for the year” key figure is less than 80% of the budged figure, this key figure is included in the calculation at a target attainment of “0%”. The “free cash flow” key figure is included in the target attainment at its respective amount. A bonus payment requires total target attainment of over 80 %. The annual bonus is payable to the CDO/COO together with the salary for the calendar month following the resolution on the annual financial statements at the Annual General Meeting.

The company and Mr Meise established the verbal agreement made on 31 December 2020 regarding his departure from the company in writing on 10 January 2021 by way of a termination agreement. The parties made a separate arrangement regarding the annual bonus for fiscal year 2020: Mr Meise receives a minimum amount of 50% calculated on the basis of a hypothetical annual bonus payment of EUR 100,000, i.e. EUR 50,000 in gross terms, payable on 31 January 2021. The hypothetical annual bonus payment of EUR 100,000 represents the annual bonus (100% target attainment) estimated by the parties at the time of signing the termination agreement and before the final calculation of the actual key figures. The CDO/COO also receives any difference between this minimum amount and the annual bonus to which he is entitled under the service contract.

A crucial factor for the Supervisory Board when determining the annual bonus is that the annual bonus of all members of the Management Board is coherent.

Figures that correspond to a degree of attainment of 100% and figures up to a maximum amount of 120% ("cap") are established for calculating the CSO’s minimum bonus ("floor"). If target attainment is 90% in accordance with the budget, the annual bonus is EUR 55,000 (gross). If target attainment is 100% in accordance with the budget, the annual bonus is EUR 110,000 (gross). If target attainment is 110% in accordance with the budget, the annual bonus is EUR 143,000 (gross), with the annual bonus adjusted on a straight-line basis if target attainment falls between the stated percentages. The bonus is capped at EUR 176,000 (gross). Payment of the annual bonus requires target attainment of over 80 %. The annual bonus is payable to the CSO together with the salary for the calendar month following the resolution on the annual financial statements at the Annual General Meeting.

Payment of the long-term bonus depends on the long-term growth of the Group and is calculated based on the relevant fiscal years over a four-year period. An overall assessment is made after the contract period. As part of this, minimum targets ("floor"), targets that correspond to target attainment of 100% and targets up to a maximum amount ("cap") are defined for the CDO/COO and the CSO. Where target attainment is below 80%, the CDO/COO and the CSO each receive a penalty on their bonus account. If 100% of targets are met, the CDO/COO and the CSO are credited with EUR 150,000. The bonus is capped at EUR 300,000 (gross). The total credit balance accrued during the period of the contract is offset against the malus components accrued. However, the overall bonus cannot be negative and so a negative long-term bonus must be recognised at “0”. The recognised long-term bonus is due in the month following the month in which the annual accounts are finalised for the last month of the bonus period. Ahead of the payment of the expected long-term bonus, the CDO/COO and CSO receive an individual annual advance payment of EUR 50,000. The advance payment is payable to the CDO/COO together with the salary for the calendar month following the resolution on the annual financial statements. If it is clear that the long-term bonus will not be paid, there will be no advance payment. The CDO/COO and the CSO are each obliged to promptly refund to the company any difference between the advance payments and the defined long-term bonus.

The credit amount for the **CDO/COO** for fiscal year 2020 is at least EUR 75,000 (gross). An advance payment of EUR 50,000 (gross) is payable for fiscal year 2020. This is a result of the termination agreement concluded between the company and the

CDO/COO on 10 January 2021. The minimum amount of EUR 75,000 (gross) stated above is considered to have been achieved in this case. The actual amount for fiscal year 2020 is calculated using the actual key figures in line with section 3.4 of the service contract. The credit amount calculated in this way thus increases to account for any difference between the minimum amount and the credit amount to which Mr Meise is entitled under the service contract.

If the actual "total amount" (cumulation of annual bonus and credit amount for long-term bonus) for the CDO/COO for fiscal year 2020 determined after calculating the respective key figures is higher than EUR 325,000 (even if only very slightly), the long-term bonus credit (regardless of the amount by which it exceeds this figure) is automatically reduced by EUR 35,000 (gross).

The long-term bonus of the CDO/COO is determined on the basis of whether the Group targets and the individual sustainability goals are achieved. The two components of the target (Group targets and individual targets) have a share of 70 % (Group targets) and 30 % (individual targets) respectively. The target components are linked by addition, which means that underfulfilment of individual targets (Group or individual targets) can be compensated by overfulfilment of the other targets (Group or individual targets) in the same year.

The Group targets are formed on the basis of the "EBITDA" and "revenue" performance indicators after taking into account any bonus payments payable by the company. "EBITDA" and "revenue" each account for 50 % in the calculation of the Group targets and are linked by addition. The performance indicators to be achieved result from the budget approved by the Supervisory Board. The individual targets for the CDO/COO are based on the following two features, each of which account for 50 % when determining the target achievement of the individual targets and are linked by addition:

a) New digital products: development of a sustainable business model with new digital products such as FP Sign, IoT or similar products; 100% target attainment here requires cumulative external revenue of EUR 5,000,000 within four years.

b) Increase in revenue in the "freesort" and "IAB" divisions.

A crucial factor for the Supervisory Board when determining the long-term bonus is that the long-term bonus of the Management Board members is coherent. A crucial factor for the Supervisory Board when determining the bonus is that the long-term bonus of all members of the Management Board is coherent.

The credit amount for the **CSO** for fiscal year 2020 is estimated at EUR 150,000 (gross). An advance payment of EUR 50,000 (gross) is payable for fiscal year 2020 in 2021.

For the members of the Management Board (with the exception of Mr Lind), total remuneration includes the additional component of a non-recurring premium in the case that consolidated financial statements prepared and audited during the contractual term, but no later than 2023, reports annual earnings per share of at least EUR 1.00 for a fiscal year, taking into account the premium payments to all Management Board members.

10.3.2 Long-term share-based remuneration

Long-term share-based remuneration for Management Board members constitutes interests in the company in the form virtual shares as well as the granting of virtual share options.

Unlike the other Management Board members (Mr Günther, Mr Meise, Mr de Gruyter), Mr Lind does not receive any virtual shares in the company. Virtual share options are thus to be granted to **Carsten Lind** as a new Management Board member (and CEO) within the scope of variable remuneration (sustainability component 1) as part of the long-term bonus. An improvement in the company's share price is therefore a long-term incentive for the Management Board member.

Mr Lind was granted 350,000 virtual share options at a fixed strike price of EUR 3.60 when he was appointed as a Management Board member at the start of the four-year bonus period (1 June 2020). As a prerequisite for being allocated the virtual share options, Carsten Lind acquired 8 % of the virtual share options allocated to him as real shares and must hold these for four years, starting on the day of purchase (lock-up period). Addendum 2 on the granting of virtual share options for sustainability component 1 clearly stated that the real shares amounting to 8 % of the virtual share options allocated to the Management Board member may also be acquired before the allocation date. If Mr Lind sells shares in the interim, the number of virtual share options allocated is reduced proportionately. Furthermore, an additional 50,000 virtual share options are allocated at the beginning of the bonus period ("additional options") if the Management Board member sustainably develops the company's digital business (IoT, FP Sign, IAB). Sustainable development of the company's digital business is considered to have been achieved if the company generates revenue of EUR 50 million and EBITDA of EUR 10 million in this area in fiscal year 2023. When targets are achieved, the additional options are allocated and simultaneously are to be exercised.

The virtual share options are be exercised (vesting) four years after the allocation date (holding period) and can be exercised by Carsten Lind as long as the Management Board member is in office. After the end of the period in office and thus of the body, the virtual share options must be exercised no later than 31

December of the year following the end of the period in office (exercise period). A minimum of 20,000 virtual share options must be exercised each time. The exercise price is calculated from the arithmetic mean of the Xetra daily closing prices of the last 90 trading days, starting on the date of the Management Board member's written exercise notice. The exercise price is not required to exceed the strike price by a certain amount. Payment is made even if the exercise price is slightly lower than the strike price. When exercising the virtual share options, the members of the Management Board are entitled to the difference between the strike price and the exercise price, multiplied by the number of virtual share options, in cash.

Management Board members' claims resulting from this remuneration are limited to EUR 15 per virtual share option.

By contrast, the other Management Board members (Mr Günther, Mr Meise, Mr de Gruyter) do not receive any virtual share options. Management Board members **Rüdiger Andreas Günther**, **Sven Meise** and **Patricius de Gruyter** are granted virtual shares as long-term share-based remuneration.

Management Board members are credited with virtual shares in Francotyp-Postalia Holding AG at a strike price on 1 January (Mr Günther) and 1 March (Mr Meise, Mr de Gruyter) of each year for the duration of their appointment. Mr Günther received 60,000 virtual shares (starting from 1 January 2020), with the CDO/COO (ending on 1 March 2020 inclusive) and the CSO (ending on 1 March 2021 inclusive) each receiving 30,000. The strike price is calculated as an arithmetic mean of the Xetra daily closing prices of the last 90 trading days prior to the allocation date. As a prerequisite for being allocated the virtual shares, Mr Günther had to acquire 25% and the CSO and the CDO/COO 15% of the number of virtual shares allocated to them as real shares and hold them for four years, starting on the day on which they purchased the shares (lock-up period). If fewer real own shares were acquired during the fiscal year, the number of virtual shares to be allocated was reduced proportionately. After four years have passed (holding period per tranche), the former CEO/CFO (Mr Günther) can, during a period of a further two years and at a time to be determined by them, demand that the company redeem all virtual shares allocated to them with the respective tranche at an exercise price; the CDO/COO and CSO may do the same within a further four-year period. The exercise price is calculated from the arithmetic mean of the Xetra daily closing prices of the last 90 trading days, starting on the date on which the return was declared. The exercise price must be at least 10 % higher than the strike price. If the exercise price is lower, the claim for redemption no longer applies. Upon redemption of the virtual shares, the members of the Management Board are entitled to the difference between the strike price and the exercise price, multiplied by the number of virtual shares of the tranche, in cash. Claims resulting from this remuneration are limited to an amount of EUR 600,000 per tranche for the former CEO/CFO (Mr Günther) and EUR 300,000 per tranche for the CDO/COO.

In addition to the virtual shares described above, Management Board members Günther, Meise and de Gruyter were also allocated real share options. The Annual General Meeting of Francotyp-Postalia Holding AG on 11 June 2015 resolved to issue pre-emptive rights to members of the management boards of affiliated companies as defined in section 15 AktG and to executives of the FP Group, whereby these pre-emptive rights entitle the holders to subscribe to stock options up to a maximum of the statutory limit of 10 % of the share capital (2015 stock option plan). For further explanation, please refer to the disclosures in the consolidated financial statements (notes to the consolidated financial statements, section IV (26) Equity).

10.4 Commitments in Connection with the Termination of Activities on the Management Board

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

In the case of **Mr Günther's** Management Board contract, in the event of their contract being revoked, this member of the Management Board is also entitled to a lump sum on the day of the legal termination. This will amount to *100 %* of their last total annual remuneration (fixed annual salary plus bonus) but cannot exceed the remuneration entitlement for the remainder of the contract. By contrast, if **Mr Lind's** Management Board contract is revoked and he is dismissed from the Management Board, he is entitled to a lump sum on the day of the legal termination. This will amount to *75%* of his last annual remuneration (fixed salary plus annual bonus) but cannot exceed the fixed remuneration entitlement for the remainder of the contract. In the event of revocation, **Mr Meise's** contract provides for a lump sum of nine months' remuneration due on the day of the legal termination, but not exceeding the remuneration entitlement for the remainder of the contract. If **Mr Gruyter's** contract is revoked, he will receive a lump sum of *50 %* of his last total annual remuneration (fixed annual salary, annual bonus and credits/malus of the long-term bonus) due on the day of the legal termination, but not exceeding the remuneration entitlement for the remainder of the contract.

Separate arrangements may be made if the service contract is terminated prematurely without good cause. However, payments to members of the Management Board including fringe benefits may not exceed the value of one year's remuneration (severance pay cap) and may not remunerate more than the remaining term of the service contract. The severance pay entitlement and severance pay cap is to be calculated based on the corresponding total remuneration for the last full fiscal year.

10.5 Remuneration of members of the Management Board and Supervisory Board in fiscal year 2020

10.5.1 Remuneration of members of the Management Board

The total remuneration paid to the Management Board in accordance with GAS 17, taking account of a partial salary sacrifice due to the pandemic, was as follows:

CARSTEN LIND (MEMBER OF THE MANAGEMENT BOARD SINCE 1 JUNE 2020)

in EUR thousand		2020
Non-performance-based component	Fixed remuneration	230
	Fringe benefits	15
	Total	245
Performance-based component		
Without long-term incentive effect	*Short-term variable remuneration)*	105
With long-term incentive effect	*Long-term variable remuneration*	
	Virtual share options	221
	Long-term bonus	41
	Total	367
Pension cost		0
Total remuneration		612

RÜDIGER ANDREAS GÜNTHER (MEMBER OF THE MANAGEMENT BOARD FROM 10 JANUARY 2016 TO 10 NOVEMBER 2020)

in EUR thousand		2020	2019
Non-performance-based component	Fixed remuneration	419	415
	Fringe benefits	21	20
	Total	440	435
Performance-based component			
Without long-term incentive effect	*Short-term variable remuneration*	455	603
With long-term incentive effect	*Long-term variable remuneration*		
	2015 stock option plan	39	35
	Long-term bonus2)	23	0
	Total	517	638
Pension cost		22	21
Total remuneration		979	1,094

PATRICIUS DE GRUYTER (MEMBER OF THE MANAGEMENT BOARD SINCE 1 JUNE 2018)

in EUR thousand		2020	2019
Non-performance-based component	Fixed remuneration	302	310
	Fringe benefits	14	17
	Total	316	327
Performance-based component			
Without long-term incentive effect	*Short-term variable remuneration*	110	110
With long-term incentive effect	*Long-term variable remuneration*		
	Virtual share options	20	4
	Long-term bonus	150	150
	Total	280	264
Pension cost		5	4
Total remuneration		601	595

SVEN MEISE (MEMBER OF THE MANAGEMENT BOARD SINCE 1 FEBRUARY 2015)

in EUR thousand		2020	2019
Non-performance-based component	Fixed remuneration	302	310
	Fringe benefits	26	28
	Total	328	338
Performance-based component			
Without long-term incentive effect	*Short-term variable remuneration*	100	200
With long-term incentive effect	*Long-term variable remuneration*		
	2015 stock option plan	0	12
	Virtual share options	20	12
	Long-term bonus	153	144
	Total	273	368
Pension cost		23	23
Total remuneration		624	728

The **German Corporate Governance Code (GCGC)** was revised with effect from 20 March 2020 and no longer includes the recommendation on the reference tables included in the version dated 7 February 2017. The remuneration report within the meaning of section162 AktG is binding for Francotyp-Postalia Holding AG for the first time for the fiscal year starting 1 January 2021. The **total remuneration granted to Management Board members** in the reporting year is disclosed in the notes to the consolidated financial statements in the “Related party transactions” section.

Of the stock options granted in fiscal years 2015 and 2016 from the 2015 stock option plan, a total of 242,500 options related to the Management Board. An option entitles the bearer to purchase one no-par-value bearer share in Francotyp-Postalia Holding AG. No further options were granted under the 2015 stock option plan in the reporting year. The possibility to exercise the granted options began in fiscal year 2019 (issued in 2015) or begins in 2020 (issued in 2016) and ends in fiscal year 2024 (issued in 2015) or 2025 (issued in 2016).

As in the previous year, provisions of only insignificant amounts were recognised for pension obligations to active Management Board members in fiscal year 2020 (2020: EUR 5 thousand; 2019: EUR 4 thousand).

EUR 1,442 thousand was set aside for pension obligations to former Management Board members of Francotyp-Postalia Holding AG as at 31 December 2020 (previous year: EUR 1,354 thousand). EUR 11 thousand (previous year: EUR 19 thousand) was added to provisions in the 2020 reporting year, thereof EUR 1 thousand for service cost and EUR 10 thousand for interest cost.

In the fiscal year 2020, severance payments of EUR 2,578 thousand (previous year: EUR 0 thousand) were accrued for members of the Executive Board due to the termination of their employment Of this, EUR 2,042 thousand is attributable to Mr Günther and EUR 536 thousand to Mr Meise.

10.5.2 Remuneration of the Supervisory Board

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

In addition to the reimbursement of cash expenses and any VAT incurred in relation to Supervisory Board work, each member of the Supervisory Board receives fixed remuneration of EUR 30 thousand per fiscal year, payable in the last month of the fiscal year. The fixed remuneration for the Chairman is 150% of the remuneration for a normal Supervisory Board member and 125% for the Deputy Chairman. The amount of remuneration increased by 10 % for each Supervisory Board committee to which the member belongs.

The fixed remuneration of the Supervisory Board for fiscal year 2020 amounted to EUR 102 thousand (previous year: EUR 110 thousand).

10.6 Share ownership of the Management Board and Supervisory Board

As the total ownership of all Management Board and Supervisory Board members exceeds 1 % of the shares issued by the company, FP lists the total ownership separately according to the Management Board and Supervisory Board as at 31 December 2020:

SHAREHOLDER

	Number of shares	%
Direct		
Carsten Lind	28,000	0.17
Sven Meise	20,000	0.12
Patricius de Gruyter	10,000	0.06
Indirectly		
Klaus Röhrig (member of the Supervisory Board) via Active Ownership Fund SICAV-FIS SCS and Active Ownership Corporation S.á.r.l	1,550,000	9.51
Klaus Röhrig (member of the Supervisory Board) via Active Ownership Investments Limited	130,000	0.80

Berlin, 27 April 2021

Management Board

CONSOLIDATED FINANCIAL STATEMENTS

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

Non-binding convenience translation from German

Consolidated statement of comprehensive income for the period from 1 January to 31 December 2020

in EUR thousand	Notes	1 Jan. - 31 Dec. 2020	1 Jan. - 31 Dec. 2019
Revenue	(9)	195,853	209,088
Decrease/increase in inventories of finished goods and work in progress		-439	-43
		195,414	209,044
Own work capitalised	(10)	7,795	18,596
Other operating income	(11)	4,466	2,851
Cost of materials	(12)	93,910	101,634
a) Expenses for raw materials, consumables and supplies		32,975	35,250
b) Cost of purchased services		60,935	66,384
Employee benefit expenses	(13)	67,800	60,186
a) Wages and salaries		58,627	51,118
b) Social security contributions		8,471	8,205
c) Expenses for pensions and other benefits		701	863
Expenses from impairment losses and income from reversals of impairment losses on trade receivables	(14, 23)	1,181	1,864
Other operating expenses	(15)	36,834	33,496
Amortisation, depreciation and impairment	(19, 20)	21,940	27,416
Net interest income	(16)	875	397
a) Interest and similar income		2,450	2,199
b) Interest and similar expenses		1,575	1,801
Other financial result	(16)	-976	645
a) Other financial income		1,340	766
b) Other finance costs		2,316	121
Share of profits and losses of companies accounted for using the equity method		-611	-994
Income taxes	(17)	-446	-4,239
Consolidated loss/profit		**-15,147**	**1,703**

in EUR thousand	Notes	1 Jan. - 31 Dec. 2020	1 Jan. - 31 Dec. 2019
Other comprehensive income			
Foreign currency translation of financial statements of foreign entities[1]		-3,434	1,481
thereof taxes		-16	3
Adjustment of provisions for pensions and early retirement in accordance with IAS 19 (rev. 2011)[2]		-714	-1,732
thereof taxes		257	671
Cash flow hedges – effective part of changes to fair value[1]		798	-122
thereof reserve for hedging costs		94	57
thereof taxes		-344	52
Cash flow hedges – reclassified to profit or loss		-197	-243
thereof taxes		85	105
Other comprehensive income after taxes		-3,547	-616
Total comprehensive loss/income		-18,694	**1,087**
Consolidated loss/profit		-15,147	1,703
thereof attributable to the shareholders of FP Holding		-15,147	1,703
Total comprehensive loss/income		-18,694	1,087
thereof attributable to the shareholders of FP Holding		-18,694	1,087
Earnings per share (basic in EUR)	(18)	-0.94	0.11
Earnings per share (diluted in EUR)		-0.94	0.11

1) Item that is reclassified to profit or loss
2) Item that is not reclassified to profit or loss

Consolidated statement of financial position as at 31 December 2020

ASSETS

in EUR thousand	Notes	31 Dec. 2020	31 Dec. 2019
NON-CURRENT ASSETS		**82,154**	**101,576**
Intangible assets	(19)	**28,321**	38,762
Intangible assets including customer lists		**21,449**	23,701
Goodwill		**3,829**	4,622
Development projects in progress and advance payments		**3,043**	10,438
Property, plant and equipment	(20)	**24,898**	29,220
Land, land rights and buildings		**2,556**	2,765
Technical equipment and machinery		**3,252**	4,137
Other equipment, operating and office equipment		**3,471**	3,878
Leased products		**15,455**	18,307
Advance payments and assets under construction		**163**	134
Right of use assets	(34)	**10,345**	11,182
Associates (at equity)	(4)	**0**	642
Non-current financial assets		**16,317**	17,420
Finance lease receivables	(21, 31)	**15,674**	17,256
Other non-current financial assets	(31)	**643**	164
Non-current non-financial assets		**984**	2,848
Income taxes receivable	(28)	**831**	2,821
Other non-current non-financial assets		**153**	27
Deferred tax assets	(28)	**1,289**	1,503
CURRENT ASSETS		**91,845**	**84,692**
Inventories	(22)	**11,509**	12,357
Raw materials, consumables and supplies		**4,417**	5,156
Work in progress		**232**	378
Finished goods and merchandise		**6,861**	6,823
Trade receivables	(23, 31)	**17,689**	18,142
Other current financial assets		**13,661**	14,139
Finance lease receivables	(21, 31)	**6,679**	6,875
Derivative financial instruments	(31)	**566**	0
Other financial assets	(24, 31)	**6,417**	7,264
Other current non-financial assets		**12,877**	9,547
Income taxes receivable	(28)	**4,986**	1,573
Other non-financial assets	(24)	**7,891**	7,974
Cash and cash equivalents[1)]	(25, 36)	**36,109**	30,508
Assets		**174,000**	**186,269**

[1)] Cash and cash equivalents includes postage credit managed by the FP Group of EUR 12,929 thousand (previous year: EUR 11,990 thousand).

EQUITY AND LIABILITIES

in EUR thousand	Notes	31 Dec. 2020	31 Dec. 2019
EQUITY	**(26)**	**13,670**	**31,991**
Share capital		16,301	16,301
Capital reserves		34,296	34,743
Stock option reserve		1,544	1,520
Treasury shares		-1,066	-1,863
Loss carried forward		-13,951	-15,654
Consolidated loss/profit after non-controlling interests		-15,147	1,703
Total other equity		-8,308	-4,760
NON-CURRENT LIABILITIES		**74,240**	**72,517**
Provisions for pensions and similar obligations	(27)	20,537	20,591
Other provisions	(29)	5,358	3,374
Financing liabilities	(30, 31)	43,288	46,157
Other financial liabilities	(30, 31)	1,992	0
Other non-financial liabilities	(30)	471	27
Deferred tax liabilities	(28)	2,595	2,367
CURRENT LIABILITIES		**86,090**	**81,762**
Tax liabilities	(28)	3,767	2,713
Other provisions	(29)	15,793	9,580
Financing liabilities	(30, 31)	3,675	4,092
Trade payables	(30, 31)	14,139	14,581
Other financial liabilities	(30, 31)	32,750	34,405
thereof telepostage		*26,525*	*27,119*
Other non-financial liabilities	(30)	15,966	16,391
Equity and liabilities		**174,000**	**186,269**

Consolidated cash flow statement for the period from 1 January to 31 December 2020

in EUR thousand	Notes	2020	2019
1. Cash flow from operating activities			
Consolidated loss/profit		-15,147	1,703
Net income tax recognised in profit or loss	(17)	446	4,239
Net interest income recognised in profit or loss	(16)	-875	-397
Amortisation, depreciation and impairment on non-current assets	(19, 20)	21,940	27,416
Decrease (-)/increase (+) in provisions and tax liabilities	(28, 29)	10,558	-1,501
Loss (+)/gain (–) on the disposal of non-current assets		297	-562
Decrease (+)/increase (-) in inventories, trade receivables and other assets	(22, 23, 24)	-442	-3,020
Decrease (+)/increase (-) in finance lease receivables	(21)	1,774	-5,925
Decrease (-)/increase (+) in trade payables and other liabilities	(31)	-991	1,688
Other non cash expenses (+)/income (-)		4,424	1,821
Interest received	(16)	2,450	2,199
Interest paid	(16)	-1,429	-1,435
Income taxes received	(17)	987	550
Income taxes paid	(17)	-1,221	-3,667
Cash flow from operating activities		22,770	23,047
2. Cash flow from investing activities			
Payments for the capitalisation of development costs	(10, 19)	-3,407	-13,773
Payments for capitalised interest for development costs		-191	-171
Proceeds/payments from disposals of items of fixed assets	(19, 20)	-297	792
Payments for investments in intangible assets	(19)	-633	-728
Payments for investments in property, plant and equipment	(20)	-4,831	-6,491
Payments for investments accounted for according to the equity method	(4)	-480	-1,000
Payments for investments in the acquisition of operations	(4)	-1,547	0
Cash flow from investing activities		-11,386	-21,372
3. Cash flow from financing activities			
Payments for distribution to shareholders	(26)	0	-477
Bank loan repayments	(30, 31)	-2,224	-407
Repayments of lease liabilities	(30, 31, 34)	-3,804	-3,859
Proceeds from the sale of treasury shares	(26)	350	0
Proceeds from the assumption of bank loans	(30, 31)	4	0
Cash flow from financing activities		-5,674	-4,743
Cash and cash equivalents[1)]			
Change in cash and cash equivalents	(36)	5,709	-3,068
Change in cash due to currency translation		-1,047	434
Cash at beginning of period	(36)	18,518	21,153
Cash at end of period	**(36)**	**23,180**	**18,518**

[1)] Postage credit balances managed by the FP Group of EUR 12,929 thousand (previous year: EUR 11,990 thousand) are deducted from cash and other liabilities.

Consolidated statement of changes in equity for the period from 1 January to 31 December 2020

in EUR thousand	Share capital	Capital reserves	Stock option reserve	Treasury shares	Consolidated profit/loss
As at 1 Jan. 2019	**16,301**	**34,743**	**1,428**	**-1,863**	**-15,176**
Consolidated profit 1 Jan. - 31 Dec. 2019					**1,703**
Foreign currency translation of financial statements of foreign entities	0	0	0	0	0
Adjustment of provisions for pensions and early retirement according to IAS 19	0	0	0	0	0
Cash flow hedges	0	0	0	0	0
Other comprehensive income 1 Jan. - 31 Dec. 2019	**0**	**0**	**0**	**0**	**0**
Total comprehensive income 1 Jan. - 31 Dec. 2019	**0**	**0**	**0**	**0**	**1,703**
Distributions	0	0	0	0	-477
Stock option settlement	0	0	92	0	0
As at 31 Dec. 2019	**16,301**	**34,743**	**1,520**	**-1,863**	**-13,951**
Consolidated loss 1 Jan. - 31 Dec. 2020					**-15,147**
Foreign currency translation of financial statements of foreign entities	0	0	0	0	0
Adjustment of provisions for pensions and early retirement according to IAS 19	0	0	0	0	0
Cash flow hedges	0	0	0	0	0
Other comprehensive income 1 Jan. - 31 Dec. 2020	**0**	**0**	**0**	**0**	**0**
Total comprehensive loss/income 1 Jan. - 31 Dec. 2020	**0**	**0**	**0**	**0**	**-15,147**
Distributions	0	0	0	0	0
Stock option settlement	0	-447	24	797	0
As at 31 Dec. 2020	**16,301**	**34,296**	**1,544**	**-1,066**	**-29,098**

	Total other equity							
	Foreign currency translation	Net investments in foreign operations	Adjustment due to IAS 19	Difference amount from acquisition of shares of other shareholders	Reserve from cash flow hedges	Reserve for hedging costs	Equity attributable to FP Holding	Total
	-130	**11**	**-3,390**	**-439**	**-70**	**-126**	**31,289**	**31,289**
							1,703	**1,703**
	1,474	7	0	0	0	0	1,481	1,481
	0	0	-1,732	0	0	0	-1,732	-1,732
	0	0	0	0	-422	57	-365	-365
	1,474	**7**	**-1,732**	**0**	**-422**	**57**	**-616**	**-616**
	1,474	**7**	**-1,732**	**0**	**-422**	**57**	**1,087**	**1,087**
	0	0	0	0	0	0	-477	-477
	0	0	0	0	0	0	92	92
	1,344	**18**	**-5,122**	**-439**	**-492**	**-69**	**31,991**	**31,991**
							-15,147	**-15,147**
	-3,396	-39	0	0	0	0	-3,434	**-3,434**
	0	0	-714	0	0	0	-714	**-714**
	0	0	0	0	508	93	601	**601**
	-3,396	**-39**	**-714**	**0**	**508**	**93**	**-3,547**	**-3,547**
	-3,396	**-39**	**-714**	**0**	**508**	**93**	**-18,694**	**-18,694**
	0	0	0	0	0	0	0	**0**
	0	0	0	0	0	0	374	**374**
	-2,053	**-21**	**-5,836**	**-439**	**16**	**24**	**13,670**	**13,670**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR 2020

I. General information

(1) General information

Francotyp-Postalia Holding AG, headquartered in Berlin (hereinafter also referred to as “FP Holding”, “the company” or “the parent company”), is entered in the commercial register of the Charlottenburg Local Court under HRB 169096 B. Francotyp-Postalia Holding AG’s registered office is at Prenzlauer Promenade 28, 13089 Berlin, Germany.

Francotyp-Postalia Holding AG is the parent company of direct and indirect subsidiaries and holds indirect shares in an associate (hereinafter referred to as “the FP Group”, “FP”, “Francotyp-Postalia”).

Francotyp-Postalia Holding AG’s shares are admitted to trading in the Prime Standard (regulated market segment with additional post-admission obligations) of the Frankfurt Stock Exchange.

The international FP Group has a history dating back 98 years. Its business activities focus on products and services for efficient mail processing, the consolidation of business mail, and digital solutions for businesses and authorities. In the digital segment, the FP Group provides with high-security solutions for the Internet of Things (IoT) and digital document signatures.

The Management Board of Francotyp-Postalia Holding AG approved the consolidated financial statements for submission to the Supervisory Board on 27 April 2021. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and to state whether it adopts them.

(2) Accounting principles

General information

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

The consolidated financial statements and the Group management report for the year ending 31 December 2020 will be submitted to and published in the electronic Federal Gazette.

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

Declaration of Compliance

FP Holding has prepared its consolidated financial statements as at 31 December 2020 in accordance with the International Financial Reporting Standards (IFRS), as adopted by and as applicable in the EU, and the supplementary provisions in accordance with section 315e(1) of the German Commercial Code (HGB).

The accounting policies applied to prepare these consolidated financial statements were applied consistently in all periods shown. An explanation of these is provided in note 7. The Group also applied the IFRS standards and interpretations outlined in note 3 for the first time in fiscal year 2020.

(3) Adoption of new and revised IFRSs

IFRS standards and interpretations applied for the first time

The Group applied the following new or revised IFRS standards and interpretations, which have already been approved by the EU and are binding for fiscal years beginning on 1 January 2020, for the first time in fiscal year 2020:

- Amendments to IFRS 3: Business Combinations
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to IFRS 16: Leases – COVID-19-Related Rent Concessions (early application, mandatory for fiscal years beginning on or after 1 June 2020)
- Amendments to IAS 1 and IAS 8: Definition of Material
- Various: Amendments to References to the Conceptual Framework in IFRS Standards

These new or revised IFRS standards and interpretations had no or no material impact on the consolidated financial statements.

New IFRS standards and interpretations

The following new and revised IFRS standards and interpretations that were not yet mandatory in the reporting period or not yet adopted by the European Union, are not applied early. The Group intends to apply these standards once they are mandatory in the EU. No material impact on the consolidated financial statements is expected.

Standard/interpretation		Mandatory for fiscal years beginning on	Adopted by the European Union	Impact on the consolidated financial statements
Amendments to IFRS 3	Business Combinations - Amendments regarding Reference to the Conceptual Framework	1 January 2022	No	None
Amendments to IFRS 4	Insurance Contracts - deferral of IFRS 9	1 January 2021	Yes	None
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021	Yes	None
Amendments to IFRS 16	Leases - COVID-19-Related Rent Concessions beyond 30 June 2021	1 April 2021	No	None
IFRS 17	Insurance Contracts	1 January 2023	No	None
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current	1 January 2023	No	None
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023	No	None
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023	No	None
Amendments to IAS 16	Property, Plant and Equipment – Proceeds Before Intended Use	1 January 2022	No	None
Amendments to IAS 37	Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022	No	None
Various	Annual Improvements 2018 - 2020	1 January 2022	No	None

(4) Consolidated group

The consolidated financial statements comprise the financial statements of FP Holding and its directly and indirectly controlled subsidiaries. The FP Holding controls a company if it is exposed to variable returns from its investment and has rights to these and the ability to affect these returns through its power over the company. If control ends, these companies are deconsolidated.

There were changes to the consolidated group in fiscal years 2020 and 2019.

Francotyp-Postalia GmbH included HEFTER Systemform GmbH in the consolidated group in fiscal year 2020. More information on this can be found under “Change in the consolidated group in fiscal year 2020”.

In fiscal year 2019, FP Shared Service Europe GmbH, Hennigsdorf, was founded as a subsidiary of Francotyp-Postalia GmbH by partnership agreement dated 5 March 2019. It was entered in the commercial register on 13 March 2019.

In addition to Francotyp-Postalia Holding AG, the 2020 consolidated financial statements include twelve (previous year: eleven) German and ten (previous year: ten) foreign subsidiaries (see following table).

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

No.	Name and registered office of the company	31 Dec. 2020 Interest in %[2]	Via No.
1	Francotyp-Postalia FP Holding, Berlin		
	Fully consolidated subsidiaries		
2	Francotyp-Postalia GmbH, Berlin	100	1
3	freesort GmbH, Langenfeld	100	1
4	IAB Communications GmbH (until 2 March 2020: internet access GmbH lilibit Berlin Gesellschaft für Kommunikation und Digitaltechnik), Berlin	100	3
5	FP Direkt Vertriebs GmbH, Berlin	100	2
6	Francotyp-Postalia Vertrieb und Service GmbH, Berlin	100	11
7	FP InovoLabs GmbH, Berlin	100	1
8	Francotyp-Postalia Unterstützungseinrichtung GmbH, Berlin	100	2
9	FP Produktionsgesellschaft mbH & Co. KG, Wittenberge	100	2
10	FP Produktionsverwaltung GmbH, Wittenberge	100	2
11	Mentana-Claimsoft GmbH, Fürstenwalde	100	1
12	Francotyp-Postalia N.V./S.A., Antwerp, Belgium	99.97	2
13	Francotyp-Postalia GmbH, Vienna, Austria	100	2
14	Ruys Handelsvereniging B.V., Zoetermeer, Netherlands	100	2
15	FP Finance B.V., Zoetermeer, Netherlands	100	2
16	Italiana Audion s. r. l, Milan, Italy	100	2
17	Francotyp-Postalia Ltd., Dartford, UK	100	2
18	Francotyp-Postalia Inc., Addison, Illinois, USA	100	2
19	Francotyp-Postalia Canada Inc., Concord, Canada	100	18
20	Francotyp-Postalia Sverige AB, Bromma, Sweden	100	2
21	Francotyp-Postalia France SAS, Nanterre, France	100	2
22	FP Shared Service Europe GmbH, Hennigsdorf	100	2
23	Hefter Systemform GmbH, Prien a. Chiemsee	100	2
	Other subsidiaries[3]		
24	FP Systems India Private Limited, Mumbai, India	99.998	1.2
25	FP Direct Ltd., Dartford, UK	100	17
26	FP Leasing (UK) Ltd., Dartford, UK	100	17
	Associates		
27	JUCONN GmbH, Unterföhring	15	7

[1] For Francotyp-Postalia GmbH, Francotyp-Postalia Vertrieb und Service GmbH, FP Direkt Vertriebs GmbH, FP InovoLabs GmbH, Mentana-Claimsoft GmbH, freesort GmbH, IAB Communications GmbH, Hefter Systemform GmbH and Francotyp-Postalia Unterstützungseinrichtung GmbH, it was decided to make full use of the exemptions provided by section 264(3) HGB in conjunction with section 325. FP Produktionsgesellschaft mbH & Co. KG likewise made use of the exemptions provided by section 264b HGB in conjunction with section 325 HGB. These companies are also exempt from the obligation to prepare a 2019 management report in accordance with section 264(3) HGB in conjunction with section 289 HGB or section 264b HGB. The corresponding resolutions were submitted to the operator of the electronic Federal Gazette, the respective announcement was arranged.

[2] Including directly and indirectly attributable shares.

[3] Not included in the consolidated financial statements due to immateriality.

Change in the consolidated group in fiscal year 2020

On 29 January 2020, Francotyp-Postalia GmbH acquired 100% of the shares in Kurfürst 1675 GmbH, Berlin, which it renamed FP Service Süd GmbH. By purchase agreement dated 5 February 2020, FP Service Süd GmbH acquired non-current and current assets, customer and supplier contracts and 28 employees from HEFTER Systemform GmbH, Prien a. Chiemsee, in liquidation, as part of an asset deal. On 14 February 2020, FP Service Süd GmbH was renamed Hefter Systemform GmbH, and its registered office was relocated to Prien am Chiemsee. The entry into the Traunstein commercial register B was made on 25 February 2020. The company has a share capital of EUR 25 thousand.

With this acquisition, FP intends to expand the traditional sales business in the segment of competitors' customers. HEFTER has been selling mail processing machines such as inserting and folding machines for around 50 years. The company is known in the sector for its high level of quality and service. FP has acquired the tradition-steeped brand name. FP expects significant synergy effects in the expansion of the product range, the optimisation of services and the enhancement and optimisation of the acquisition of new customers and competitors' customers.

The consideration for the acquisition under the asset deal amounted to EUR 1,248 thousand. The net assets acquired were also measured at EUR 1,248 thousand. They consist of property, plant and equipment of EUR 10 thousand and inventories of EUR 1,238 thousand.

The revenue from the acquired business included in the consolidated financial statements as at 31 December 2020 amounted to EUR 4,838 thousand since the acquisition.

The total comprehensive income after taxes generated by the acquired business in fiscal year 2020 amounted to EUR 86 thousand.

Associates

With effect from 1 January 2019, FP InovoLabs GmbH acquired 15% of the shares in Juconn GmbH, with the aim of boosting the development of digital products, especially FP Secure IoT Gateways, and offering customers the entire IoT value chain. Through the share acquisition, FP took the chairmanship of Juconn GmbH's Supervisory Board and thus has a significant influence on the company. The purchase price for the acquired share totalling EUR 2,000 thousand included a contingent consideration of EUR 1,000 thousand that was recognised as a liability in the FP Group. Based on slower business development and scaling than originally anticipated at the time of the acquisition of the shares, the FP Group reduced the provisional carrying amount of the contingent consideration by EUR 400 thousand to EUR 600 thousand against the carrying amount of the investment within the measurement period in the third quarter of 2019. In addition, the impairment test in accordance with IAS 36 resulted in impairment of the implied goodwill of EUR 903 thousand.

On 26 February 2020, the parties definitively agreed on a remaining payment of EUR 410 thousand, which was paid by FP in the first half of 2020. The difference of EUR 190 thousand was recognised in profit or loss. By the same agreement on 26 February 2020, FP Group acquired, in exchange for a payment of EUR 70 thousand, an option for the acquisition of an additional amount of 8.5% share in the company from Juconn GmbH. The option can be exercised until 30 June 2022 on the condition that the company achieves a cumulative order intake of at least EUR 500 thousand in at least one fiscal year before 30 June 2022.

The FP Group accounts for its shares in Juconn GmbH using the equity method. The share in Juconn GmbH's profit/loss for the year allocated to the Group is offset against the carrying amount of the investment. In fiscal year 2020, the pro rata loss amounted to EUR 84 thousand (previous year: EUR 91 thousand). In accordance with IAS 36, an impairment loss of EUR 526 thousand (previous year: EUR 903 thousand) was also recognised due to continued delays in business development. The FP Group is currently looking into divesting its shares in Juconn GmbH.

The table below shows summarised financial information for Juconn GmbH as at the end of the reporting period:

FINANCIAL INFORMATION FOR JUCONN GMBH

in EUR thousand	2020	2019
Non-current assets	98	131
Current assets	247	352
Non-current liabilities	100	100
Current liabilities	70	56
Net assets	**175**	**328**
Revenue	110	120
Loss from continuing operations	-563	-606
Post-tax profit or loss from discontinued operations	0	0
Other comprehensive income	0	0
Total comprehensive income	**-563**	**-606**

(5) Consolidation principles

Capital consolidation is performed in accordance with the principles of IFRS 10.

Business combinations are accounted for using the purchase method in accordance with IFRS 3. All identifiable assets, liabilities and contingent liabilities acquired as part of a business combination are recognised at fair value at the acquisition date. The cost of the equity investments is then offset against the remeasured, pro rata equity. Any surplus is capitalised as goodwill.

(6) Currency translation

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

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

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

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

	Closing rate		Average rate	
EUR 1 =	31 Dec. 2020	31 Dec. 2019	2020	2019
USD	1.22735	1.12275	1.1423	1.1196
GBP	0.89925	0.84995	0.8897	0.8778
CAD	1.56275	1.46200	1.5300	1.4856
SEK	10.02525	10.44450	10.4837	10.5893

(7) Accounting policies

In preparing the 2020 consolidated financial statements, the Management Board applied the going concern principle to all companies included in the consolidated financial statements.

Revenue

The FP Group recognises revenue from contracts with customers in accordance with IFRS 15 and as a lessor in connection with the transfer of right-of-use assets in accordance with IFRS 16. See the disclosures on leases for information on the recognition of revenue as a lessor.

Revenue in accordance with IFRS 15

Contracts that do not include the transfer of a right-of-use asset

The FP Group generates revenue from contracts with customers in three segments: Production, Sales Germany; and International Sales. Revenue is recognised in accordance with IFRS 15 if the customer has obtained control over the goods and services that the FP Group is required to provide. Control is transferred either at a point in time or over time.

The FP Group provides sales and services in the three segments. The sales primarily relate to the sale of franking and inserting machines and consumables. The services relate to customer service and Teleporto services with regard to sold or leased franking or inserting machines. The Sales Germany segment also provides services for the consolidation of business mail and software services for businesses and authorities.

Services can be ordered individually or via fixed-term service contracts. Service contracts generally have original durations of twelve months and roll over if the customer does not cancel on time. The service contracts can contain various services, such as customer services, provision of postage credit or updating of postal charge tables.

Each sale or individual service is a distinct performance obligation. The revenue for sales and individually ordered services is recognised on delivery or performance of the service. The revenue for services from fixed-term service contracts is recognised evenly over the term of the contract. The even recognition over the terms of these contracts directly reflects the even provision of the services and is therefore an appropriate depiction of revenue recognition over time.

Depending on the payment arrangement, customers make advance payments for service periods of subsequent months. Contract liabilities are recognised in this respect. The time between performance of the service and receipt of payment is therefore a few months at most. The transaction price is therefore not adjusted for the time value of the money.

If the FP Group provides services in advance, contract assets are recognised.

The amount of the revenue depends on contractually defined fixed prices less trade discounts and rebates. The transaction price is allocated to distinct performance obligations of a contract on the basis of the relative stand-alone selling prices. The FP Group uses observable prices and estimates to determine stand-alone selling prices for the purposes of allocation to performance obligations. This requires the use of judgement. FP bases the estimate on market data and cost information.

The average payment term is 30 days.

The guarantee essentially includes of assurance of freedom from error and exists over the statutory term.

Contracts that include the transfer of a right-of-use asset

In the FP Group, performance obligations that have to be recognised in accordance with IFRS 15 also occur in leases that grant customers the right to use franking or inserting machines. The components of these leases that constitute right-of-use assets and the components of these leases that do not constitute right-of-use assets are recognised separately. The right-of-use asset is recognised in accordance with IFRS 16, while the other components are within the scope of IFRS 15. Here too, the consideration of the overall contract is allocated to the components and performance obligations on the basis of the relative stand-alone selling prices.

Other operating income

Other operating income is recognised when service is rendered or goods are delivered, i.e. when risk has transferred to the customer.

Government grants

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

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

Grants that compensate the Group for expenses incurred are recognised in other income in the periods in which the expenses are recognised and not offset against the corresponding expenses.

Interest income and expenses

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

Goodwill

Goodwill is tested for impairment at least annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is tested at the level of cash-generating units.

Intangible assets

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

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

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

Development costs for internally generated intangible assets are capitalised in accordance with IAS 38 if their production is technically so advanced that they can be used or sold, the Group has the intention to complete the asset and use or sell it, the FP Group is able to use or sell the intangible asset, the nature of benefits can be demonstrated, the technical and financial resources are available to complete the asset and the expenditure attributable to the intangible asset during its development can be measured reliably. Development costs include all costs directly attributable to the development process. Grants received for development costs are deducted from the carrying amount. Borrowing costs that can be directly allocated to a development project that is a qualifying asset within the meaning of IAS 23 are capitalised as part of production costs for the period of production. They are recognised solely in connection with capitalised development costs. The amount of capitalised borrowing costs is determined from the weighted average of the borrowing costs applicable to the borrowings granted by lenders.

From the start of commercial production of the corresponding products, capitalised development costs are written down over the period of their expected use. An impairment test is performed annually for intangible assets in development. For completed intangible assets, an impairment test is carried out when triggering events occur. Impaired capitalised development work is written down.

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

Intangible assets	**Useful life**
Industrial property rights (including licences, software, internally generated intangible assets, customer lists)	2 to 10 years
Internally generated intangible assets	2 to 6 years

Property, plant and equipment

Property, plant and equipment is measured at cost less depreciation due to use and amortisation. Their cost includes the purchase price, incidental costs; and subsequent costs of acquisition. Reductions in the purchase price are deducted. Financing costs are included for the period of production whenever qualifying assets are concerned. Costs for the maintenance and repair of property, plant and equipment are expensed as incurred. Processing costs for property, plant and equipment are recognised as a subsequent cost in accordance with the criteria of IAS

16.12 et seq. if these costs increase the future benefit of the property, plant and equipment (IAS 16.10). Straight-line depreciation is recognised for property, plant and equipment. When property, plant and equipment is shut down, sold or given up, the profit or loss from the difference between the sales proceeds and the residual carrying amount is recognised under other operating income or expenses.

Straight-line depreciation is based on the following useful lives:

Buildings	Useful life
Land and buildings	2 to 25 years
Technical equipment and machinery	2 to 19 years
Operating and office equipment	2 to 23 years
Leased products	7 years

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

Inventories

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

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

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

Financial instruments

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

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

Financial assets

Classification

The FP Group classifies its financial assets into the following measurement categories:

– Financial assets at fair value through profit or loss (FVTPL)

– Financial assets at fair value through other comprehensive income (FVTOCI)

– Financial assets measured at amortised cost (FAAC).

The classification of financial assets is based on the business model in which the assets are held and the composition of the contractual cash flows. The business model is determined at portfolio level and is oriented to the intention of the management and past transaction patterns. The cash flows are examined on the basis of the individual instruments. For assets measured at fair value, gains and losses are either recognised in profit or loss or in other comprehensive income. Investments in equity instruments that are not held for trading depend on whether the Group has irrevocably decided to recognise the equity instrument at fair value through other comprehensive income at the time of initial recognition.

The Group reclassifies debt instruments only if the business model for managing those assets changes. As at each reporting date this is reviewed by the management.

Recognition

A regular way purchase or sale of financial assets is recognised as at the trading date, i.e. the date the Group has a commitment to buy or sell the asset. Financial assets are derecognised if the rights to the receipt of cash flows from the financial assets expire or are transferred and the Group has transferred all material risks and opportunities.

Measurement

At initial recognition, the FP Group measures a financial asset at fair value plus, in the case of a financial asset subsequently not measured at fair value through profit and loss, the transaction costs directly attributable to the acquisition of that asset.

Transaction costs of financial assets measured at fair value through profit or loss are recognised as expense.

Financial assets with embedded derivatives are considered in their entirety if it is determined that their cash flows represent only repayment and interest payments.

The subsequent measurement of debt instruments depends on the Group's business model to manage the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments in three measurement categories:

- At amortised cost: Financial assets that are held for collecting contractual cash flows and for which these cash flows present only repayment and interest payments are measured at amortised cost. Interest income from these financial assets is recognised in financial income using the effective interest method. Gains and losses from derecognition are recognised directly in the income statement and – together with the foreign currency gains and losses – posted under other financial income/other finance costs.

- FVTOCI: Financial assets that are held to collect the contractual cash flows and sell the financial assets, and for which the cash flows represent only repayment and interest payments are measured at fair value through other comprehensive income. Changes in fair value are recognised in other comprehensive income, except for impairment gains or losses, interest income and gains and losses in foreign currency, which are recognised in profit or loss. For the derecognition of the financial asset, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity in the income statement and recognised as other financial income/other finance costs. Interest income from these financial assets is recognised in financial income using the effective interest method. Gains and losses in foreign currency are recognised in other financial income/other finance costs and impairment losses are included in a separate item in the income statement.

- FVTPL: Financial assets that do not meet the criteria of the FAAC or FVTOCI categories are measured in the FVTPL category. Gains or losses from a debt instrument that is subsequently measured at fair value through profit or loss are netted in profit and loss under other financial income/other finance costs in the period in which they are recognised.

All debt instruments were recognised at amortised cost in fiscal years 2020 and 2019.

Subsequently, the FP Group measures all equity instruments held at fair value through profit or loss (FVTPL). Dividends from those instruments continue to be recognised in the financial result if the FP Group's right to receive payments is justified. For equity instruments, IFRS 9 optionally allows a measurement at fair value though other comprehensive income (FVTOCI). The FP Group currently does not apply this option for measurements not recognised though profit or loss. In these cases, subsequent reclassification of the OCI effects in profit and loss is excluded. Changes in equity instruments designated as FVTPL as well as other inflows and outflows are recognised in profit and loss.

Impairment

The FP Group assesses the expected credit losses associated with its debt instruments measured at amortised cost on a forward-looking basis. The impairment model depends on whether the credit risk significantly increases.

The recognition of expected credit losses uses a third-stage model to allocate impairment:

Level 1: expected credit losses within the next twelve months

Level 1 contains all contracts with any material increase in the credit risk since the initial recognition and generally contains new contracts and those whose payments are less than 31 days past due. The share in the lifetime credit losses of the instrument which is due to a default within the next twelve months is recognised.

Level 2: expected lifetime credit losses – not credit-impaired

If a financial asset is subject to a significant increase in its credit risk after initial recognition, but is not credit-impaired, it is allocated to Level 2. Impairment is recognised as the expected credit losses anticipated over the lifetime of the financial asset.

Level 3: expected lifetime credit losses – credit-impaired

If a financial asset is credit-impaired or in default, it is assigned to Level 3. The lifetime credit losses of the financial asset are recognised as impairment. Objective evidence that a financial asset is credit-impaired includes it being past due by more than 91 days and further information on material financial difficulties of the debtor.

The determination if a financial asset has experienced a substantial increase of the credit risk is based on an assessment of the default probabilities which is to be implemented at least once a month, which takes account not only of external rating information but also internal information on the credit quality of the financial asset. For debt instruments which are not receivables from financial services, a substantial increase of the credit risk is determined on the basis of past due information or default probabilities.

A financial asset is transferred to Level 2 if the credit risk has increased significantly in comparison to the time of the initial recognition. The credit risk is assessed on the basis of the default probability.

Expected credit losses are calculated on the basis of the following factors:

- Neutral and probability-weighted amount;
- Time value of the money; and
- Adequate and reliable information (providing this is available without undue cost or effort) at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are calculated as the probability-weighted present value of all defaults over the expected lifetime of the financial assets.

The assessment of these risk parameters includes all publicly available relevant information. In addition to historical and current information on losses, reasonable and supportable forward-looking information on factors are included. This information covers macro-economic factors (e. g. growth of gross domestic product, unemployment rate) and forecasts of future economic conditions.

A financial asset is derecognised if there is no reasonable expectation of recovering it in its entirety or a portion thereof, e. g. after conclusion of insolvency proceeding or after court decisions.

For trade receivables the simplified approach is used, where these receivables are allocated to Level 2 at initial recognition. Credit losses expected over the term are recognised from the point at which the receivables are recognised for the first time. Further information can be found in note 23.

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

Impairments on other financial assets and cash and cash equivalents are insignificant for the Group.

Derecognition

Financial assets are derecognised when there is no reasonable expectation of recovery. Indicators according to which there is no reasonable expectation of recovery and information include the failure of a debtor to agree a repayment plan with the Group and the failure to make contractual payments for a period of more than 120 days past due. Impairments on trade receivables and contract assets are shown on a net basis in the operating results as net impairment. Previously impaired amounts collected in subsequent periods are recognised in the same items.

Derivatives and hedging transactions

The effective part of changes of fair value of derivatives classified as hedging transactions under cash flow hedges is recognised in the reserve for cash flow hedges as part of equity. The profit or loss relating to the ineffective part is recognised directly in the income statement under other financial income/other finance costs.

In the context of designated hedges there can be ineffectiveness as a result of deferrals of the hedged items and effects of the credit default risk on the fair value of the hedging instruments.

When options are used to hedge expected transactions, the FP Group classifies only the intrinsic value of the options as a hedging instrument.

Gains or losses from the effective part of the change in the intrinsic value of the options are recognised in the reserve from cash flow hedges as part of equity. Changes in the time value of options which relate to the hedged item are recognised in other comprehensive income in the reserve for hedging costs as part of equity.

If forward transactions are used to hedge expected transactions, the FP Group classifies only the change in the fair value of the forward contract from the spot element as a hedging instrument. The spot element is determined using the relevant spot exchange rate. The difference between the contractually agreed forward exchange rate and the spot exchange rate is defined as forward element and discounted if material. Gains and losses from the effective part of the spot element of the forward transaction are recognised in the reserve for cash flow hedges as part of equity. The change of the forward element of the hedging instrument which relates to the hedged item is recognised in other comprehensive income in the reserve for hedging costs as part of equity.

Cumulative amounts recognised in equity are reclassified during periods in which the hedged item affects profit or loss.

If a hedging instrument expires, is sold or terminated or the hedging transaction no longer meets the criteria for the accounting of hedging transactions, any accrued gains or losses from hedging and deferred hedging costs accumulated at that time will remain in equity until the expected transaction occurs. If the transaction is no longer expected to occur, the cumulative gains and losses and deferred hedging costs shown in equity are reclassified directly to profit or loss.

Financial liabilities

Financial liabilities are divided into the following categories:

– financial liabilities at amortised cost (FLAC) and

– financial liabilities at fair value through profit or loss (FLFV).

Financial liabilities at amortised cost are initially measured at fair value less any directly attributable transaction costs. Loans are always measured at amortised cost in the Group. They are not designated as at amortised cost. The effective interest method is used to calculate the amortised cost.

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

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

Equity

Share capital is equal to the number of shares issued.

Amounts otherwise contributed to equity by shareholders are shown in the capital reserves. Expenses directly incurred by the issue of new shares in the earlier IPO of FP Holding are deducted from equity net of any related income tax benefit.

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

When the Group acquires treasury shares, these are deducted from equity. The calculated value of treasury shares is openly deducted from equity. The difference of the purchase price is offset against capital reserves. The purchase, sale, issue or cancellation of treasury shares is not recognised in profit or loss.

Provisions

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

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

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

Pension plans that the FP Group implements through insurance contracts are accounted for as defined benefit plans if the vested entitlements are not covered by the insurance premiums.

Contributions under defined contribution plans are expenses in the period in which the payments in question are rendered.

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

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

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

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

Accounting for leases in which Francotyp-Postalia is the lessor

The FP Group leases out franking and inserting machines in the Sales Germany and International Sales segments. The leases generally have fixed terms of between two and six years. If the customers do not cancel on time, the leases roll over automatically. In addition to the transfer of the right of use, the leases can also contain service components.

Right-of-use assets contained in the leases are accounted for in accordance with IFRS 16. Service components are accounted for in accordance with IFRS 15. Pursuant to IFRS 15, the consideration of the overall contract is allocated to the components and performance obligations on the basis of the relative stand-alone selling prices.

Under IFRS 16, leases are to be classified as finance leases or operating leases. A lease is classified as a finance lease if substantially all the risks and rewards of ownership are transferred to the lessee. For further details, see note 8 “Classification of leases in which Francotyp-Postalia is the lessor”.

For leases classified as finance leases, a receivable and revenue are recognised at contract inception in the amount of the present value of the minimum lease payments. The lease instalments subsequently received are divided into a repayment portion and an interest portion. The repayment portion reduces receivables in other comprehensive income. The interest portion is recognised in profit or loss. The intrinsic interest rate for the lease in question is used.

For operating leases, the machines in question are recognised as leased products under non-current assets in property, plant and equipment, while the lease instalments are reported as revenue.

Depending on the payment arrangement, customers make advance payments for lease periods of subsequent months. If they do not represent revenue for the fiscal year, they are recognised as contract liabilities.

Accounting for leases in which Francotyp-Postalia is the lessee

Pursuant to IFRS 16, the FP Group recognises leases in which it is the lessee in the statement of financial position. A right-of-use asset is recognised on the assets side and a lease liability (under financing liabilities) on the liabilities side. The right-of-use asset is initially measured at cost, equating to the present value of the lease liability plus any initial direct costs, payments made before the commencement date and estimated asset retirement obligations and less any incentives received by the Group from the lessor.

Subsequently, the right-of-use asset is measured less depreciation and any impairment losses. Depreciation is recognised on a straight-line basis over the term of the lease. If the lease transfers ownership of the underlying asset the FP Group by the end of the lease term, the right-of-use asset is depreciated on a straight-line basis over the useful life of the underlying asset. In the event of remeasurements of the lease liability, the right-of-use asset is adjusted accordingly.

The lease liability is initially measured at the present value of the lease payments. In subsequent measurement, it is increased to reflect interest using the Group's respective incremental borrowing rate and reduced to reflect the lease payments made.

Leases with a term of up to 12 months and low value leases are not recognised in the statement of financial position. Instead, the lease payments are recognised as an expense on a straight-line basis over the lease term. This also applies to leases of intangible assets.

(8) Judgements and estimates

When preparing the consolidated financial statements, certain items require judgements and estimates to be made for the recognition, measurement and reporting of recognised assets and liabilities and of income and expenses. The actual figures can differ from the estimates. Estimates and their underlying assumptions are examined on an ongoing basis. Revisions of estimates are recognised prospectively. Key areas for exercising judgement and making estimates reflect the following:

Revenue

For information on the use of judgement with regard to the allocation of transaction prices, see the notes on revenue under 7.

Classification of leases in which Francotyp-Postalia is the lessor

Leases are classified as finance leases at the FP Group in cases including when the lease term covers the major part of the asset's economic life (useful life test) or the present value of the future minimum lease payments amounts to at least substantially all of the fair value of the leased asset (present value criterion). The FP Group has interpreted “the major part” to mean 75% and “substantially” to mean 90%. When determining the contract term, the FP Group considers the likelihood that contracts will be automatically extended.

Government grants

There is discretion with a potentially significant impact on the consolidated financial statements in the accounting treatment of grants as regards the estimated probabilities of future benefits in connection with compliance with grant conditions.

Deferred tax assets

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

Tax receivables and liabilities

The assessment and measurement of tax receivables and liabilities require a significant degree of management judgement due to the complexity of the legal provisions and divergent practices among the responsible tax authorities, especially in the context of cross-border transactions.

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

Impairment losses

The Group measures expected credit losses for all trade receivables on the basis of lifetime expected credit losses.

Development costs

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

Remeasurement of intangible assets in accounting for business combinations

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

Goodwill

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

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

The value in use is determined using discounted cash flow. This was based on cash flow forecasts derived from financial planning by the management. The figures used in these assumptions are based on external analyses of the postal market (including expected postage increases by Deutsche Post AG) and on management experience. Financial planning consists of earnings planning, the statement of financial position and the statement of cash flows and is prepared in detail for the first three years on the basis of sales planning, and then extrapolated using general assumptions for the next two years of planning. Perpetual maturity is assumed after the fifth year of planning.

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

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

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

Mail volume: The future development of cash flows is dependent on the number of customers or the number of dispatches processed. The figures used are based on the evaluation of market potential and current customer contacts.

Gross profit margins: The gross profit margins used are based on currently realisable figures and management experience.

Discount rate: Assumptions on the individual components of WACC and the long-term growth rate.

Pensions and other post-employment benefits

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

Provisions

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

Expenses for warranties are incurred in connection with subsequent improvements.

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

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

The expected internal and external costs in connection with the outstanding audit cycles of FP Group companies or appeals following tax audits in Germany and abroad are accounted for by recognising corresponding provisions that take into account the complexity of the issues, including in the cross-border context.

Calculation of fair value

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

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

- Level 1: Quoted (unadjusted) prices on active markets for identical assets or liabilities.

- Level 2: Measurement parameters other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: Measurement parameters for assets or liabilities not based on observable market data.

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

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

Further information on the assumptions in determining fair values can be found in the notes under 31.

II. Segment reporting

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

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

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

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

The Central Functions segment includes Francotyp-Postalia FP Holding and FP Shared Service Europe GmbH. Revenue was generated from services for other Group companies in the reporting year.

The “Group reconciliation” column eliminates transactions between and within segments and shows adjustments in local accounting to IFRS.

SEGMENT INFORMATION 2020

in EUR thousand	Production	Sales Germany	International Sales	Central Functions	Group reconciliation	Total
Revenue	96,235	110,659	84,577	6,123	-101,741	**195,853**
- with third parties	3,870	108,565	84,426	41	-1,050	**195,853**
- inter-segment revenue	92,365	2,094	151	6,082	-100,692	**0**
EBITDA	5,350	2,626	15,834	-13,399	-2,460	**7,951**
Amortisation, depreciation and impairment	5,831	1,996	9,741	254	4,118	**21,940**
Net interest income	-2,116	-442	1,300	1,311	822	**875**
- thereof interest expense	2,464	456	368	1,245	-2,957	**1,575**
- thereof interest income	348	14	1,668	2,556	-2,136	**2,450**
Other financial result	5,748	1,915	-5	5,889	-14,523	**-976**
Share of profit/loss of companies accounted for using the equity method	-421	0	0	0	-190	**-611**
Consolidated profit/loss before taxes and profit transfer	2,730	2,103	7,388	-6,453	-20,469	**-14,701**
Income taxes	-331	-1,684	1,651	2,007	-2,089	**-446**
Profit transfer	-2,397	-2,052	0	0	4,448	**0**
Profit/loss	2	-1,633	9,038	-4,446	-18,108	**-15,147**
Segment assets (as at 31 Dec.)	137,546	65,753	128,358	120,141	-277,798	**174,000**
Investments	3,150	1,592	10,749	77	-6,198	**9,370**
Segment liabilities (as at 31 Dec.)	122,832	42,995	79,635	56,826	-141,958	**160,330**

SEGMENT INFORMATION 2019

in EUR thousand	Production	Sales Germany	International Sales	Central Functions	Group reconciliation	Total
Revenue	106,929	111,915	91,494	3,574	-104,824	209,088
- with third parties	4,525	109,838	91,346	24	3,355	209,088
- inter-segment revenue	102,403	2,077	148	3,550	-108,179	0
EBITDA	26,649	3,877	13,310	-10,768	243	33,311
Amortisation, depreciation and impairment	3,929	5,784	8,308	379	9,016	27,416
Net interest income	-1,464	-313	1,642	328	204	397
- thereof interest expense	1,715	319	303	1,225	-1,760	1,801
- thereof interest income	251	6	1,945	1,553	-1,556	2,199
Other financial result	12,771	2,482	-11	23,585	-38,182	645
Share of profit/loss of companies accounted for using the equity method	-994					-994
Consolidated profit/loss before taxes and profit transfer	33,033	262	6,633	12,766	-46,751	5,943
Income taxes	-36	35	-1,722	-3,632	1,116	-4,239
Profit transfer	-23,419	-36	0	0	23,455	0
Profit/loss	9,578	261	4,911	9,134	-22,180	1,703
Segment assets (as at 31 Dec.)	142,912	64,203	129,640	127,910	-278,397	186,268
Investments	12,821	2,743	11,466	378	-6,244	21,164
Segment liabilities (as at 31 Dec.)	122,762	39,837	82,317	60,499	-151,137	154,278

in EUR thousand	Production	Sales Germany	International Sales	Central Functions	Group reconciliation	Total
2020						
Utilisation of the provision for restructuring	0	0	0	-1,918	0	-1,918
Income from reversal of provisions	599	330	25	206	-1,160	0
2019						
Utilisation of the provision for restructuring	0	0	0	0	0	0
Income from reversal of provisions	1,233	416	39	667	-2,355	0

in EUR thousand	2020	2019
Revenue from Production, Sales Germany and International Sales segments	291,471	310,338
Revenue from Central Functions segment	6,123	3,574
Effects of finance lease adjustment	-779	2,911
Effect from adjustment IFRS 15	0	45
Effect from other revenue corrections	11	399
	296,826	317,267
Less inter-segment revenue	100,973	108,179
Group revenue	195,853	209,088

REVENUE BY REGION

in EUR thousand	2020	2019
Germany	109,012	110,893
USA and Canada	53,820	59,131
Europe (not including Germany)	33,020	39,064
Group revenue#	195,853	209,088

ASSETS BY REGION 2020

in EUR thousand	31 Dec. 2020	Current	Non-current
Germany	196,723	81,338	115,386
USA and Canada	61,537	30,933	30,603
Europe (not including Germany)	193,537	70,545	122,992
	451,798	182,816	268,981
Effects of IFRS remeasurement	27,609		
Effects of impairment on customer lists	-220		
Effects of IFRS 16 remeasurement	12,174		
Effects of consolidation (including elimination of intragroup balances)	-317,361		
Group assets	174,000		

ASSETS BY REGION 2019

in EUR thousand	31 Dec. 2019	Current	Non-current
Germany	205,835	84,267	121,568
USA and Canada	60,257	29,992	30,266
Europe (not including Germany)	198,572	65,701	132,871
	464,664	179,960	284,705
Effects of IFRS remeasurement	30,842		
Effects of impairment on customer lists	-218		
Effects of impairment on internally generated software	13,419		
Effects of consolidation (including elimination of intragroup balances)	-322,439		
Group assets	186,268		

LIABILITIES BY REGION 2020

in EUR thousand	31 Dec. 2020	Current	Non-current
Germany	110,378	60,501	49,877
USA and Canada	23,637	18,164	5,473
Europe (not including Germany)	168,273	146,146	22,127
	302,288	224,811	77,477
Effects of adjusting provisions for pensions	14,362		
Effects of adjusting other provisions	13		
Effects of IFRS 16 remeasurement	12,210		
Other reconciliations to IFRS	7,114		
Effects of consolidation (including elimination of intragroup balances)	-175,656		
Group liabilities	160,330		

LIABILITIES BY REGION 2019			
in EUR thousand	31 Dec. 2019	Current	Non-current
Germany	113,788	57,409	56,378
USA and Canada	24,562	19,896	4,666
Europe (not including Germany)	167,066	146,773	20,293
	305,416	224,078	81,337
Effects of adjusting provisions for pension	13,878		
Effects of adjusting other provisions	-1,044		
Effects of IFRS 16 remeasurement	13,468		
Other reconciliations to	8,518		

LIABILITIES BY REGION 2019			
in EUR thousand	31 Dec. 2019	Current	Non-current
IFRS			
Effects of consolidation (including elimination of intragroup balances)	-185,958		
Group liabilities	154,278		

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

III. Notes to the consolidated statement of comprehensive income

(9) Revenue

The following tables show revenue disaggregated by performance type. Revenue both within the scope of IFRS 15 and within the scope of IFRS 16 is presented. The tables also include the reconciliation of disaggregated revenue to segment reporting.

2020					IFRS revenue
in EUR thousand	**Production**	**Sales Germany**	**International Sales**	**Central Functions**	**Total**
Product sales income (Franking and Inserting)	1,764	11,236	17,365	41	30,406
Service/customer service	83	8,885	12,800	0	21,768
Consumables	1,516	7,198	15,174	0	23,888
Teleporto	0	5,790	2,211	0	8,001
Mail Services	0	57,963	0	0	57,963
Software/Digital	518	15,775	144	0	16,437
Revenue in accordance with IFRS 15	**3,882**	**106,846**	**47,693**	**41**	**158,462**
Finance lease	0	1,240	8,430	0	9,670
Operating lease	0	229	27,773	0	28,002
Revenue in accordance with IFRS 16	**0**	**1,468**	**36,204**	**0**	**37,672**
Reduction in sales due to currency effects from hedge accounting	0	0	-282	0	-282
Revenue total	**3,882**	**108,315**	**83,615**	**41**	**195,853**

					Reconciliation to segment revenue					Segment revenue
	Production	Sales Germany	International Sales	Central Functions	Total	Production	Sales Germany	International Sales	Central Functions	Total
	0	178	-33	0	145	1,764	11,414	17,332	41	30,551
	0	86	-3,587	0	-3,501	83	8,971	9,213	0	18,267
	0	-231	-136	0	-367	1,516	6,967	15,038	0	23,522
	0	22	-384	0	-362	0	5,812	1,827	0	7,639
	0	0	0	0	0	0	57,963	0	0	57,963
	0	-1	-1	0	-2	518	15,774	143	0	16,435
	0	**54**	**-4,140**	**0**	**-4,086**	**3,882**	**106,901**	**43,553**	**41**	**154,377**
	0	9	-2,089	0	-2,079	0	1,249	6,341	0	7,591
	0	186	6,758	0	6,944	0	415	34,531	0	34,946
	0	**196**	**4,669**	**0**	**4,865**	**0**	**1,664**	**40,873**	**0**	**42,537**
	0	0	282	0	282	0	0	0	0	0
	0	**250**	**811**	**0**	**1,061**	**3,882**	**108,565**	**84,426**	**41**	**196,914**

The reconciliation with revenue according to segment reporting shows an increase of EUR 1,061 thousand (previous year: reduction of EUR 3,355 thousand). This effect primarily relates to the elimination of finance lease classifications under IFRS in the amount of EUR 779 thousand (previous year: EUR -3,704 thousand) and the recognition of expenses from hedge accounting of EUR 282 thousand (previous year: EUR 348 thousand).

Due to the allocation of transaction prices according to IFRS 15 and consideration according to IFRS 16 in conjunction with IFRS 15, there are transfers between the individual performance types under IFRS that are eliminated in the reconciliation with segment revenue.

2019					IFRS revenue
in EUR thousand	**Production**	**Sales Germany**	**International Sales**	**Central Functions**	**Total**
Product sales income (Franking and Inserting)	2,710	9,330	20,103	23	**32,167**
Service/customer service	117	11,691	14,582	0	**26,390**
Consumables	1,387	7,115	15,752	0	**24,255**
Teleporto	0	6,221	2,157	0	**8,378**
Mail Services	0	57,442	0	0	**57,442**
Software/Digital	1,059	15,865	149	0	**17,073**
Revenue in accordance with IFRS 15	**5,273**	**107,665**	**52,743**	**23**	**165,704**
Finance lease	0	1,898	12,777	0	**14,675**
Operating lease	0	27	29,030	0	**29,057**
Revenue in accordance with IFRS 16	**0**	**1,925**	**41,807**	**0**	**43,732**
Reduction in sales due to currency effects from hedge accounting	0	0	-348	0	**-348**
Revenue total	**5,273**	**109,590**	**94,201**	**23**	**209,088**

Reconciliation to segment revenue									Segment revenue
Production	**Sales Germany**	**Internationa l Sales**	**Central Functions**	**Total**	**Production**	**Sales Germany**	**Internationa l Sales**	**Central Functions**	**Total**
-748	273	-102	0	**-577**	1,963	9,603	20,001	23	**31,590**
0	-5	-4,406	0	**-4,411**	117	11,687	10,176	0	**21,979**
0	-305	0	0	**-305**	1,387	6,810	15,752	0	**23,950**
0	12	-266	0	**-254**	0	6,233	1,890	0	**8,124**
0	0	0	0	**0**	0	57,442	0	0	**57,442**
0	-20	0	0	**-20**	1,059	15,845	149	0	**17,053**
-748	**-45**	**-4,775**	**0**	**-5,567**	**4,525**	**107,620**	**47,968**	**23**	**160,137**
0	-186	-5,204	0	**-5,390**	0	1,712	7,573	0	**9,285**
0	478	6,775	0	**7,253**	0	505	35,804	0	**36,310**
0	**292**	**1,571**	**0**	**1,863**	**0**	**2,217**	**43,378**	**0**	**45,595**
0	0	348	0	**348**	0	0	0	0	**0**
-748	**247**	**-2,855**	**0**	**-3,355**	**4,525**	**109,838**	**91,346**	**23**	**205,732**

The following table shows the contract assets and liabilities: These are reported in the statement of financial position under other non-financial assets or other non-financial liabilities.

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Contract assets	259	60
thereof non-current	117	27
thereof current	142	33
Contract liabilities	13,486	12,424
thereof non-current	471	27
thereof current	13,015	12,397

The contract liabilities result from accounting-related advance payments for future services or transfers of use in subsequent months.

As the original durations of the service contracts in the FP Group do not exceed one year as a rule, FP utilises the practical expedient provided by IFRS 15.121(a). The transaction price attributable to contracted performance obligations that were not yet fulfilled as at the reporting date is therefore not disclosed.

(10) Own work capitalised

in EUR thousand	2020	2019
Capitalised development costs	3,598	13,935
Rental machinery	3,974	4,397
Other	224	265
Total	**7,795**	**18,596**

The capitalised development costs primarily include the development of new IoT products (EUR 1,106 thousand, previous year: EUR 1,393 thousand), and investments in PostBase Vision with discoverFP (EUR 995 thousand, previous year: EUR 3,705 thousand) and the new ERP/CRM landscape (EUR 228 thousand, previous year: EUR 5,678 thousand).

Own work capitalised for rental machinery relates to internally generated leased products. The finance lease assets are refinanced.

The "Other" item contains EUR 203 thousand (previous year: EUR 189 thousand) for franking machines, which are used for operations in a Group company.

(11) Other operating income

in EUR thousand	2020	2019
Cost subsidies and grants	2,600	1,430
Derecognition of liabilities	841	568
Usage fees	317	231
Prior-period income	259	238
Bonus credit	76	115
Gains from the sale of non-current assets	71	80
Damages payments	13	10
Commission income	9	10
Other income	280	169
Total	**4,466**	**2,851**

Cost subsidies and grants in the reporting year primarily comprised governmental coronavirus assistance in Germany, Europe, the US and Canada (previous year: cost subsidies for the EU "StudIES+" project). The derecognition of liabilities related essentially to lapsed teleporto liabilities of EUR 631 thousand (previous year: EUR 451 thousand) and the derecognition of the earnout liability in connection with Juconn GmbH of EUR 190 thousand (previous year: TIXI.Com GmbH & Co. KG EUR 100 thousand). Income relating to other periods resulted primarily from credit notes.

(12) Cost of materials

in EUR thousand	2020	2019
Expenses for raw materials, consumables and supplies	32,975	35,250
Cost of purchased services	60,935	66,384
thereof postage fees	52,621	52,664
Total	**93,910**	**101,634**

(13) Employee benefit expenses

in EUR thousand	2020	2019
Wages and salaries	58,627	51,118
Social security contributions	8,471	8,205
Expenses for pensions and other benefits	701	863
thereof defined contribution plans	570	686
thereof defined benefit plans	126	155
Total	**67,800**	**60,186**

The EUR 7,614 thousand rise in employee benefit expenses in the reporting year primarily reflects provisions for severance payments as well as restructuring measures (around EUR 9 million) and a hiring increase at company headquarters in the reporting year. Among other things, they were reduced by savings achieved as part of the JUMP project (around EUR 5.5 million).

(14) Expenses from impairment losses and income from reversals of impairment losses on trade receivables

in EUR thousand	2020	2019
Expenses from recognition of impairment	1,116	1,396
Derecognition of receivables	422	657
Income from dissolution of impairment losses	-309	-97
Income from reversals of impairment on receivables	-24	-89
Payments received on derecognised receivables	-24	-3
Total	**1,181**	**1,864**

Expense from the recognition of impairment in the reporting year was based primarily on the measurement of individual default risks.

(15) Other operating expenses

in EUR thousand	2020	2019
Legal and consulting costs	6,772	5,289
Expenses from disposal of non-current assets	4,152	254
Marketing	3,605	3,982
Sales commission	3,501	3,213
Purchased IT services	3,029	2,521
Repairs and maintenance	2,990	2,916
Packaging and freight	2,757	2,746
Rents/leases	1,484	1,415
Messaging and postage	1,409	1,487
Staff-related costs	1,116	2,975
Travel expenses	889	1,901
Other taxes	643	552
Insurance	640	576
Payment transaction costs	512	540
Motor vehicle costs (fuel, operating overheads) excluding lease costs	474	597
Licence costs	337	270
Office supplies	320	375
Other	2,203	1,887
Total	**36,834**	**33,496**

Legal and consulting costs relate mainly to legal counselling and management consulting. Expenses from the disposal of non-current assets primarily reflect the disposal of the development project to introduce a new ERP/CRM system that had not been completed but was no longer viable.

(16) Net interest income and other financial result

in EUR thousand	2020	2019
Other interest receivable and similar income	2,450	2,199
thereof from finance leases	2,374	2,126
thereof from bank balances	23	48
thereof from third parties	53	25
Interest and similar expenses	1,575	1,801
thereof from bank liabilities	912	1,007
thereof interest on the net liability for pension obligations	152	304
thereof from lease liabilities	45	63
Other	466	428
Net interest income	875	397
Other financial income	1,340	766
Other finance costs	2,316	121
Total	**-100**	**1,042**

As in the previous year, other financial income and other finance costs essentially result from foreign currency translation, especially the measurement of statement of financial position items at the reporting date.

It also includes expenses and income from the development of foreign exchange hedges: income of EUR 48 thousand from the fair value measurement of foreign exchange swaps (previous year: EUR 749 thousand) and expenses of EUR 100 thousand from single derivatives (previous year: EUR 105 thousand).

(17) Income taxes

in EUR thousand	2020	2019
Current tax income (-), expense (+)	-371	**789**
thereof prior-period	-1,227	-448
Deferred tax expenses	817	**3,450**
thereof occurrence and reversal of temporary differences	901	3,789
thereof utilisation of loss and interest carryforwards and capitalisation of deferred taxes on new loss carryforwards	-83	-315
thereof due to change in tax rates	-1	-24
Income taxes	**446**	**4,239**

There were audit findings from the German Group tax audit for the years 2013–2015 that started in 2018, which are accounted for in provisions for income taxes.

International mutual agreement procedures for the avoidance of double taxation have been initiated against the significant corrections of transfer prices for deliveries of goods by the Francotyp Postalia GmbH entity to its foreign sales companies in the USA and the Netherlands made in the context of the tax audit for the years 2009–2012. In January 2021, the German Federal Central Tax Office confirmed that an agreement had been reached in the proposed mutual agreement procedure under the German-American double taxation treaty. This agreement is essentially in line with the proposal. Tax refunds are expected at Francotyp Postalia Inc as a result of this. The mutual agreement procedure with the Kingdom of the Netherlands has not yet been finalised.

Deferred taxes were measured using tax rates and tax regulations valid or enacted by the end of the reporting period. Combined income tax rates consisting of corporation tax, the solidarity surcharge and trade tax were used for the German subsidiaries. Due to the expected trade tax apportionment, the German tax rates are slightly changed in comparison to the previous year in a range between 27.14% and 30.34% (previous year: 27.14% to 30.56%).

Country-specific tax rates of 19.00% to 26.60% (previous year: 17.00% to 28.00%) were calculated for the foreign companies. The tax rate adjustments result in only immaterial differences of deferred taxes.

in EUR thousand	2020	2019
Consolidated profit/loss before taxes	-14,701	5,943
Forecast tax expense (30.18%)	-4,437	1,793
Tax rate difference	-480	-427
Tax effect of non-deductible expenses and tax-free income	-413	731
Tax effect from impairment of goodwill	10	2,066
Current and deferred income tax for previous years	-726	-552
Change in recognition/non-recognition of deferred taxes assets on loss carry-forwards and deductible temporary differences	6,546	631
Other deviations	-55	-4
Income taxes	446	4,239
Tax expense in %	**3.0%**	**71.3%**

(18) Earnings per share

The Group held 257,393 treasury shares as at 31 December 2020 (previous year: 397,393), corresponding to 1.6 % of the share capital (previous year: 2.4 %).

	2020	2019
Ordinary shares outstanding as at 1 January	16,044,063	15,904,063
Weighted average ordinary shares (basic) as at 31 December	16,044,063	**15,904,063**
Effect of issued stock options	41,682	74,252
Weighted average ordinary shares (diluted) as at 31 December	16,085,745	**15,978,315**
Consolidated profit/loss (in EUR thousand)	-15,147	**1,703**
Basic result (in EUR/share)	-0.94	**0.11**
Diluted result (in EUR/share)	-0.94	**0.11**

IV. Notes to the consolidated statement of financial position

(19) Intangible assets

The tables below present the development of intangible assets.

DEVELOPMENT OF INTANGIBLE ASSETS 2020

in EUR thousand	Internally generated intangible assets	Purchased intangible assets and customer lists	Goodwill	Development projects in progress and advance payments	Total
Cost or cost of manufacture					
As at 1 Jan. 2020	**68,970**	**90,492**	**24,893**	**11,782**	**196,136**
Currency differences	-1	-168	-128	0	-296
Additions	2,827	892	0	811	4,530
Disposals	-698	-2,860	0	-4,085	-7,643
Reclassifications	5,008	396	0	-5,404	0
As at 31 Dec. 2020	**76,106**	**88,752**	**24,765**	**3,104**	**192,727**
Amortisation, depreciation and impairment					
As at 1 Jan. 2020	**49,598**	**86,163**	**20,271**	**1,344**	**157,374**
Currency differences	-1	-152	-17	0	-170
Additions	7,885	2,155	683	0	10,722
Disposals	-698	-2,822	0	0	-3,520
Reclassifications	1,283	0	0	-1,283	0
As at 31 Dec. 2020	**58,066**	**85,343**	**20,936**	**61**	**164,406**
Carrying amount as at 1 Jan. 2020	**19,372**	**4,329**	**4,622**	**10,438**	**38,762**
Carrying amount as at 31 Dec. 2020	**18,040**	**3,409**	**3,829**	**3,043**	**28,321**

DEVELOPMENT OF INTANGIBLE ASSETS 2019

in EUR thousand	Internally generated intangible assets	Purchased intangible assets and customer lists	Goodwill	Development projects in progress and advance payments	Total
Cost or cost of manufacture					
As at1 Jan. 2019	**57,416**	**89,507**	**24,851**	**10,057**	**181,831**
Currency differences	1	47	42	0	89
Additions	3,590	641	0	10,441	14,673
Disposals	0	-314	0	-143	-457
Reclassifications	7,963	611	0	-8,574	0
As at 31 Dec. 2019	**68,970**	**90,492**	**24,893**	**11,782**	**196,136**
Amortisation, depreciation and impairment					
As at 1 Jan. 2019	**42,575**	**84,065**	**14,403**	**0**	**141,043**
Currency differences	1	31	17	0	48
Additions	7,022	2,377	5,851	1,344	16,593
Disposals	0	-310	0	0	-310
Reclassifications	0	0	0	0	0
As at 31 Dec. 2019	**49,598**	**86,163**	**20,271**	**1,344**	**157,374**
Carrying amount as at 1 Jan. 2019	14,841	5,442	10,448	10,057	40,788
Carrying amount as at 31 Dec. 2019	19,372	4,329	4,622	10,438	38,762

Additions to internally generated intangible assets and development projects in progress and advance payments totalled EUR 3,638 thousand (previous year: EUR 14,031 thousand). In fiscal year 2020, an impairment loss of EUR 1,673 thousand was recognised on intangible assets under development in the Production and Central Functions segments (previous year: EUR 1,344 thousand in Sales Germany). In the Central Functions segment, the no longer viable development project for the introduction of a new ERP / CRM system in the amount of EUR 4,085 thousand was disposed of in the reporting year.

Additions to purchased intangible assets and customer lists totalling EUR 892 thousand (previous year: EUR 641 thousand) include the software and licence purchases of EUR 523 thousand (previous year: EUR 641 thousand) and customer lists of EUR 299 thousand (previous year: EUR 0 thousand). In the Production segment, impairment losses were recognised on licenses in the amount of EUR 344 thousand (previous year: EUR 0 thousand), on customer lists in the amount of EUR 156 thousand (previous year: EUR 0 thousand) and on software in the amount of EUR 143 thousand (previous year: EUR 0 thousand) in fiscal year 2020.

Goodwill

Goodwill of EUR 3,829 thousand (previous year: EUR 4,622 thousand) breaks down into EUR 2,643 thousand (previous year, EUR 2,643 thousand) for the IAB cash-generating unit (Sales Germany segment), EUR 1,186 thousand (previous year: EUR 1,296 thousand) for PostageInk.com LLC (Francotyp-Postalia Inc. cash-generating unit in International Sales segment) and EUR 0 thousand (previous year: EUR 683 thousand) for the operations of Tixi.com GmbH & Co. KG (FP Inovolabs cash-generating unit in Production segment).

Impairment losses for the reported goodwill in fiscal year 2020 amount to EUR 683 thousand for FP Inovolabs (previous year: EUR 0 thousand). In the previous year, impairment losses of EUR 5,851 thousand were recognised for freesort.

The following tables show the results and assumptions of the impairment tests on the goodwill in the associated cash-generating units:

2020

in EUR thousand	FP InovoLabs	FrancotypPostalia Inc.	IAB
Recoverable amount CGU (value in use)	5,070	113,553	26,523
Carrying amount	6,312	28,871	6,287
Difference	-1,242	84,682	20,236
Impairment	-1,242	0	0
Threshold figure EBIT[1)]	117.1%	96.4%	44.8%
EBITDA margin trend	Increasing	Constant	Increasing
Growth rate perpetual maturity	1.0%	1.0%	1.0%
Basic assumptions			
Revenue growth range	1% - 62.4%	1% - 5.5%	0% - 13.5%
Gross profit margins[2)]	-2.2% - 15.1%	27.3% - 27.8%	12.7% - 14.6%
Discount rate (WACC)	5.66%	6.37%	5.65%
Discount rate before taxes	7.56%	7.31%	7.57%

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

2019

in EUR thousand	FP Inovolabs 1)	Francotyp-Postalia Inc. 2)	IAB
Recoverable amount CGU	25,121	46,520	30,742
Carrying amount	3,801	32,594	5,680
Difference	21,320	13,925	25,062
Impairment	0	0	0
Threshold figure EBIT[3)]	25.2%	80.4%	39.4%
EBITDA margin trend	Increasing	Slightly decreasing	Increasing
Growth rate perpetual maturity	1.0%	1.0%	2.0%
Basic assumptions			
Revenue growth range	1.0% – 37.5%	1.0% – 7.2%	1.4% – 8.0%
Gross profit margins[4)]	-7.8% – 19.1%	29.2% – 32.9%	10.8% – 13.4%
Discount rate (WACC)	6.18%	6.56%	6.18%
Discount rate before taxes	8.14%	8.60%	7.96%

1) Acquisition of the business operations of Tixi.com GmbH & Co. KG as at 1 June 2018.
2) Acquisition of business operations of PostageInk.com LLC effective 1 August 2018.
3) Recoverable amount equal to the carrying amount of the cash-generating unit
4) EBITDA as% of revenue

The impairment test for goodwill is based on a number of discretionary assumptions, including expected business performance and the regulatory environment.

The table below shows a sensitivity analysis of the key calculation parameters for the cash-generating units. It indicates whether and to what extent a sensitivity analysis of the parameters used in the impairment tests (see discount rate, fluctuation in planned EBIT and growth rate) results in impairment (ceteris paribus):

2020

	FP InovoLabs		Francotyp-Postalia Inc.		IAB	
	Parameter		Parameter		Parameter	
	As used	Sensitivity analysis	As used	Sensitivity analysis	As used	Sensitivity analysis
Discount rate	5.66%	6.66%	6.40%	7.40%	5.65%	6.65%
Impairment	-1,242	-3,545		–		–
Variation in planned EBIT	100%	90%	100%	90%	100%	90%
Impairment	-1,242	-1,969		–		–
Growth rate	1.0%	0.5%	1.0%	0.5%	1.0%	0.5%
Impairment	-1,242	-3,545		–		–

Research and development costs

in EUR thousand	2020	2019
Research and development costs	8,731	11,579
thereof expenses	5,444	3,625
thereof capitalised	3,287	7,954

In the reporting year, EUR 191 thousand (previous year: EUR 171 thousand) borrowing costs were capitalised. An average capitalisation rate of 2.49% (previous year: 1.74%) was applied.

(20) Property, plant and equipment

The tables below present the development of property, plant and equipment.

DEVELOPMENT OF PROPERTY, PLANT AND EQUIPMENT 2020

in EUR thousand	Land, land rights and buildings	Technical equipment and machinery	Other plant and operating and office machinery	Leased products	Advance payments and assets under construction	Total
Cost or cost of manufacture						
As at 1 Jan. 2020	**4,615**	**11,533**	**28,902**	**71,306**	**134**	**116,489**
Currency differences	-26	-10	-447	-7,510	0	-7,994
Additions	37	107	1,117	3,539	41	4,841
Disposals	-44	-65	-927	-5,312	0	-6,348
Reclassifications	11	0	0	0	-11	0
As at 31 Dec. 2020	4,593	11,565	28,645	62,022	163	106,989
Amortisation, depreciation and impairment						
As at 1 Jan. 2020	**1,850**	**7,396**	**25,025**	**52,999**	**0**	**87,269**
Currency differences	-26	-9	-426	-5,942	0	-6,403
Additions	255	982	1,496	4,582	0	7,315
Disposals	-42	-56	-921	-5,072	0	-6,091
Reclassifications	0	0	0	0	0	0
As at 31 Dec. 2020	2,037	8,313	25,175	46,567	0	82,091
Carrying amount as at 1 Jan. 2020	2,765	4,137	3,878	18,307	134	29,220
Carrying amount as at 31 Dec. 2020	**2,556**	**3,252**	**3,471**	**15,455**	**163**	**24,898**

DEVELOPMENT OF PROPERTY, PLANT AND EQUIPMENT 2019

in EUR thousand	Land, land rights and buildings	Technical equipment and machinery	Other plant and operating and office machinery	Leased products	Finance lease assets	Advance payments and assets under construction	Total
Cost or cost of manufacture							
As at 1 Jan. 2019	**4,398**	**11,969**	**32,261**	**69,268**	**914**	**263**	**119,074**
Currency differences	25	4	347	2,560	0	0	2,936
Additions	221	311	1,350	4,476	0	134	6,492
Disposals	-36	-772	-5,291	-4,998	-914	0	-12,012
Reclassifications	7	21	235	0	0	-263	0
As at 31 Dec. 2019	4,615	11,533	28,902	71,306	0	134	116,489
Amortisation, depreciation and impairment							
As at 1 Jan. 2019	**1,592**	**7,069**	**28,355**	**51,683**	**464**	**0**	**89,164**
Currency differences	24	4	334	2,007	0	0	2,368
Additions	266	1,008	1,590	4,066	0	0	6,931
Disposals	-33	-683	-5,257	-4,758	-464	0	-11,194
Reclassifications	0	-2	2	0	0	0	0
As at 31 Dec. 2019	1,850	7,396	25,025	52,999	0	0	87,269
Carrying amount as at 1 Jan. 2019	2,806	4,900	3,906	17,585	450	263	29,910
Carrying amount as at 31 Dec. 2019	**2,765**	**4,137**	**3,878**	**18,307**	**0**	**134**	**29,220**

The additions to leased products totalling EUR 3,539 thousand (previous year: EUR 4,476 thousand) mainly relate to the International Sales segment.

Own work capitalised of EUR 7,795 thousand (previous year: EUR 18,597 thousand) was recognised in manufacturing costs under property, plant and equipment in the reporting period.

(21) Finance lease receivables (FP as lessor)

Net investments in leases amounted to EUR 22,353 thousand as at 31 December 2020 (31 December 2019: EUR 24,130 thousand). The change of EUR -1,777 thousand breaks down as follows:

CHANGE IN NET INVESTMENTS IN LEASES

in EUR thousand	2020	2019
United States	1,011	3,880
Canada	108	418
UK	-1,800	2,651
Other	-1,096	-1,006
Total	**-1,777**	**5,943**

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The entire decline in finance lease receivables is attributable to a decrease in new contracts as a result of the coronavirus pandemic.

The selling profit from finance leases in the reporting year was EUR 5,586 thousand (previous year: EUR 9,940 thousand).

The interest income from the interest on the finance lease receivables amounted to EUR 2,374 thousand in the reporting year (previous year: EUR 2,099 thousand).

The following table provides an overview of the maturities of the payments from the finance leases as at 31 December 2020 and 31 December 2019 with FP as lessor. It shows the contractually agreed payments that are allocable to lease components.

in EUR thousand	Total	Year 1	Year 2	Year 3	Year 4	Year 5	More than 5 years
31 Dec. 2020							
Nominal payments	27,198	8,733	7,049	5,414	3,572	1,722	707
Non-guaranteed residual value	436						
Future interest income	-5,281						
Net leasing investment	**22,353**						
31 Dec. 2019							
Nominal payments	28,585	8,752	7,344	6,614	4,039	2,252	585
Non-guaranteed residual value	0						
Future interest income	-4,455						
Net leasing investment	**24,130**						

The following table shows the maturities of the payments from the operating leases as at 31 December 2020 and 31 December 2019 with FP as lessor. It shows the contractually agreed payments without separating any shares for non-lease components. The lease and non-lease components are separated in the respective period of revenue recognition.

in EUR thousand	Total	Year 1	Year 2	Year 3	Year 4	Year 5	More than 5 years
Nominal payments as at 31 Dec. 2020	42,238	23,669	10,934	5,069	1,920	516	131
Nominal payments as at 31 Dec. 2019	50,680	26,170	13,920	7,737	2,436	401	16

(22) Inventories

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Raw materials, consumables and supplies	4,417	5,156
Work in progress	232	378
Finished goods and goods for resale	6,861	6,823
Total	**11,509**	**12,357**

Impairment losses on inventories amount to EUR 1,930 thousand (previous year: EUR 2,389 thousand) and are reported under "Cost of materials" in the consolidated statement of comprehensive income. In the reporting period, utilisation of inventories amounted to EUR 32,975 thousand (previous year: EUR 35,250 thousand) in the consolidated statement of comprehensive income.

(23) Trade receivables

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Trade receivables – Germany	7,713	7,457
Trade receivables – abroad	12,199	12,478
Trade receivables – gross	**19,912**	**19,935**
Impairment on trade receivables	-2,223	-1,793
Trade receivables – net	**17,689**	**18,142**

IMPAIRMENT LOSSES	
in EUR thousand	
As at 1 January 2019	**970**
Foreign currency effects	6
Addition	987
Utilised	0
Unused amounts reversed	-171
As at 31 December 2019	**1,793**
Foreign currency effects	-31
Addition	917
Utilised	-146
Unused amounts reversed	-309
As at 31 December 2020	**2,223**

Impairment losses

The Group applies the simplified approach in accordance with IFRS 9 to measure expected credit losses for trade receivables. Under this approach, the credit losses expected over the term are used for all trade receivables. In accordance with the General Terms and Conditions, the leased machinery is returned to the FP Group if finance lease receivables are defaulted. The market prices of the assets less the return-related costs exceed the defaulted receivables.

Trade receivables based on joint credit risk characteristics and number of days past due were combined to measure expected credit losses.

The expected loss rates are based on the payment profiles of revenue over a period of three years and the relevant historical default rates. The historical default rates are adjusted to map current and forward-looking information on macroeconomic factors, which impact the ability of customers to settle receivables. As the most relevant factors, the Group has identified the gross domestic product and the employment rate of the countries in which it sells products and services and adjusts the historical loss rates on the basis of the expected changes of these factors.

On this basis, the impairment on trade receivables and contract assets as at 31 December 2020 and 31 December 2019 is calculated as follows:

31 December 2020		**Due**	**Due**	**Due**	**Due**	**Due**
in EUR thousand	**Total**	**Immediately**	**< 30 days**	**30–60 days**	**61–90 days**	**> 90 days**
Gross carrying amount – trade receivables	**19,912**	5,651	9,508	2,975	926	852
Impairment – not credit-impaired	**-63**	-16	-35	-6	-1	-5
Impairment – credit-impaired	**-2,160**	-750	-437	-248	-176	-548
31 December 2019						
Gross carrying amount – trade receivables	**19,935**	6,225	8,441	3,117	635	1,516
Impairment – not credit-impaired	**-90**	-15	-32	-6	0	-36
Impairment – credit-impaired	**-1,703**	-240	-934	-265	-89	-175

(24) Other current assets

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Creditors with debit balances	**5,060**	3,670
Miscellaneous financial assets	**1,356**	3,594
Other current financial assets	**6,417**	**7,264**
Receivables from other taxes	**1,689**	2,560
Costs to obtain contracts	**3,388**	3,860
Deferred payments	**2,435**	1,492
Contract assets	**142**	33
Miscellaneous non-financial assets	**238**	30
Other current non-financial assets	**7,891**	**7,974**

Costs to obtain contracts relate to commissions paid to FP Group dealers, mostly for the conclusion of leases. The costs are recognised as expense evenly over the term of the lease in question. In fiscal year 2020, EUR 1,990 thousand was amortised on costs to obtain contracts (previous year: EUR 1,898 thousand).

Receivables from other taxes mainly relate to VAT refund claims in Germany amounting to EUR 1,653 thousand (previous year EUR 2,336 thousand).

Miscellaneous financial assets include deposits of EUR 487 thousand (previous year: EUR 322 thousand). In the previous year, this also included EUR 1,421 thousand for the "Studies+" project, an EU-funded project launched in 2018 to create a data-secure digital platform for EU students.

(25) Cash and cash equivalents

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Bank balances	36,016	30,235
Checks and cash on hand	93	273
Total	36,109	30,508

EUR 12,929 thousand (previous year: EUR 11,990 thousand) of bank balances are restricted. This relates to telepostage received from customers that can be accessed by customers at any time. A corresponding amount is included under other liabilities.

(26) Equity

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

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

As at 31 December 2020, Francotyp-Postalia Holding AG held 257,393 treasury shares (previous year: 397,393). This translates into 1.6% (previous year: 2.4%) of the share capital.

At the Annual General Meeting on 11 June 2015, the Management Board was authorised, with the approval of the Supervisory Board, to acquire treasury shares up to a total of 10% of the share capital at the time of this resolution. The shares acquired under this authorisation, together with other treasury shares held by the company or attributable to it in accordance with the sections 71d and 71e of the German Stock Corporation Act, (AktG) must not account for more than 10% of the share capital at any time. The authorisation can be exercised in full or in part, and on one or more occasions. The authorisation remained in effect until 10 June 2020. The Annual General Meeting of Francotyp-Postalia Holding AG on 10 November 2020 authorised the Management Board, with the approval of the Supervisory Board, to acquire treasury shares up to a total of 10% of the share capital at the time of this resolution. The shares acquired under this authorisation, together with other treasury shares held by the company or attributable to it in accordance with the sections 71d and 71e of the German Stock Corporation Act (AktG), must not account for more than 10 % of the share capital at any time. The authorisation can be exercised in full or in part, and on one or more occasions. The authorisation remains in effect until 19 November 2025.

The capital reserves developed as follows in fiscal years 2020 and 2019.

DEVELOPMENT OF CAPITAL RESERVES

in EUR thousand		
As at 1 Jan. 2019		**34,743**
2019	n/a	0
As at 31 Dec. 2019		**34,743**
2020	Share subscription from the 2010 stock option plan	-447
As at 31 Dec. 2020		**34,296**

AUTHORISATIONS FOR AUTHORISED AND CONTINGENT CAPITAL

in EUR thousand	
Contingent Capital 2010/I	657
Authorised Capital 2015/I	8,080
Contingent Capital 2015/II	960
Authorised Capital 2020/I	8,150
Contingent Capital 2020/I	6,464

Contingent Capital 2010/I

On 11 June 2015, the Annual General Meeting resolved to adjust Contingent Capital 2010/I. The contingent capital was reduced by EUR 388,500 from EUR 1,045,000 to EUR 656,500, as the 2010 stock option plan was reduced by 388,500 options to 656,500 options. Article 4(5) of the Articles of Association on Contingent Capital 2010 was amended as follows: "The share capital of the company is contingently increased by up to EUR 656,500 through the issue of up to 656,500 new bearer shares."

Authorised Capital 2015/I

With the approval of the Supervisory Board, by way of resolution of the Annual General Meeting on 11 June 2015, the share capital of the company could be increased on one or more occasions by up to a total of EUR 8,080,000 by issuing new bearer shares against cash or non-cash contributions by 10 June 2020. This option was not applied.

Contingent Capital 2015/II

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

Bonds

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

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

Authorised Capital 2020/I

By way of the Annual General Meeting resolution from 10 November 2020, the Management Board is authorised to increase the company's share capital, with the approval of the Supervisory Board, by issuing new bearer shares against cash or non-cash contributions on one or more occasions by up to a total EUR 8,150,000 by 9 November 2025 (Authorised Capital 2020 / I). Shareholders have subscription rights to the new rights. In accordance with section 186(5) of the German Stock Corporation Act (AktG), the new shares can also be purchased by one or more banks or a syndicate of banks, with the obligation to offer these to shareholders for subscription. The Management Board is authorised, with the approval of the Supervisory Board, to disapply shareholder's subscription rights on one or more occasions.

The Management Board is also authorised, with the approval of the Supervisory Board, to determine the further details of the capital increase and its implementation, in particular the content of the share rights and the conditions of issuing shares.

Authorised Capital 2020/I is intended to provide management with room for manoeuvre as the Authorised Capital available to management expired on 10 June 2020 in accordance with an Annual General Meeting resolution from 11 June 2015 (Authorised Capital 2015/I). It serves to broaden the company's equity base and should allow management to respond appropriately to future developments.

Contingent Capital 2020/I

On 10 November 2020, the Annual General Meeting resolved to contingently increase the share capital of the company by up to EUR 6,464,000 by issuing up to 6,464,000 new bearer shares, each accounting for a pro rata amount of share capital of EUR 1.00 (Contingent Capital 2020/I).

The contingent capital 2020/I serves to grant shares to the holders or creditors of warrant or convertible bonds, profit participation certificates or participating bonds (or combinations of these instruments) that were issued by the company or one of its direct or indirect Group companies as defined by section 18 AktG by 9 November 2025. This is only carried out to the extent that options or conversion rights from the above bonds are utilised or option or conversion obligations arising from these bonds are met, unless other means of settling the obligation are used. New shares are issued at the option or conversion price to be determined based on the above authorisation. The new shares participate in profits from the beginning of the fiscal year in which they arise as a result of options or conversion rights being exercised or conversion obligations being fulfilled.

The authorisation to issue option or convertible bonds resolved by the Annual General Meeting on 11 June 2015 (Contingent Capital 2015/I) was rescinded as a precaution.

2010 stock option plan

Under the 2010 stock option plan, subscription rights are issued to members of the Management Board of the company, to members of the management boards of affiliated companies as defined in section 15 AktG and to executives of the FP Group that entitle the bearers to subscribe to a maximum of 1,045,000 shares against payment of the exercise price.

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

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

2015 stock option plan

Under the 2015 stock option plan, subscription rights are issued to members of the Management Board of the company, to members of the management boards of affiliated companies as defined in section 15 AktG and to executives of the FP Group that entitle the bearers to subscribe to a maximum of 959,000 shares against payment of the exercise price.

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

Stock option plans

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

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

Subscription rights that had not been exercised were as follows as at the end of the reporting period:

Date of grant	Number of instruments (EUR thousand)	Contractual term of the option after award date	Securiti-sation	Premium at grant date
1 Sep. 2010	900,000	10 years	No	None
27 April 2012	75,000	10 years	No	None
7 Sep. 2012	20,000	10 years	No	None
6 Dec. 2014	57,500	10 years	No	None
11 June 2014	30,000	10 years	No	None
31 Aug. 2015	465,000	10 years	No	None
25 Nov. 2015	40,000	10 years	No	None
31 Aug. 2016	180,000	10 years	No	None

Of the stock options from the 2015 plan allocated in 2015 and 2016, 242,500 stock options are attributed to two former members of the Management Board of the Francotyp-Postalia Holding AG.

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

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

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

									Grant date
						SOP 2010			SOP 2015
		1 Sep. 2010	**27 April 2012**	**7 Sep. 2012**	**6 Dec. 2013**	**11 June 2014**	**31 Aug. 2015**	**25 Nov. 2015**	**31 Aug. 2016**
31 Dec. 2020									
One option	in EUR	1.37	1.31	1.17	1.85	1.82	1.07	1.07	1.07
All options	in EUR thousand	0	39	0	51	0	326	43	193
31 Dec. 2019									
One option	in EUR	1.37	1.31	1.17	1.85	1.82	1.07	1.07	1.07
All options	in EUR thousand	335	39	0	51	0	342	43	193
Price per FP share		EUR 2.55	EUR 2.60	EUR 2.32	EUR 4.10	EUR 4.71	EUR 4.39	EUR 4.46	EUR 4.20
Exercise price[1]		EUR 2.50	EUR 2.61	EUR 2.34	EUR 3.86	EUR 4.56	EUR 4.48	EUR 4.48	EUR 3.90
Expected exercise date		31 Aug. 2015	26 April 2017	6 Sep. 2017	5 Dec. 2018	10 June 2019	30 Aug. 2020	24 Nov. 2020	30 Aug. 2022
Forecast average holding period in years		5	5	5	5	5	5	5	5
Expected volatility[2]		74.48%	70.84%	71.31%	59.94%	52.21%	38.81%	37.41%	36.62%
Annual dividend yield[3]		2%	2%	2%	2%	2%	3%	3%	3%
Matched-term, risk-free interest rate[4]		1.32%	0.67%	0.60%	0.82%	0.44%	0.07%	0.07%	-0.48%
Expected number of exercisable stock options at grant date		741,439	52,031	16,476	39,646	19,596	302,426	26,015	65,888
Estimated annual employee turnover		3.5%	3.5%	3.5%	7.7%	7.7%	7.8%	7.8%	7.5%
Expected increase in EBITDA of more than 10% year on year		95%	80%	95%	95%	90%	90%	90%	50%

1) The exercise price of an option awarded is equal to the average market price (closing price) of bearer shares of the company in Deutsche Börse AG's electronic Xetra trading in Frankfurt am Main or a comparable successor system on the last 90 calendar days before the subscription right is granted, at least the amount of share capital accounted for by the share. When exercising options, the respective option holder must pay the exercise price per share. There is a limit for members of the Management Board of Francotyp-Postalia FP Holding. Item 9 of the stock option plan states: "The Supervisory Board must stipulate maximum total annual remuneration (a cap) for the Management Board in accordance with item 4.2.3 of the German Corporate Governance Code. This will be agreed in a supplementary agreement to Management Board members' contracts before options are awarded."

2) Determined in reference to the price volatility of an FP share in the respective period.

3) Assessment takes account of the distribution behaviour of the FP Group in the past.

4) The matched-term, risk-free interest rate for the expected option term of five years (or six years) is based on the corresponding yield curve data, whereby hypothetical zero bonds were derived from the current yields of coupon bonds of the Federal Republic of Germany.

Options	SOP 2010 Number	SOP 2010 Average exercise price in EUR	SOP 2015 Number	SOP 2015 Average exercise price in EUR
As at 1 Jan. 2019	302,000	2.63	625,000	4.31
Granted in fiscal year	0	n/a	0	n/a
Forfeited in fiscal year	0	n/a	-85,000	4.48
Exercised in fiscal year	0	n/a	0	n/a
Expired in fiscal year	0	n/a	0	n/a
As at 31 Dec. 2019	302,000	2.63	540,000	4.29
Range of exercise price		2.50 - 3.86		3.90 - 4.48
Average remaining term as at 31 Dec. 2019		15 months		72 months
Exercisable as at 31 Dec. 2019	302,000	2.63	360,000	4.48
As at 1 Jan. 2020	302,000	2.63	540,000	4.29
Granted in fiscal year	0	n/a	0	n/a
Forfeited in fiscal year	0	n/a	-15,000	4.48
Exercised in fiscal year	-140,000	2.50	0	n/a
Expired in fiscal year	-104,500	2.50	0	n/a
As at 31 Dec. 2020	57,500	3.21	525,000	4.28
Range of exercise price		2.50 - 3.86		3.90 - 4.48
Average remaining term as at 31 Dec. 2020		26 months		60 months
Exercisable as at 31 Dec. 2020	57,500	3.21	525,000	4.28

As at 31 December 2020, EUR 23 thousand (previous year: EUR 92 thousand) resulting from the 2015 stock option plan was recognised under employee benefit expenses with an offsetting entry in equity (stock option reserve).

Other comprehensive income

Currency translation adjustment

The effects of the currency translation of foreign financial statements are recognised in the currency translation adjustment. In the reporting year, the effect amounted to EUR -3,396 thousand (previous year: EUR 1,474 thousand).

Net investments in foreign operations

In line with the liquidity planning at Francotyp-Postalia Canada Inc. (Canada), a repayment of the recognised liability to FP GmbH is not expected in the foreseeable future. For this reason, FP GmbH recognises this monetary position as a net investment in a (Canadian) business. The currency difference resulting from translation after deferred taxes of (net) EUR –39 thousand (previous year: EUR 33 thousand) is recognised in other comprehensive income in accordance with IAS 21.32 et seq.

In connection with the acquisition of shares in Franco Frankerings Interessenter AB (formerly: Carl Lamm Personal AB), FP GmbH had substantially refinanced Francotyp-Postalia Sverige AB in the previous year. As the repayment of the financing in question by Francotyp-Postalia Sverige AB to FP GmbH is not expected in the foreseeable future, the refinancing of Francotyp-Postalia Sverige AB by FP GmbH was seen as a net investment in a (Swedish) operation. The currency difference resulting from translation after deferred taxes of (net) EUR –25 thousand is recognised in other comprehensive income in accordance with IAS 21.32 et seq.

Adjustment due to IAS 19

The adjustment due to IAS 19 relates to the recognition of actuarial gains and losses from provisions for pensions and similar obligations. The change in this item of EUR -714 thousand in the reporting year (previous year: EUR -1,732 thousand) is primarily attributable to actuarial losses from the change in discount rates.

Reserve for cash flow hedges

The reserve for cash flow hedges comprises the effective portion of the cumulative net changes in the fair value of hedging instruments used to hedge cash flows until their subsequent recognition in profit or loss or direct recognition in the cost or carrying amount of a non-financial asset or liability. Accordingly, the reserve for cash flow hedges includes changes in the spot component of forward exchange transactions as well as changes in the intrinsic value of foreign currency options recognised in other comprehensive income and amounts to EUR 40 thousand as at 31 December 2020 (previous year: EUR –492 thousand).

Reserve for hedging costs
The reserve for hedging costs shows gains and losses on the portion excluded from the designated hedge that relates to the forward element of a forward foreign exchange contract or the fair value of an option contract. These are initially recognised as other comprehensive income and accounted for in the same way as gains and losses on the hedging reserve. The reserve for hedging costs includes changes in the forward component of forward exchange contracts recognised in other comprehensive income as well as changes in the fair value of the foreign currency options and amounted to EUR 0 thousand as at 31 December 2020 (previous year: EUR –69 thousand).

Distribution of a dividend
No dividend was distributed in the 2020 reporting year (previous year: EUR 477,121.89, equating to EUR 0.03 per share).

(27) Provisions for pensions and similar obligations

There are defined benefit pension plans in some cases for employees' occupational pensions in Germany, Austria, France, the Netherlands and Italy.

Under a works agreement dated 9 July 1996 concerning the German companies, the beneficiaries of these plans are all employees who began work before 1 January 1995. Benefits in the form of pensions, disability and survivors' benefits are granted to employees after completing ten eligible years. The amount of pension commitments is based on the duration of employment and employees' pay.

Furthermore, in accordance with the "Pension Policy for Above-scale Employees" as amended January 1986, employees above the general pay scale are also entitled to pensions, disability and survivors' benefits. The beneficiaries have to have been employed before 1 January 1994 and have completed at least ten years of service. The amount of pension commitments is based on the duration of employment and employees' pay.

Death benefits are payable to the surviving dependants of employees in accordance with the framework collective agreement for employees and the works agreement dated 30 December 1975. The benefits are dependent on the duration of employment and employees' pay and are paid as a fixed amount.

In addition, some European subsidiaries are legally obliged to set up pension plans. These plans provide for a one-time payment at the end of employment. The amount of payments is based on the duration of employment and employees' pay. In the Netherlands, there is a defined benefit plan under which the increases in obligations attributable to the years are covered by the annual purchases of insurance.

In particular, there are actuarial risks such as longevity risk or interest rate risks in connection with defined benefit plans.

This is based on the following key actuarial assumptions for the calculation of the defined benefit obligation as at the end of the reporting period:

in % per year	31 Dec. 2020	31 Dec. 2019
Interest rate	0.43 - 0.72	0.72 - 0.90
Salary trend	1.62 - 3.00	1.62 - 3.00
Pension trend	1.62 - 2.00	1.62 - 2.00

The biometric data, such as mortality and disability, for pensions in Germany is based on the updated 2018 G mortality tables by Prof. Dr. Klaus Heubeck, which are generally accepted for the measurement of occupational pension commitments. For the defined benefit pension plan in the Netherlands, the Dutch Actuarial Society's mortality tables (AG 2020) are used.

DEFINED BENEFIT OBLIGATION

in EUR thousand	2020	2019
As at 1 Jan. of the reporting period	20,591	18,786
In profit or loss		
Current service cost	126	155
Interest expense (+)/income (−)	152	306
In other comprehensive income		
Remeasurement		
Actuarial gains and losses	0	0
from changes in biometric assumptions	-108	-28
from changes in financial assumptions	1,000	2,831
due to experience adjustments	79	-400
Income from plan assets (not including above interest income)	0	0
Other		
Employer contributions to pension plan	-420	-318
Payments from pension plan	-883	-741
As at 31 Dec. of the reporting period	20,537	20,591

DEFINED BENEFIT OBLIGATION

in percent	31 Dec. 2020	31 Dec. 2019
Active beneficiaries	14.1	18.5
Beneficiaries who have left the company	31.1	29.9
Retired employees	54.7	51.6

All pension commitments are vested.

The weighted average term of pension commitments is 14.9 years as at 31 December 2020 (previous year: 15 years).

MATURITY OF THE UNDISCOUNTED PENSION OBLIGATIONS

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Up to 1 year	663	743
1 – 5 years	3,062	3,122
6 – 10 years	4,018	3,845
More than 10 years	15,205	15,738
Total	**22,947**	**23,448**

The table below shows the effect of the change in actuarial assumptions on defined benefit obligations as at 31 December 2020:

SENSITIVITY ANALYSIS AS AT 31 DEC. 2020

in EUR thousand	Increase	Decrease
Interest rate (change of 1.0%)	-2,851	3,730
Salary trend (change of 0.5%)	1,203	-1,074
Pension trend (change of 0.25%)	1,112	-1,056
Life expectancies (change of 1 year)	1,036	-1,003

The sensitivity analysis was performed in isolation for the key actuarial assumptions in order to show their effects on defined benefit obligations calculated as at 31 December 2020 separately.

(28) Tax assets and liabilities

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Deferred tax assets	1,289	1,503
Current tax assets	831	2,821
Tax assets (non-current)	**2,120**	**4,324**
Current tax assets	4,986	1,573
Tax assets (current)	**4,986**	**1,573**
Tax assets (total)	**7,106**	**5,897**

Deferred tax assets and liabilities are recognised as follows in relation to measurement differences on individual items of the statement of financial position and tax loss carryforwards:

in EUR thousand	Net as at 31 Dec. 2019	Recognised in profit/loss	Recognised directly in equity	Other	Net as at 31 Dec. 2020	Deferred tax assets	Deferred tax liabilities
Intangible assets	-9,221	2,324	0	0	-6,897	3,146	-10,043
Property, plant and equipment	-2,453	-1,549	-16	372	-3,646	631	-4,277
Receivables and other assets	-147	-761	-259	49	-1,118	1,089	-2,207
Outside basis differences	-201	-58	0	0	-259	0	-259
Provisions	3,518	-89	257	12	3,698	5,345	-1,647
Liabilities	2,164	3,257	0	-37	5,384	5,878	-494
Tax loss carryforwards	7,970	2,502	0	0	10,472	10,472	0
Unrecognised deferred tax assets	-2,494	-6,442	0	-4	-8,940	-8,940	0
Total	**-864**	**-816**	**-18**	**392**	**-1,306**	**17,621**	**-18,927**
Tax offset						-16,333	16,333
Group carrying amount						**1,289**	**-2,595**

Deferred tax assets for loss carryforwards are based on the expectation that loss carryforwards can be offset against future taxable profits.

The deferred taxes not capitalised are based on loss carryforwards of EUR 15,269 thousand (previous year: EUR 8,292 thousand). No deferred taxes were recognised for temporary differences of EUR 6,324 thousand (previous year: EUR 965 thousand). These relate to the German companies and, in particular, to subsidiaries in France and Italy.

In total, the Group has corporate tax loss carryforwards of EUR 28,409 thousand (previous year: EUR 18,747 thousand), trade tax loss carryforwards of EUR 30,138 thousand (previous year: EUR 17,317 thousand) and foreign tax losses of EUR 9,677 thousand (previous year: EUR 6,733 thousand).

As at the end of the reporting period, there were deferred tax liabilities of EUR 259 thousand (previous year EUR 201 thousand) from outside basis differences amounting to EUR 811 thousand (previous year: EUR 666 thousand), which were not recognised separately because the requirements of IAS 12.39 were met.

To avoid possible double taxation due to the transfer pricing adjustments in the German Group tax audit for the years 2009-2012, Francotyp-Postalia initiated corresponding mutual agreement procedures in the countries impacted. For further information, refer to note 17.

Claims to reimbursement expected from international mutual agreements in Germany and abroad and from overpayments of current taxes in the current year resulted in non-current tax receivables of EUR 831 thousand (previous year: EUR 2,821 thousand) and current tax receivables of EUR 4,986 thousand (previous year: EUR 1,573 thousand). The measurement of the tax receivable at the management's discretion was based on an estimate of the most likely result of the realisation of the receivable.

(29) Other provisions

in EUR thousand	As at 1 Jan. 2020	Currency differences	Utilisation	Unused amounts reversed	Addition	As at 31 Dec. 2020
Personnel	6,858	-80	-3,262	-321	7,740	10,937
Restructuring	4,226	0	-1,918	-257	5,200	7,251
Warranties	192	-1	-38	-5	46	194
Invention royalties	225	0	-138	-87	159	159
Litigation costs	249	-3	-81	-2	609	772
Licence costs	135	0	0	0	0	135
Discounts and rebates	23	0	0	0	0	23
Onerous contracts	3	0	-2	0	0	1
Miscellaneous provisions	1,044	0	-285	-22	942	1,679
Other provisions	**12,955**	**-84**	**-5,723**	**-694**	**14,697**	**21,150**

The interest effect of interest accrued on and the discounting of non-current provisions is EUR 3 thousand (previous year: EUR 1 thousand).

Provisions for personnel essentially include provisions for severance payments, anniversary provisions, obligations under early retirement plans and bonuses.

The plan to restructure the FP Group as part of the JUMP project, drawn up in fiscal year 2018 and in the following years, was continued in the reporting year. Of the restructuring provisions of EUR 4,226 thousand recognised in the 2019 consolidated financial statements, EUR 1,918 thousand (previous year: EUR 13 thousand) was utilised and EUR 257 thousand (previous year: EUR 809 thousand) reversed to profit or loss in connection with the review as at the end of the reporting period. The project was merged with the FUTURE@FP project at the end of 2020, resulting in an addition of EUR 5,200 thousand in the reporting year (previous year: EUR 696 thousand). Besides further measures in Germany, the restructuring provision also affects all subsidiaries in Germany and abroad. The employees impacted and the employee representatives were informed of the measures. The measures will be implemented in 2021 and 2022. Restructuring costs account for EUR 3,828 thousand of the total addition to personnel provisions of EUR 7,740 thousand. The restructuring costs include costs for terminations, advisory costs and termination benefits as a result of the termination of employment relationships. The estimated costs are based on the conditions of the relevant contracts. In addition, probability-weighted assumptions were used to determine the value, particularly in the areas of personnel expenses and estimated acceptance rates.

Miscellaneous provisions include risks for other taxes and interest from tax audits in the amount of EUR 1,356 thousand(previous year: EUR 698 thousand).

The obligations under early retirement plans of EUR 153 thousand (previous year: EUR 331 thousand) are based on the following key actuarial assumptions:

in % per year	31 Dec. 2020	31 Dec. 2019
Interest rate	-0.34	-0.26
Salary trend	3.00	3.00

The anniversary provisions of EUR 190 thousand (previous year: EUR 202 thousand) are based on the following key actuarial assumptions:

in % per year	31 Dec. 2020	31 Dec. 2019
Interest rate	-0.16 to 0.43	-0.06 to 0.72
Salary trend	3.00	3.00
Social security trend	2.50	2.50

The biometric data, such as mortality and disability, for obligations under early retirement plans and anniversary provisions in Germany is based on the updated mortality tables 2018 G by Prof. Dr. Klaus Heubeck. In Austria, it is based on the updated mortality tables Pagler & Pagler (AVÖ 2018 P).

The provisions for litigation costs essentially relate to expected costs for pending legal disputes.

Provisions for warranties were recognised for products sold on the basis of past experience.

The income from the reversal of provision of EUR 694 thousand (previous year: EUR 2,093 thousand) essentially relates to provisions for personnel (including bonuses and severance payments) of EUR 321 thousand (previous year: EUR 971 thousand), provisions for restructuring measures of EUR 257 thousand (EUR 809 thousand) and provisions for uncertain liabilities of EUR 21 thousand (previous year: EUR 211 thousand).

			31 Dec. 2020			31/12/2019
in EUR thousand	Total	Remaining term < 1 year	Remaining term > 1 year < 5 years	Total	Remaining term < 1 year	Remaining term > 1 year < 5 years
Personnel	10,937	9,392	1,545	6,858	5,362	1,496
Restructuring	7,251	3,479	3,772	4,226	2,388	1,838
Warranties	194	194	0	192	192	0
Invention royalties	159	159	0	225	225	0
Litigation costs	772	772	0	249	249	0
Licence costs	135	135	0	135	135	0
Discounts and rebates	23	23	0	23	23	0
Onerous contracts	1	1	0	3	3	0
Miscellaneous provisions	1,679	1,638	41	1,044	1,003	40
Other provisions	**21,150**	**15,793**	**5,358**	**12,955**	**9,580**	**3,374**

(30) Liabilities

	31 Dec. 2020				31 Dec. 2019			
	Remaining term				Remaining term			
	Total	< 1 year	> 1 year ≤ 5 years	> 5 years	Total	< 1 year	> 1 year ≤ 5 years	> 5 years
Liabilities to banks	36,402	11	36,391	0	38,398	7	38,391	0
Lease liabilities	10,560	3,663	6,505	392	11,245	3,479	7,446	320
Liabilities to non-consolidated affiliates	1	1	0	0	6	6	0	0
Other financing liabilities	0	0	0	0	600	600	0	0
Financing liabilities	**46,963**	**3,675**	**42,896**	**392**	**50,249**	**4,092**	**45,837**	**320**
Trade payables	**14,139**	**14,139**	**0**	**0**	**14,581**	**14,581**	**0**	**0**
Liabilities from teleporto	26,525	26,525	0	0	27,119	27,119	0	0
Liabilities from derivatives	2,363	621	1,742	0	1,962	1,962	0	0
Miscellaneous financial liabilities	5,855	5,605	250	0	5,324	5,324	0	0
Other financial liabilities	**34,742**	**32,750**	**1,992**	**0**	**34,405**	**34,405**	**0**	**0**
Income tax liabilities	11	11	0	0	1	1	0	0
Liabilities from other taxes	958	958	0	0	1,977	1,977	0	0
Liabilities to employees	1,512	1,512	0	0	1,608	1,608	0	0
Liabilities for social security contributions	378	378	0	0	408	408	0	0
Contract liabilities	13,486	13,015	471	0	12,424	12,397	27	0
Miscellaneous non-financial liabilities	92	92	0	0	0	0	0	0
Other non-financial liabilities	**16,437**	**15,966**	**471**	**0**	**16,418**	**16,391**	**27**	**0**
Total	**112,281**	**66,530**	**45,359**	**392**	**115,653**	**69,469**	**45,864**	**320**

Liabilities to banks amounting to EUR 36,391 thousand (previous year EUR 38,391 thousand) are due to an international banking consortium. For further details, see note 31 4. Liquidity risks.

In accordance with the syndicated loan agreement in place on 31 December 2020, an interest rate pegged to EURIBOR has been determined for the individual loans. Due to the current negative interest rates for 3-month EURIBOR and 6-month EURIBOR, interest rate hedging was not sensible as at the reporting date.

The financing agreements concluded in previous years do not result in any contractual payment obligations in 2020. Accordingly, the liabilities are reported with a remaining term of more than one year.

Teleporto liabilities relate to customer funds held in trust.

Contract liabilities essentially include deferred revenue received in accordance with IFRS 15 and IFRS 16.

(31) Financial instruments

Classes of financial instruments

The following table shows the carrying amounts of all financial instruments included in the consolidated financial statements and their measurement category in accordance with IFRS 9.

FINANCIAL ASSETS AND LIABILITIES

in EUR thousand		**Carrying amount**	
Item in statement of financial position	Measured at[1]	**2020**	2019
Finance lease receivables (non-current)	n/a[2]	15,674	17,256
Derivative financial instruments without a hedging relationship	FV	474	0
Other non-current financial assets	AC	169	164
Non-current financial assets		**16,317**	**17,420**
Trade receivables	**AC**	**17,689**	**18,142**
Finance lease receivables (current)	n/a[2]	6,679	6,875
Derivative financial instruments with a hedging relationship	FV	311	0
Derivative financial instruments without a hedging relationship	FV	254	0
Other financial assets (current)	AC	6,417	7,264
Other current financial assets		**13,660**	**14,138**
Cash and cash equivalents	**AC**	**36,109**	**30,508**
Liabilities to banks (non-current)	AC	36,391	38,391
Lease liabilities (non-current)	n/a[2]	6,897	7,766
Non-current financing liabilities		**43,288**	**46,157**
Derivative financial instruments without a hedging relationship	FV	1,742	0
Other financial liabilities (non-current)	AC	250	0
Other non-current financial liabilities		**1,992**	**0**
Liabilities to banks (current)	AC	11	7
Lease liabilities (current)	n/a[2]	3,663	3,479
Other financing liabilities (current)	AC	1	606
Current financing liabilities		**3,675**	**4,092**
Trade payables	**AC**	**14,139**	**14,581**
Derivative financial instruments with a hedging relationship	FV	7	285
Derivative financial instruments without a hedging relationship	FV	614	1,676
Other financial liabilities (current)	AC	32,130	32,443
Other current financial liabilities		**32,750**	**34,404**
Thereof, as per IFRS 9 measurement categories			
Financial assets measured at amortised cost (FAAC)		60,384	56,078
Financial assets at fair value through profit or loss (FVTPL)		728	0
Derivative financial assets in a hedging relationship		311	0
Financial liabilities measured at amortised cost (FLAC)		82,921	86,027
Financial liabilities measured at fair value through profit or loss (FLFV)		2,356	1,676
Derivative financial liabilities in a hedging relationship		7	285

1) AC - amortised cost, FV - fair value
2) Finance lease receivables and lease liabilities are covered by IFRS 16 and are thus not allocated to any of the measurement categories formed under IFRS 9.

Most of the trade receivables, other financial assets (current), cash and cash equivalents, trade payables, current financing liabilities and other financial liabilities (current) have short remaining maturities. The carrying amounts of these financial instruments thus approximate their fair values as at the end of the reporting period.

The carrying amount of non-current financial assets and liabilities and non-current financing liabilities measured at amortised cost approximate their fair value, as these bear variable interest or there have been no material changes to the applicable measurement parameters since the initial recognition of these financial instruments.

The table below contains information on measuring financial assets and liabilities at fair value through profit or loss, including their level in the fair value hierarchy.

Financial instruments	**Fair value**	**Fair value**	**Measurement method**	**Significant unobservable inputs**	
Figures in EUR thousand	**31 Dec. 2020**	**31 Dec. 2019**			**Hierarchy**
Financial assets measured at fair value					
Derivative financial instruments with positive fair values	**1,039**	0	Market approach: the fair values are based on brokers' price quotations	Not applicable	Level 2
Financial liabilities measured at fair value					
Derivative financial instruments with negative fair values	**2,363**	1,962	Market approach: the fair values are based on brokers' price quotations	Not applicable	Level 2

At the end of the reporting period, an examination is made whether reclassifications between measurement hierarchies is required. No reclassifications were made in fiscal years 2020 and 2019.

Risk management

In the context of its operating activities, the FP Group is exposed to credit risks, liquidity and market risks in the financial sector. In particular, market risks relate to interest rate and exchange rate risks.

The overall risk management system of the Group takes into account the unpredictability of financial markets and aims to minimise the negative impact on the result of operations of the Group. The Group uses certain financial instruments to achieve this goal.

For further details on the qualitative information on risk management and financial risks, please see the risk report in the Group management report.

No further significant risk clusters in relation to financial instruments have been identified. The framework, responsibilities, financial reporting procedures and control mechanisms for financial instruments are set out in internal regulations for the Group. This includes a separation of duties between the monitoring and controlling of financial instruments. The currency, interest rate and liquidity risks of the FP Group are managed centrally.

1.Foreign currency risks

Given its global operations, the FP Group is exposed to foreign exchange risks in its ordinary activities. Foreign currency risks arise from statement of financial position items, from pending transactions in foreign currencies and cash inflows and outflows in foreign currencies. Derivative financial instruments are used to minimise these risks.

Translation risks

Income from translation differences and hedges of EUR 1,340 thousand (previous year: EUR 766 thousand) and expenses of EUR 2,316 thousand (previous year: EUR 121 thousand) were recognised in net finance costs in the reporting year.

Transaction risks:

The risk is mainly mitigated by invoicing business transactions (sales and purchases of products and services as well as investing and financing activities) in the respective functional currency. Moreover, it offsets the foreign currency risk in part by procuring goods, raw materials and services in the corresponding foreign currency.

Operating units are prohibited from borrowing or investing funds in foreign currencies for speculative reasons. Intragroup financing or investments are preferably carried out in the respective functional currency. Corporate financing is organised and carried out by FP Holding and Francotyp-Postalia GmbH.

With all other parameters remaining constant, the following table shows the sensitivity of consolidated profit/loss before taxes and consolidated equity to possible changes in the exchange rates relevant to the FP Group (GBP, USD, CAD, SEK). The unhedged transactions in the relevant currencies (net risk position) and the existing financial instruments and net investments in accordance with IAS 21 were used as the benchmark for the calculated sensitivities.

DERIVATIVE FINANCIAL INSTRUMENTS IN GBP

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated profit/loss before taxes	Effect on total other equity
2020			
GBP	+5%	82	-76
	-5%	-131	68
2019			
GBP	+5%	704	-193
	-5%	-667	174

NET RISK POSITION IN USD

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated profit/loss before taxes	Effect on total other equity
2020			
USD	+5%	618	0
	-5%	-559	0
2019			
USD	+5%	563	0
	-5%	-509	0

DERIVATIVE FINANCIAL INSTRUMENTS IN USD

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated profit/loss before taxes	Effect on total other equity
2020			
USD	+5%	0	-418
	-5%	0	393
2019			
USD	+5%	0	-557
	-5%	0	555

NET RISK POSITION IN CAD

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated profit/loss before taxes	Effect on total other equity
2020			
CAD	+5%	88	0
	-5%	-79	0
2019			
CAD	+5%	101	0
	-5%	-91	0

DERIVATIVE FINANCIAL INSTRUMENTS IN CAD

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated profit/loss before taxes	Effect on total other equity
2020			
CAD	+5%	0	-33
	-5%	0	30
2019			
CAD	+5%	0	-85
	-5%	0	77

NET RISK POSITION IN SEK

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated profit/loss before taxes	Effect on total other equity
2020			
SEK	+5%	89	0
	-5%	-81	0
2019			
SEK	+5%	90	0
	-5%	-82	0

NET RISK POSITION IN GBP

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated profit/loss before taxes	Effect on total other equity
2020			
GBP	+5%	152	0
	-5%	-138	0
2019			
GBP	+5%	46	0
	-5%	-42	0

NET INVESTMENTS IN SEK

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated profit/loss before taxes	Effect on total other equity
2019			
SEK	+5%	0	0
	-5%	0	0
2018			
SEK	+5%	0	102
	-5%	0	-92

NET INVESTMENTS IN CAD

in EUR thousand	Change in foreign currency in percentage points	Effect on consolidated profit/loss before taxes	Effect on total other equity
2020			
CAD	+5%	0	37
	-5%	0	-33
2019			
CAD	+5%	0	39
	-5%	0	-36

The Group uses foreign exchange forward transactions and foreign currency options to hedge foreign exchange risks from anticipated future cash inflows in US dollars (USD), Canadian dollars (CAD) and pound sterling (GBP). According to Group guidelines, the material contractual terms of the forward transactions and options must be consistent with the hedged items.

The FP Group recognises all changes (including the forward element as hedging costs) of the fair value of foreign exchange future contracts and foreign currency options in equity.

In accordance with IFRS 9, changes to the forward elements of foreign exchange transactions and the time value of options which relate to the hedged items are deferred in the hedging reserve.

To minimise earnings fluctuations, hedging transactions together with the underlying transactions were transferred to a new hedging unit as at 31 December 2020, taking account of the provisions of IFRS 9.

OVERVIEW OF HEDGE ACCOUNTING RELATIONSHIPS AS AT 31 DECEMBER 2020

Currency	Total expected cash flow in foreign currency	Hedged volume in foreign currency (31 Dec. 2020	Average hedged price	Type of hedge	Carrying amount as at 31 Dec. 2020	Effectiveness test/effective part, spot element	Effectiveness test/ineffective part	Undesignated part of the hedge, forward element
					Other current financial assets/liabilities	Reserve for cash flow hedges	Profit/loss	Reserve for hedging costs
USD	26,400,000	12,000,000	1.1933 EUR/USD	Currency forward/cash flow hedge	149,620.21	180,988	0	-31,368
			1.2066 EUR/USD	FX collar/cash flow hedge	155,014.21	83,101	0	71,914
GBP	3,900,000	1,300,000	0.9064 EUR/GBP	Currency forward/cash flow hedge	-7,167.25	-2,801	0	-4,366
CAD	3,600,000	1,000,000	1.5507 EUR/CAD	Currency forward/cash flow hedge	6,850.61	8,512	0	-1,662

OVERVIEW OF HEDGE ACCOUNTING RELATIONSHIPS AS AT 31 DECEMBER 2019

Currency	Total expected cash flow in foreign currency	Hedged volume in foreign currency (31 Dec. 2019)	Average hedged price	Type of hedge	Carrying amount as at 31 Dec. 2019	Effectiveness test/effective part, spot element	Effectiveness test/ineffective part	Undesignated part of the hedge, forward element
					Other current financial assets/liabilities	Reserve for cash flow hedges	Profit/loss	Reserve for hedging costs
USD	24,000,000	12,000,000	1.1445 EUR/USD	Currency forward/cash flow hedge	-71,038.00	22,439	0	-93,477
			1.1452 EUR/USD	FX collar/cash flow hedge	-70,599.64	-101,882	0	31,282
GBP	3,900,000	3,155,000	0.8798 EUR/GBP	Currency forward/cash flow hedge	-96,414.73	-81,921	0	-14,494
CAD	5,200,000	2,400,000	1.5188 EUR/CAD	Currency forward/cash flow hedge	-47,262.32	-24,518	0	-22,744

The FP Group is anticipating cash flows in US dollars of USD 26,400 thousand in 2021 (previous year: USD 24,000 thousand) from the operating activities of its US subsidiary. As at the end of December 2020, currency forwards and foreign currency options with a fixed maturity in the amount of USD 12,000 thousand were concluded (previous year: USD 12,000 thousand).

The FP Group is anticipating cash flows in GBP of GBP 3,900 thousand in 2021 (previous year: GBP 3,900 thousand) from the operating activities of its subsidiary in the United Kingdom. As at the end of December 2020, currency forwards with a fixed maturity in the amount of GBP 1,300 thousand (previous year: GBP 3,155 thousand) were concluded.

The FP Group expects cash flows in CAD from the operating activities of the subsidiary in Canada in 2021 in the amount of CAD 3,600 thousand (previous year: CAD 5,200 thousand). Forward exchange transactions with fixed maturity were concluded in the amount of CAD 1,000 thousand (previous year: CAD 2,400 thousand) at the end of December 2020.

Taking account of the currency hedges in place at the reporting date, the following net risk positions result:

NET RISK POSITION AS AT 31 DEC. 2020

in thousand

Currency	Expected cash flows (inflows) in foreign currency	Hedged in a cash flow hedge	Net risk in foreign currency
GBP	3,900	1,300	2,600
USD	26,400	12,000	14,400
CAD	3,600	1,000	2,600
SEK	17,000	0	17,000

NET RISK POSITION AS AT 31 DEC. 2019

in thousand

Currency	Expected cash flows (inflows) in foreign currency	Hedged in a cash flow hedge	Net risk in foreign currency
GBP	3,900	3,155	745
USD	24,000	12,000	12,000
CAD	5,200	2,400	2,800
SEK	17,900	0	17,900

Additional currency risks were concluded as individual derivative transactions. According to IFRS 9 these are not defined as hedges required for hedge accounting. This relates to the transactions presented in the table below.

in thousand

Currency	Nominal volume in foreign currency	Type of hedge	Market value as at 31 Dec. 2020	Market value as at 31 Dec. 2019
GBP	12,000	Currency swap	-2,356	-1,676
GBP	10,000	Currency swap	728	0

2. Interest rate risks

The risk of fluctuations in market interest rates, to which the FP Group is exposed, predominantly results from long-term liabilities with variable interest rates. The finance department of the Group manages the interest rate risk with the aim of optimising the net interest income of the Group and minimising the total interest rate risk. The financing requirements of companies in the FP Group are covered by intragroup loans or intragroup clearing accounts.

No interest hedges were concluded in fiscal years 2020 and 2019.

The loan agreement concluded in June 2016 and modified in September 2018 provides for an interest rate on the basis of a variable reference interest rate (3-month EURIBOR or 6-month EURIBOR) plus a credit margin. Due to the ongoing low interest rate environment (negative interest rate for 3-month EURIBOR and 6-month EURIBOR), at the present moment in time an interest hedge would mean unnecessary hedging costs.

However, all interest and currency risks are being monitored on an ongoing basis, and hedging can be concluded promptly if it becomes necessary.

Floating rate financial instruments are exclusively liabilities to banks. The following table shows the sensitivity of consolidated profit/loss before taxes and consolidated equity to a reasonable possible change in interest rates. All other variables remain constant. The average amount of loans for the year was used as the benchmark for sensitivity.

in EUR thousand	Change in percentage points	Effect on consolidated profit/loss before taxes	Effect on total other equity before taxes
2020	+1%	-180	0
	-1%	0	0
2019	+1%	-267	0
	-1%	0	0

3. Risk of default

The carrying amount of financial assets is the maximum risk of default in the event that counterparties fail to meet their contractual payment obligations. For all contracts on which primary financial instruments are based, depending on the type and volume of the contract, collateral is required, credit information/references are obtained or historical data from previous business relations (e. g. analysis of payment performance) are used to minimise the risk of default. In accordance with the terms and conditions of Francotyp-Postalia, there is a retention of title to goods purchased until all payments have been received in full. If a customer leasing machinery is in arrears or if a lessor refuses to execute a contract despite warnings, the customer is required to return the leased assets to Francotyp-Postalia and to pay damages on termination of the contract.

The default risk of the FP Group is impacted primarily by the individual characteristics of the customers. However, the Management Board also takes into account the entire customer base, including the default risk of the industry and the countries in which the customers operate, as these factors could also impact the default risk.

For other financial assets (such as cash and cash equivalents, financial instruments measured at amortised cost and derivative financial instruments), the maximum risk of default is the respective reported carrying amount.

The FP Group concludes derivative financial instruments on the basis of netting agreements. In general, with these agreements the amounts owed from all transactions of the respective contractual partners on a specific individual day within our currency are offset and paid from one contract partner to the other contract partner as one amount. In special circumstances – for example in the case of a credit event such as a default, all outstanding transactions under the agreement are ended and a total amount determined by offsetting all transactions. This amount is then payable.

These agreements do not fulfil the criteria for offsetting transactions in the financial statements. This is the case because Francotyp-Postalia has no lawful means of offsetting these transactions in a normal situation. Offsetting is legally possible only in the case of a future event such as a default on liabilities or something similar.

The following tables show the carrying amounts of the recognised financial instruments subject to such an agreement:

31 DEC. 2020

in EUR thousand	Gross amount of the financial instruments recognised in the statement of financial position	Relevant not recognised financial instruments	Net amount
Derivative financial instruments with positive fair values	1,039	992	47
Derivative financial instruments with negative fair values	2,363	992	1,371

31 DEC. 2019

in EUR thousand	Gross amount of the financial instruments recognised in the statement of financial position	Relevant not recognised financial instruments	Net amount
Derivative financial instruments with positive fair values	0	0	0
Derivative financial instruments with negative fair values	1,962	0	1,962

4. Liquidity risks

The liquidity risks of the Group are that it may no longer be able to meet its financial obligations (for instance, the expected repayment of financial liabilities, the payment of suppliers or fulfilment of finance lease obligations). The FP Group limits these risks with working capital and cash management. Liquidity risks are addressed by a liquidity forecast for the entire Group.

In addition to the liquidity management instruments stated above, the FP Group is constantly monitoring financing opportunities as they arise on the financial markets. The central aim is to ensure the Group's financial flexibility and to limit financial risks.

To finance itself, the FP Group primarily uses cash flow from operating activities as well as loan agreements with financial institutions and finance leases that are either already in place or are adjusted during the year.

In fiscal year 2018, with a strong, international syndicate of banks, the FP Group concluded a significantly extended syndicated loan agreement at improved terms and conditions for an amount of EUR 150,000 thousand, with an option to increase the volume by a further EUR 50,000 thousand. As at 31 December 2020, the FP Group had unutilised credit facilities of EUR 111,617 thousand (previous year: EUR 109,526 thousand). The agreement has a duration of five years to 27 September 2023, plus two one-year extension options.

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

$$\text{Leverage} = \frac{\text{Total net debt}}{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}} \leq 3.0\times$$

$$\text{Interest cover} = \frac{\text{Adjusted EBITDA (if required, adjusted for non-recurring effects)}}{\text{Net interest income (adjusted for IAS 23 Borrowing Costs))}} \geq 5.0\times$$

In accordance with the existing change of control clause in the syndicated loan agreement, a change of control occurs when a person or a group of people acting in concert directly or indirectly hold over 30% of the voting rights or shares in Francotyp-Postalia Holding AG.

In the event of a change of control and after a written request from a creditor, all loans (including interest) from the creditor become due for repayment within 30 days.

Additional key terms of the financing documents on the basis of the British Loan Market Association (LMA) include the option of utilising part of the loan facility in foreign currency. Furthermore, the loan agreement also creates financing security for acquisitions. In the future, the FP Group has entrepreneurial headroom to enter into additional financial obligations. As a result of the syndicated loan agreement, the FP Group overall has achieved a considerable improvement in financial stability and flexibility.

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

The lease liabilities, trade payables and other liabilities mainly relate to the financing of operating assets used in continued operations (such as property, plant and equipment) and to investments within working capital (such as inventories and trade receivables). The Group takes these assets into account in the effective management of its overall liquidity risk.

The following tables show the undiscounted, contractually agreed payment outflows from financial liabilities. These include the cash flows resulting from the syndicated loan agreement, including estimated interest payments and payments from derivative financial instruments with negative fair value. In addition to the stated syndicated loan of EUR 36,391 thousand (previous year: EUR 38,391 thousand), there were other liabilities to banks of EUR 11 thousand (previous year: EUR 7 thousand).

FINANCIAL LIABILITIES AS AT 31 DEC. 2020

in EUR thousand	Carrying amount	Cash outflows		
		< 1 year	1 – 5 years	> 5 years
Liabilities to banks	36,401	-725	-39,600	0
Lease liabilities	10,560	-3,663	-6,505	-392
Other financing liabilities	1	-1	0	0
Trade payables	14,139	-14,139	0	0
Other financial liabilities (excluding derivatives)	32,380	-32,130	-250	0
Incoming payments from derivatives transactions		5,271	9,508	0
Outgoing payments from derivatives transactions		-5,896	-11,107	0

FINANCIAL LIABILITIES AS AT 31 DEC. 2019

in EUR thousand	Carrying amount	Cash outflows		
		< 1 year	1 – 5 years	> 5 years
Liabilities to banks	38,398	-734	-2,909	-39,693
Lease liabilities	11,245	-3,479	-7,446	-320
Other financing liabilities	606	-606	0	0
Trade payables	14,581	-14,581	0	0
Other financial liabilities (excluding derivatives)	32,443	-32,443	0	0
Incoming payments from derivatives transactions		29,766	0	0
Outgoing payments from derivatives transactions		-31,624	0	0

Net gains and losses on financial instruments by measurement category

IFRS 9 NET RESULT

in EUR thousand	2020	2019
Financial assets at fair value through profit or loss[1]	-622	158
Financial liabilities at amortised cost [2]	451	-1,662
Financial liabilities at amortised cost[3]	-111	367
Total	**-282**	**-1,137**

1) Fair value changes and disposal results
2) Impairment losses, reversals, interest payments and foreign currency effects
3) Foreign currency effects, interest payments and gains on disposal

Capital management

The capital structure is key to the capital management of the Group. The net debt ratio is the control parameter for the capital structure. This is the ratio of net liabilities to equity. The net debt ratio is monitored on an ongoing basis.

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Liabilities to banks	36,401	38,398
Lease liabilities	10,560	11,245
Other financing liabilities	1	600
Liabilities	**46,962**	**50,243**
Cash and cash equivalents	-36,109	-30,508
Postage credit balances managed by the FP Group	12,929	11,990
Cash and cash equivalents	**-23,180**	**-18,518**
Net debt	**23,783**	**31,725**
Equity	13,670	31,991
Net debt ratio	**174%**	**99%**

The goal of capital management is to achieve the highest possible credit rating. The future of the Group as a going concern must also be ensured.

Equity declined as a result of costs incurred, for example due to derecognising or amortising intangible assets, and the recognition of restructuring provisions for FUTURE@FP, leading to a substantial decrease in the FP Group's net debt in fiscal year 2020. Equity declined by 57 % year on year.

In the 2020 reporting year, there were no changes in the objectives, policies or processes for capital management.

Financial performance indicators

Group management is essentially carried out using the following financial performance indicators: revenue, EBITDA and adjusted free cash flow.

(32) Collateral

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Guarantee obligations	648	648
Total	**648**	**648**

The guarantee obligations include rent guarantees for machinery and postage and any refunds of subsidies.

All present, contingent and future receivables of the financing parties to the syndicated loan agreement from or in connection with this loan agreement, a sub-loan agreement or other financing documents are secured by guarantees. Each guarantor autonomously and independently guarantees the financing parties the irrevocable and unconditional payment of all amounts owed by the borrowers under the loan agreement or other financing document, if they are not paid on time or in full. The guarantors undertook to make any payment under this guarantee free from deductions or retentions.

In addition to the borrower FP Holding, the guarantors are also Francotyp-Postalia GmbH, freesort GmbH, Francotyp-Postalia Vertrieb und Service GmbH, FP Produktionsgesellschaft mbH & Co. KG, Mentana-Claimsoft GmbH, IAB Communications GmbH, Francotyp-Postalia Inc. (USA), Francotyp-Postalia Ltd. (UK), Francotyp-Postalia Canada Inc. (Canada).

The loan utilised amounted to EUR 38,383 thousand as at 31 December 2020 (previous year: EUR 40,474 thousand). This amount also includes sureties.

Collateral received has a fair value of EUR 1,938 thousand (previous year: EUR 1,306 thousand) and is available to the FP Group in the short term only in the reporting year (previous year: unchanged). The collateral essentially consists essentially of rent deposit guarantees and guarantees for deliveries of goods and services.

(33) Other financial obligations

NOMINAL VALUES OF OTHER FINANCIAL OBLIGATIONS AS AT 31 DEC. 2020

in EUR thousand	Total	< 1 year	1 – 5 years	> 5 years
Other financial obligations	23,302	17,297	5,991	14
thereof from rental agreements/leases (not recognised)	1,895	903	992	0
thereof from purchase commitments	19,279	14,655	4,623	0
thereof from other contractual obligations	2,128	1,739	375	14

NOMINAL VALUES OF OTHER FINANCIAL OBLIGATIONS AS AT 31 DEC. 2019

in EUR thousand	Total	< 1 year	1 – 5 years	> 5 years
Other financial obligations	29,692	19,392	10,262	38
thereof from rental agreements/leases (not recognised)	2,143	836	1,307	0
thereof from purchase commitments	24,184	16,022	8,162	0
thereof from other contractual obligations	3,365	2,534	793	38

The obligations from rental agreements and leases as at 31 December 2020 relate to:

(i) obligations from short-term or low-value agreements that were not recognised in the statement of financial position due to the exercise of options under IFRS 16.

(ii) obligations for contract components with service character. The consideration allocated to these services is not recognised as part of the right-of-use asset or lease liability. In this respect, no other financial obligations arise.

Purchase commitments relate predominantly to the purchase of materials and other services.

(34) Disclosures on leases for the FP Group as lessee

As a lessee, the Group primarily leases real estate (office and warehouse space), but also vehicles, machinery and other operating and office equipment. The conditions of the leases vary widely, especially in the case of real estate leases, which account for most of the leases in the Group. This applies to the term, the agreement of termination or extension options, and pricing.

The following disclosures can be made regarding leases in which the Group is the lessee:

Right-of-use assets and lease liabilities

The right-of-use assets from leases are recognised in the statement of financial position in the separate "right-of-use assets" item under "non-current assets".

The development of the recognised right-of-use assets was as follows.

RIGHT OF USE ASSETS

in EUR thousand	Land and buildings	Machinery	Vehicles	Other operating and office equipment	Total
As at 1 Jan. 2019	**10,946**	**518**	**1,155**	**46**	**12,665**
Additions to right-of-use assets	1,959	0	788	11	2,758
Disposals of right-of-use assets	-349	0	-33	0	-382
Depreciation in the fiscal year	-2,908	-218	-740	-25	-3,891
Currency differences	31	0	1	0	32
As at 31 Dec. 2019	**9,678**	**300**	**1,172**	**32**	**11,182**
Additions to right-of-use assets	2,328	0	970	44	3,342
Disposals of right-of-use assets	-158	0	-86	0	-244
Depreciation in the fiscal year	-2,918	-193	-768	-25	-3,904
Currency differences	-29	0	-3	0	-32
As at 31 Dec. 2020	**8,903**	**106**	**1,285**	**51**	**10,345**

The lease liabilities are recognised in the statement of financial position under "non-current liabilities" and "current liabilities" within the "financing liabilities" item and had the following maturities as at the end of the reporting period:

MATURITIES OF LEASE LIABILITIES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Up to one year	3,663	3,479
More than one and less than five years	6,505	7,446
More than five years	392	320
Total	**10,560**	**11,245**

Expenses and income from leases

The following amounts from leases are recognised in the consolidated income statement:

EXPENSES AND INCOME FROM LEASES

in EUR thousand	2020	2019
Depreciation of right-of-use assets	3,903	3,892
Interest expenses for lease liabilities	45	63
Expenses from short-term leases	132	72
Expenses from low-value leases	78	66
Expenses from variable lease payments	29	36
Interest income from subleases	0	0

Payments from leases

Payments for leases totalling EUR 4,080 thousand (previous year: EUR 4,158 thousand) were made in fiscal year 2020.

(35) Contingent assets and contingent liabilities

Contingent assets

In fiscal year 2017, irregularities in the internal recording and billing of letter volumes were reported. In the time-critical consolidation business, the FP Group found that as a result of breaches of duty by individuals it had suffered financial damage extending beyond the reporting period. As a consequence, FP asserted damages claims against employees of around EUR 1.7 million on 14 February 2018 as part of wrongful dismissal proceedings that are currently still ongoing. The fidelity insurer was informed about the breaches of duty and the damages incurred. If the claims are upheld, this could have a one-time positive effect on the Group's financial position and results of operations and result in FP exceeding the forecast for 2021 or its medium-term goals.

Contingent liabilities

In the second quarter of 2017, deviations and occasional irregularities due to employee misconduct were found in the internal recording and billing of letter volumes in the time-critical consolidation business. The clarification of the matter could result in repayment obligations for the FP Group with estimated potential damages of EUR 600 thousand.

The FP Group does not currently assume that there is an obligation for this. No claims were asserted in fiscal year 2020.

V. Other disclosures

(36) Notes to the cash flow statement

The FP Group's cash and cash equivalents comprise cash less restricted funds (postage credit managed by the FP Group).

in EUR thousand	31 Dec. 2020	31/12/2019
Cash and cash equivalents	36,109	30,508
less restricted cash and cash equivalents ("postage credit held")	-12,929	-11,990
Cash and cash equivalents	**23,180**	**18,518**

The debt from financing activities developed as follows:

in EUR thousand	1 Jan. 2020	Cash		Non-cash				31 Dec. 2020
		Payments received	Repayment	Effects of effective interest rate	Effects of contract termination	Addition	Exchange rate effects	
Liabilities to banks	38,398	4	-2,224	224	0	0	0	36,401
Lease liabilities	11,245	0	-3,804	0	-250	3,339	29	10,560
Cash flow from financing activities	**49,643**	**4**	**-6,028**	**224**	**-250**	**3,339**	**29**	**46,961**

in EUR thousand	1 Jan. 2019	Cash		Non-cash				31 Dec. 2019
		Payments received	Repayment	Effects of effective interest rate	Effects of contract termination	Addition	Exchange rate effects	
Liabilities to banks	38,805	0	-407	0	0	0	0	38,398
Lease liabilities	12,685	0	-3,859	0	-380	2,758	41	11,245
Cash flow from financing activities	**51,490**	**0**	**-4,266**	**0**	**-380**	**2,758**	**41**	**49,643**

(37) Employees

AVERAGE NUMBER OF EMPLOYEES BY COUNTRY

	2020	2019
Germany	692	655
United States	123	126
UK	77	86
The Netherlands	22	41
Canada	37	41
Italy	13	24
Sweden	14	18
Austria	17	17
France	21	17
Belgium	3	3
Total	**1,019**	**1,028**

AVERAGE NUMBER OF EMPLOYEES BY SEGMENT

	2020	2019
Sales Germany	404	390
International Sales	327	373
Production	218	219
Central Functions	70	46
Total	**1,019**	**1,028**

AVERAGE NUMBER OF EMPLOYEES BY GENDER

	2020	2019
Male	608	628
Female	411	400
Total	**1,019**	**1,028**

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AVERAGE NUMBER OF EMPLOYEES BY GROUPS

	2020	2019
Executives	92	133
Employees	927	895
Total	**1,019**	**1,028**

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(38) Management Board and Supervisory Board (additional disclosures in accordance with German Commercial Code (HGB))

According to the schedule of responsibilities for the Management Board of Francotyp-Postalia FP Holding, the positions and responsibilities of the members of the Management Board under the current schedule of responsibilities are as follows:

Name	Position on Management Board	Areas of responsibility
Carsten Lind	CEO (since 11 November 2020)	from 11 January 2021: Company Strategy including M&A/Communication (Public Relations, Corporate Communication)/ Human Resources/Internal Audit/Franking Business Unit, Software & BPA, IoT and freesort
		until 11 January 2021: Legal/Strategy & Corporate Development/Corporate Communication/Human Resources Center of Excellence/Product Management/Business Development (New)/Investor Relations/M&A/Treasury/Controlling/Governance, Risk And Compliance/QM/Accounting inc. Tax/Internal Audit
	Member (since 1 June 2020)	until 11 November 2020: Legal/Strategy & Corporate Development/Corporate Communication/Human Resources Center of Excellence/Product Management/Business Development (New)
Martin Geisel	CFO (since 11 January 2021)	from 11 January 2021: Finance/Accounting/Controlling/Tax/Treasury/Legal and Compliance/Risk Management/Investor Relations/Purchasing and Procurement/Internal IT
Rüdiger Andreas Günther	Chairman and CFO (until 11 November 2020)	until 11 November 2020: Accounting inc. Tax/Controlling/Treasury/M&A/Governance, Risk & Compliance/QM/Investor Relations
		until 1 June 2020: Strategic Business Development/ Human Resources/ Legal/ Accounting inc. Tax/ Controlling/ Corporate Communications/ Treasury/ M&A/ Governance, Risk & Compliance/QM/Internal Audit
Patricius de Gruyter	CSO	until 22 February 2021 [1]: Sales Strategy & Governance/Sales Transformation/Sales - Middle Europe Region, North America Region, Central Europe Region/Digital Business/Hybrid Business/Service Center of Excellence/Marketing Center of Excellence/Internal Audit
		until 11 November 2020: Sales Strategy & Governance/Sales Transformation/Sales - Middle Europe Region, North America Region, Central Europe Region/Digital Business/Hybrid Business/Service Center of Excellence/Marketing Center of Excellence/Internal Audit
		until 1 June 2020: Sales Strategy & Governance/Sales Transformation/Sales - Middle Europe Region, North America Region, Central Region/Digital Business/Hybrid Business/Service Center of Excellence/Business Development (Traditional & Digital)/Marketing Center of Excellence
Sven Meise	COO/CDO (until 11 January 2021)	until 11 January 2021: Information Technology/Research & Development (Traditional & Digital & IoT)/Production (Traditional & Hybrid & IoT)/Purchasing/Logistics/Facility Management/Shared Service Center - North America & Europe
		until 11 November 2020: Information Technology/Research & Development (Traditional & Digital)/Production (Traditional & Hybrid)/Purchasing/Logistics/Facility Management/Shared Service Center - North America & Europe
		until 1 June 2020: Information Technology/Research & Development (Traditional & Digital)/Production (Traditional & Hybrid)/Purchasing/Logistics/Facility Management/Shared Service Center - North America & Europe

[1] Mr de Gruyter has not been responsible for any business areas since 23 February 2021. By mutual agreement, Mr de Gruyter's membership on the Management Board and his employment contract with Francotyp-Postalia Holding AG will not be renewed after the contractual term expires on 31 May 2021.

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In the reporting year, Rüdiger Andreas Günther was a member of the Commerzbank Unternehmerperspektive Mittelstand (Entrepreneur Perspective Mittelstand) in the Commerzbank Regional Advisory Council East and a member of the Customer Advisory Council of LBBW Sachsen Bank.

Sven Meise was Chairman of the Supervisory Board of Juconn GmbH until 11 January 2021.

The following table shows the members of the Supervisory Board of Francotyp-Postalia FP Holding and their activities outside the company and other administrative, management or supervisory board mandates or mandates for similar executive bodies of business enterprises in Germany and abroad:

Name	**Professional activity**	**Other administrative or supervisory board mandates or mandates for similar executive bodies in Germany and abroad**
Dr Alexander Granderath (Chairman) since 11 November 2020	• Managing Director, Dr Granderath, Rat and Vermögen GmbH, Willich • Managing Director, StreamParty GmbH, Willich	• None
Lars Wittan (Deputy Chairman) since 11 November 2020	• Chief Investment Officer, Obotritia Capital KGaA, Potsdam	• Member of the Supervisory Board, Quarterback Immobilien AG, Leipzig • Deputy Chairman of the Supervisory Board, Obotritia Hotel AG, Potsdam (since August 2020)
Klaus Röhrig (Chairman until 10 November 2020, member since 11 November 2020)	• Managing Director, Active Ownership Corporation S.à r.l., Grevenmacher, Luxembourg	• Chairman of the Management Board, exceet Group SCA, Luxembourg (until 23 January 2020) • Member of the Management Board, Agfa-Gevaert NV, Mortsel, Belgium • Member of the Supervisory Board, Formycon AG, Munich (since 10 December 2020)
Botho Oppermann (Deputy Chairman) until 10 November 2020	• Managing Partner of Internet Business Solutions Nord UG (haftungsbeschränkt), Wentorf near Hamburg • Managing Partner of Internet Business Solutions Süd UG (haftungsbeschränkt), Wentorf near Hamburg • Managing Partner of Internet Business Solutions Ost UG (haftungsbeschränkt), Wentorf near Hamburg • Managing Partner of Internet Business Solutions West UG (haftungsbeschränkt), Wentorf near Hamburg	• President of the Management Board of Internet Business Solutions AG, Boppelsen, Switzerland
Dr Mathias Schindl until 10 November 2020	• Chief Product Officer, NOVENTI Health SE, Munich (since 1 October 2020) • Managing Director of awinta GmbH, Bietigheim-Bissingen (since 1 October 2020) • Independent management consultant (until 1 October 2020)	• None

(39) Shareholder structure (additional disclosures in accordance with German Commercial Code (HGB))

In fiscal year 2020, Francotyp-Postalia FP Holding received the following notifications from its shareholders in accordance with section 33 (1) of the German Securities Trading Act (WpHG) and published them in accordance with section 40(1) WpHG and section 41 WpHG:

Publication date	14 Jan. 2020	25 Feb. 2020	25 Feb. 2020	10 Mar. 2020	23 Mar. 2020	23 Mar. 2020	11 Nov. 2020	12 Nov. 2020
Reason of notification	Share purchase	Voluntary Group notification; threshold reached solely at the level of subsidiaries	Share purchase	Share purchase	Share sale	Share sale	Transfer of voting rights due to Annual General Meeting	Share purchase
Shareholder/reporter	Obotritia Capital KGaA	Axel Sven Springer / Saltarax GmbH	Axel Sven Springer / Saltarax GmbH	Obotritia Capital KGaA	Baring Asset Management	Baring Fund Managers	Axel Sven Springer/Thomas Lange	Universal-Investment-Gesellschaft mit beschränkter Haftung
Date threshold reached	14 Jan. 2020	4 July 2018	19 Feb. 2020	6 Mar. 2020	12 Mar. 2020	12 Mar. 2020	2 Nov. 2020	11 Nov. 2020
Total share of voting rights								
Old	15.10%	3.13%	3.93%	20.60%	3.07%	3.07%	0.01%	2.96%
New	20.60%	3.93%	5.00%	28.01%	2.98%	2.98%	5.02%	3.19%
Voting rights (sections 33, 34 WpHG)	3,357,817	641,000	815,100	4,566,594	486,423	486,423	817,800	520,000

Publication date	16 Jan. 2019	15 Feb. 2019	24 May 2019	5 Sep. 2019	17 Sep. 2019	7 Oct. 2019	7 Oct. 2019
Reason of notification	Share purchase	Share sale	Transfer of voting rights due to Annual General Meeting	Share purchase	Share sale	Voluntary Group notification; threshold reached solely at the level of subsidiaries	Voluntary Group notification; threshold reached solely at the level of subsidiaries
Shareholder/reporter	Obotritia Capital KGaA	Universal-Investment-Gesellschaft mit beschränkter Haftung	Axel Sven Springer/Thomas Lange	Obotritia Capital KGaA	Quaero Capital SA	Active Ownership Fund SICAV-FIS SCS/Florian Schuhbauer	Active Ownership Fund SICAV-FIS SCS/Klaus Röhrig
Date threshold reached	14 Jan. 2019	13 Feb. 2019	22 May 2019	29 Aug. 2019	10 Sep. 2019	1 Oct. 2019	1 Oct. 2019
Total share of voting rights							
Old	6.60%	3.25%	0.02%	10.30%	4.92%	9.51%	10.31%
New	10.30%	2.96%	3.94%	15.10%	2.69%	9.51%	10.31%
Voting rights (sections 33, 34 WpHG)	1,678,636	482,070	642,500	2,460,800	438,649	1,550,000	1,680,000

There are also the following important voting rights:

Publication date	17 Sep. 2019	5 Sep. 2019	15 Feb. 2019	16 Jan. 2019	22 May 2018	29 May 2013	29 May 2013
Reason of notification	Share sale	Share purchase	Share sale	Share purchase	Share purchase	Share purchase	Share purchase
Shareholder/reporter	Quaero Capital SA	Obotritia Capital KGaA	Universal-Investment-Gesellschaft mit beschränkter Haftung	Obotritia Capital KGaA	Magallanes Value Investors S.A. SGIIC	Ludic GmbH, Bad Oldesloe, Germany	Tom Hiss
Date threshold reached	10 Sep. 2019	29 Aug. 2019	13 Feb. 2019	14 Jan. 2019	16 May 2018	24 May 2013	24 May 2013
Total share of voting rights	2.69%	15.10%	2.96%	10.30%	3.26%	3.51%	3.51%
Voting rights (sections 33, 34 WpHG)	438,649	2,460,800	482,070	1,678,636	531,456	566,882	566,882

In fiscal year 2020, Francotyp-Postalia FP Holding received and published the following notifications from its shareholders in accordance with section 19 (1) Market Abuse Regulation with reference to the share ISIN DE000FPH9000:

Publication date		6 Oct. 2020
Information on persons exercising management tasks		Sven Meise
Reason for notification/position		Member of the Management Board (CDO/COO)
Transaction type		Share purchase
Price/volume in EUR	Price in EUR	Volume in EUR
	3.22	17,980.48
Aggregate price/volume EUR	3.22	17,980.48
Date of transaction		6 Oct. 2020
Place of transaction		XEXTRA

In the fiscal years 2020 and 2019, Francotyp-Postalia Holding AG did not publish any notifications on changes in voting rights in accordance with section 41 WpHG. In previous years, there were the following changes:

Publication date	4 Jan. 2017	4 Jan. 2017 Notification of correction	30 Jan. 2017	28 Feb. 2017	31 Mar. 2017	30 June 2017
Capital measure	Other capital measure (section 26a (1) WpHG)	Issue of new shares (section 26a (2) WpHG)	Issue of new shares (section 26a (2) WpHG)	Issue of new shares (section 26a (2) WpHG)	Issue of new shares (section 26a (2) WpHG)	Issue of new shares (section 26a (2) WpHG)
As at/effective date	31 Dec. 2016	31 Dec. 2016	27 Jan. 2017	28 Feb. 2017	31 Mar. 2017	30 June 2017
New total of voting rights	16,215,356	16,215,356	16,255,356	16,265,356	16,285,356	16,301,456

(40) Related party disclosures

Related parties are shareholders who have a significant influence on the FP Group, the associate, unconsolidated subsidiaries and persons with a significant influence on the Group's financial and operating policies. Persons with a significant influence on the Group's financial and operating policies are all key management personnel and their close relatives. Within the FP Group, this applies to members of the Management Board and Supervisory Board of Francotyp-Postalia Holding AG.

Transactions with shareholders with significant influence

Obotritia Capital KGaA, Potsdam, Germany, is the shareholder with significant influence. As at 31 December 2020, it held 28.5% of voting rights in FP Holding. Given the holding as at 31 December 2020, Obotritia Capital KGaA could obtain de facto control (majority in attendance) of Francotyp-Postalia Holding AG at the next Annual General Meeting. The shares of Obotritia Capital KGaA are allocated to the shareholder Mr Rolf Elgeti.

Please see the information in section 12 of the combined management report (Investments in capital exceeding 10% of voting rights).

The acquisition of shares by Obotritia Capital KGaA in fiscal years 2020 and 2019 is explained in note 39 Shareholder structure.

No other transactions were conducted with Obotritia Capital KGaA or with Mr Elgeti in fiscal years 2020 or 2019.

Key management personnel remuneration

Remuneration of the Management Board and the Supervisory Board

The remuneration for members of the Management Board and the Supervisory Board according to IAS 24.17 is as follows:

in EUR thousand	2020	2019
Short-term benefits	2,251	2,030
Other long-term benefits	367	435
Termination benefits	2,578	0
Share-based payment transactions	49	63
Total	5,234	2,528

Liabilities to members of the Management Board from cash remuneration and cash-settled share-based payment transactions and similar liabilities came to EUR 0 (previous year: EUR 0) at the end of the reporting period.

Small quantities of supplies and services were provided to members of the Management Board in fiscal years 2020 and 2019. The corresponding receivables were paid in full before the end of the reporting period.

With regard to the disclosures pursuant to section 314 (1) No. 6a HGB in accordance with the recommendations of the German Corporate Governance Code and the German Accountancy Standard 17 (DRS 17), please see the remuneration report, which forms part of the combined management report.

Additional information on total remuneration as per section 314 (1) no. 6 HGB

The total remuneration for the members of the Management Board is as follows:

in EUR thousand	2020	2019
Non-performance based components		
Fixed remuneration	1,253	1,035
Additional benefits	76	65
Total	1,329	1,100
Performance-based components		
without long-term incentive effect (short-term variable remuneration)	770	913
with long-term incentive effect (long-term variable remuneration)	367	394
with long-term incentive effect (share-based payments)	300	63
Total	1,437	1,270
Pension cost	50	48
Total	**2,816**	**2,418**

Of the stock options granted in fiscal years 2015 and 2016 from the 2015 stock option plan, a total of 242,500 options related to the Management Board. An option entitles the bearer to purchase one no-par-value bearer share in Francotyp-Postalia Holding AG. No further options were granted under the 2015 stock option plan in the reporting year. The possibility to exercise the granted options began in fiscal year 2019 (issued in 2015) or begins in 2020 (issued in 2016) and ends in fiscal year 2024 (issued in 2015) or 2025 (issued in 2016).

EUR 1,442 thousand was set aside for pension obligations to former Management Board members of Francotyp-Postalia Holding AG as at 31 December 2020 (previous year: EUR 1,354 thousand). EUR 11 thousand (previous year: EUR 19 thousand) was added to provisions in the 2020 reporting year, thereof EUR 1 thousand for service cost and EUR 10 thousand for interest cost.

Virtual share options

In the context of individual Management Board commitments, in the reporting year individual Management Board members were each granted up to 30,000 virtual shares in Francotyp-Postalia Holding AG as a first tranche. Further tranches are to follow annually up to 2021. When they are exercised, the option rights are satisfied on the basis of a cash settlement. Own investment is the condition for the full allocation. The Management Board members must buy Francotyp-Postalia Holding AG shares amounting to at least 15% of the number of virtual shares granted and to hold them for a period of four years after the respective acquisition. The Management Board members may exercise the virtual shares any time after the end of the vesting period within a further four years. The arithmetic mean of the share price of the last 90 days at the time of exercise is decisive for the exercise price. The value of the option rights is aligned to the price performance between grant and exercise. The option rights may be exercised when the exercise price has increased by at least 10% against the basis price when the option rights are granted (absolute hurdle). If the hurdle has not been reached, the related right lapses. The value of the option right is based on the difference between the exercise price and the basis price, multiplied by the number of virtual shares of the respective tranche. The value is limited to EUR 300 thousand per tranche. The options were granted on 1 March 2019.

The fair value of the consideration granted from virtual share option rights is calculated using the Black-Scholes option price model. Measurement is based on the expected holding period of four years. Correspondingly, the parameters relevant for measurement (risk-free interest rate, volatility) are derived from capital market data over a four-year period. The exercise price is calculated using the arithmetical average of the Xetra daily closing prices of the last 90 trading days before the exercise date. Account is taken of special contractual elements such as an exercise hurdle and payment cap by a combination of three part-options.

Grant date				
	Virtual options	**Virtual options**	**Virtual options**	**Virtual options**
	1 Mar. 2019	1 Jan. 2020	1 Mar. 2020	1 June 2020
31 Dec. 2020				
One option in EUR	0.00	0.65	0.66	0.63
All options in EUR thousand	0	39	40	221
31 Dec. 2019				
One option in EUR	0.56	0.00	0.00	0.00
All options in EUR thousand	34	0	0	0
Price per FP share	3.52	0	0	0
Exercise price	3.87	0	0	0
Expected exercise date	1 Mar. 2022	1 Mar. 2023	1 Jan. 2024	1 June 2024
Forecast average holding period in years	4	4	4	4
Expected volatility	29.65%	29.57%	29.58%	33.07%
Annual dividend yield	3%	1.5%	1.5%	1.5%
Matched-term, risk-free interest rate	-0.27%	-0.47%	-0.70%	-0.59%
Expected number of exercisable stock options at award date	60,000	60,000	60,000	350,000
Estimated annual employee turnover	0%	0%	0%	0%

	2020		2019	
Virtual options	Number	Average exercise price in EUR	Number	Average exercise price in EUR
As at 1 Jan.	**90,000**	**4.24**	**30,000**	**4.98**
Granted in fiscal year	**470,000**	**3.68**	60,000	3.87
Forfeited in fiscal year	**0**	**n/a**	0	n/a
Exercised in fiscal year	**0**	**n/a**	0	n/a
Expired in fiscal year	**0**	**n/a**	0	n/a
As at 31 Dec.	**560,000**		**90,000**	
Range of exercise price in EUR		**3.60-3.97**		3.87-4.98
Average remaining term in months as at 31 Dec.		**27.5**		32
Exercisable as at 31 Dec.	**0**	**n/a**	0	n/a

As at 31 December 2020, EUR 62 thousand (previous year: EUR 16 thousand) was recognised in employee benefit expenses with an offsetting entry in liabilities.

No loans or advances were granted to members of the Management Board. No contingent liabilities were entered into for the benefit of members of the Management Board as at the end of the reporting period.

In the 2020 financial year, severance payments amounting to EUR 2,578 thousand (previous year: EUR 0 thousand) were set aside for members of the Management Board on the occasion of the termination of their employment.

Remuneration of the Supervisory Board
Remuneration (excluding short-term benefits) for the parent company's Supervisory Board for performing its duties at the parent company and the subsidiaries came to EUR 102 thousand (previous year: EUR 110 thousand). The members of the Supervisory Board did not receive any loans or advances.

Transactions with associates and unconsolidated subsidiaries
Relates parties are parties under common control or where one party is able to control the other party or exert a joint controlling influence over the other party's financial and operating decisions. In considering each possible related party relationship, focus is on the substance of the relationship and not the legal form.

No transactions were conducted with the FP Group's associate or unconsolidated subsidiaries in fiscal years 2020 and 2019.

(41) Auditor's fee

On the basis of a recommendation of the Supervisory Board, the Annual General Meeting elected KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as the auditor for fiscal year 2020. The total fee charged for services by the auditor in the fiscal year is shown in the table below:

in EUR thousand	2020
Audits of financial statements	**519**
Tax advisory services	**79**
Other services	**9**
Total	**607**

Of the fees charged for auditing services in the reporting year 2020, EUR 170 thousand are attributable to the previous year, as well as EUR 79 thousand of tax consulting services.

Tax consultancy services amounting to EUR 79 thousand mainly relate to services in connection with the preparation of business tax returns and support in connection with the handling of tax agreement procedures.

Other services relate to agreed-upon investigations regarding compliance with debt covenants.

The information provided only includes the legally independent unit of the appointed auditor.

All non-audit services were approved by the Supervisory Board.

(42) Significant events after the end of the reporting period

There were no significant events after the end of fiscal year 2020 that would have had a notable effect on the net assets, financial position and results of operations of the FP Group.

(43) Corporate governance

The Management Board and the Supervisory Board of Francotyp-Postalia Holding AG have issued a declaration of compliance with the German Corporate Governance Code in accordance with section 161 AktG and made this declaration permanently accessible on the company's website (https://www.fp-francotyp.com/en/declaration-ofcompliance/10ddeb512660af81[6]).

Berlin, 27 April 2021

The Management Board of Francotyp-Postalia Holding AG

Carsten Lind

CEO

Martin Geisel

Patricius de Gruyter

[6] This cross reference is not part of the audit of the financial statements by KPMG AG Wirtschaftsprüfungsgesellschaft.

VI. Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the FP Group, and the Group management report, which is combined with the management report of Francotyp-Postalia Holding AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.[7]

Berlin, 27 April 2021

The Management Board of Francotyp-Postalia Holding AG

Carsten Lind

CEO

Martin Geisel

Patricius de Gruyter

[7] The responsibility statement is not part of the audit by KPMG AG Wirtschaftsprüfungsgesellschaft.

Independent auditor's report[8]

To Francotyp-Postalia Holding AG, Berlin

Report on the audit of the consolidated financial statements and the combined group management report

Audit opinions

We have audited the consolidated financial statements of Francotyp-Postalia Holding AG and its subsidiaries (the Group), comprising the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year from 1 January to 31 December 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report on the situation of the Company and the Group (hereinafter "combined group management report") of Francotyp-Postalia Holding AG for the fiscal year from 1 January to 31 December 2020.

In compliance with German law, we did not audit the contents of the parts of the combined group management report set out in the "Other information" section of our auditor's report. The combined group management report contains cross-references, which are not required by law and are identified as unaudited. In compliance with German law, we did not audit the contents of these cross-references or the information to which the cross-references refer.

In our opinion, on the basis of the knowledge obtained in the audit,

- the attached consolidated financial statements comply in all material respects with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB and, in accordance with these requirements, give a true and fair view of the Group's net assets and financial position as at 31 December 2020 and of its results of operations for the fiscal year from 1 January to 31 December 2020, and
- the attached combined group management report as a whole presents an accurate view of the Group's position. In all material respects, this combined group management report is consistent with the consolidated financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development. Our audit opinion on the combined group management report does not extend to the contents of the parts of the group management report set out in the "Other information" section. The combined group management report contains cross-references, which are not required by law and are identified as unaudited. Our audit opinion does not extend to these cross-references or the information to which the cross-references refer.

Pursuant to Section 322 (3) Sentence 1 HGB, we state that our audit has not led to any reservations with relating to the legal compliance of the consolidated financial statements and of the combined group management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the combined group management report in accordance with Section 317 HGB, the EU Audit Regulation (No. 537/2014; hereinafter "EU-AR"), and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility according to these regulations and standards is described in further detail in "Responsibility of the auditor for the audit of the consolidated financial statements and the combined group management report" section of our auditor's report. We are independent of the consolidated companies in compliance with the provisions of European law, German commercial law and professional law and have fulfilled our other German professional obligations in compliance with these requirements. In addition, we declare pursuant to Article 10 (2) lit. f) EU-AR that we have provided no prohibited non-audit services referred to in Article 5 (1) EU-AR. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions regarding the consolidated financial statements and the combined group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are such matters that, in our professional judgement, were the most significant in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2020. These matters were considered in connection with our audit of the consolidated financial statements as a whole and the formulation of our audit opinion; we do not provide a separate audit opinion on these matters.

[8] Translation of the auditor's report.

Capitalization and recoverability of development costs

Please refer to Section I in the notes to the consolidated financial statements for information on the accounting policies applied.

Risk for the consolidated financial statements

In the consolidated financial statements of Francotyp-Postalia Holding AG, internally generated assets of EUR 18.0 million and internally generated assets in development of EUR 3.0 million are shown under "Intangible assets" as at 31 December 2020. The internally generated assets account for a total of 12.1 % of total assets and thus have a material influence on the group's net assets.

Development costs for new products, including internally generated software, are capitalised as internally generated intangible assets when the conditions of IAS 38 are met. Next to technical feasibility, these include amongst others the generation of probable future economic benefits from the asset, the availability of technical and financial resources for the completion of the development and the ability to reliably measure the attributable expenditures. The capitalised development costs include direct costs and overheads.

The capitalisation of development costs is based to a significant degree on assumptions and estimates by the legal representatives with regard to the fulfilment of the recognition criteria in accordance with IAS 38. Concerning the estimate of meeting the technical feasibility of a development project, the group has consulted an external expert.

If any indication of impairment of intangible assets exist, am impairment test in accordance with IAS 36 is to be performed. An impairment test is to be performed at least annually for intangible assets not yet available for use. The value in use for the cash-generating unit is calculated using the Discounted Cashflow Model.

There is a risk for the consolidated financial statements that the capitalised development costs were recognised in the statement of financial position incorrectly in substance or amount.

Our Audit Approach

We have analyzed Francotyp-Postalia Holding AG's accounting instructions with regard to completeness and conformity with the recognition criteria in accordance with IAS 38 and the valuation criteria in accordance with IAS 36.

We have assessed the appropriateness, establishment and effectiveness of controls for the "development" process, which the FP Holding has established to ensure the complete and correct recognition and valuation of development costs.

We have assessed the legal representatives' assumptions regarding the fulfilment of the recognition criteria by inspecting a selected sample of the project plans (PAF), the internal records of the development department. To assess reliable measurement, we verified the method used to calculate the capitalizable costs. For the selected sample, we examined the generation of probable future economic benefits from the asset by verifying the estimate of future cash inflows for selected projects via discussion with the development department and inspection of the internal calculations of future sales. In addition, we inspected project cost out-lines to validate project progress with regard to technical feasibility. We have assessed the competency, skills and objectivity of the external expert assigned by FP Holding.

Through explanations by finance employees and the acclaim of the group accounting guideline we have obtained an understanding of the process, how the group assesses identifying indications of impairment and determining the value in use. We have analyzed the identified indications of impairment by the group and used the obtained information throughout our audit for evaluating, if further not identified indications of impairment by the group exist.

Next to evaluating accuracy and IFRS-compliance of the valuation methods, we have also evaluated the adequacy of the material assumptions used by the group. By aligning with other internal prognostic information and the set up budget by the legal representatives, that has been approved by the Supervisory Board, we have ensured internal consistency. Furthermore, we have convinced ourselves of the historic prognosis quality of the group by comparing planning documents for prior years with the later actual figures and analyzing any deviations.

Conclusion

Francotyp-Postalia Holding AG has established a proper process for recognizing development costs in accordance with IAS 38. The assumptions underlying the recognition of development costs are appropriate overall.

The calculation method used for impairment testing of intangible assets is appropriate and in line with the rules of IAS 36. Assumptions and parameters used by the group are appropriate.

Other information

The legal representatives respectively the Supervisory Board are responsible for the other information. The other information comprises the following components of the combined group management report, whose contents was not audited:

- the separate combined non-financial report of the Company and the Group, to which the combined group management report refers, and
- the combined declaration on corporate governance of the Company and the Group, to which the combined group management report refers.

The other information also includes the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the combined group management report information audited for content and our accompanying auditor’s report.

Our opinions on the consolidated financial statements and on the combined group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance
conclusion thereon.

In connection with our audit, our responsibility is to read the above-mentioned other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined group management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the combined group management report

The legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the group in accordance with these requirements. In addition, the legal representatives are responsible for such internal controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the group’s ability to continue as a going concern. They also have a responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the combined group management report that, as a whole, provides an appropriate view of the group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined group management report.

The Supervisory Board is responsible for overseeing the group’s financial reporting process for the preparation of the consolidated financial statements and the combined group management report.

Auditor’s Responsibilities for the audit of the consolidated financial statements and the combined group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined group management report as a whole provides an appropriate view of the group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well to issue an auditor’s report that includes our audit opinions on the consolidated financial statements and on the combined group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also,

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal controls relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined group management report in order to design audit procedures that are appropriate in the circumstances, but nor for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.

- Conclude on the appropriateness of legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the group in compliance with IFRSs, as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express opinions on the consolidated financial statements and on the combined group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the combined group management report with the consolidated financial statements, its conformity with law, and the view of the group's position it provides.

- Perform audit procedures on the prospective information presented by the legal representatives in the combined group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial, unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that wed have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other statutory and legal requirements

Report on the Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Combined Group Management Report Prepared in accordance with Section 317 (3b) HGB

We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the file that can be downloaded by the issuer from the electronic client portal with access protection, „2020_Francotyp-Postalia_Konzernabschluss (1).zip" (SHA256-Hashwert:f0a053ce13d55cd263072ca234259cad3a5 9f0146fec15dd16492913349ec141) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the combined group management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained.

We conducted our assurance work on the reproduction of the consolidated financial statements and the combined group management report contained in the above-mentioned electronic file in accordance with Section 317 (3b) HGB and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The legal representatives of the group are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the combined group management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the legal representatives of the group are responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The legal representatives of the group are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited combined group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to

the audited consolidated financial statements and the audited combined group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the Annual General Meeting on 10 November 2020. We were engaged by the Supervisory Board on 18 December 2020. We have been the group auditor of Francotyp-Postalia Holding AG without interruption since the financial year 2009.

We declare that the opinions expressed in this auditor’s report are consistent with the additional report to the Audit Committee according to Article 11 of the EU Audit Regulation (long-form audit report).

Responsible auditor

The auditor responsible for the audit is Patrick Waubke.

Berlin, 28 April 2021

KPMG AG

Wirtschaftsprüfungsgesellschaft

Waubke	Klein
German Public Auditor	German Public Auditor

Glossary

A

A segment
The franking machine segment for customers with low mail volume (up to 200 letters per day).

Actuation
Actuation describes the signal-controlled response of drive components to certain operating conditions.

Agile methods
Agile methods are principle-based approaches for higher efficiency in software development.

API
Application programming interface.

App
Program for smartphones and tablet computers.

B

B segment
The franking machine segment for customers with medium mail volume (200-2,000 letters per day).

Bluetooth
Standard for the wireless transfer of data between different electronic devices over a distance of around ten metres. Bluetooth has superseded infra-red technology in this segment.

BSI
German Federal Office for Information Security.

C

C segment
The franking machine segment for customers with high mail volume (more than 2,000 letters per day).

CDS spreads
A credit default swap (CDS) is a credit derivative that allows the default risks of loans or bonds to be traded. Spread is the difference between bid and ask prices.

CGU
According to International Financial Reporting Standards (IFRS), a cash generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (IAS 36.6).

Cloud services
Provision of IT infrastructure such as processing power, memory space or application software as a service over the internet.

Concept of operation
A concept that describes the features of a system from the perspective of a user.

Connectivity
The ability of systems to establish a connection with other systems.

Credit facility
Sum of all credit lines that are available to a customer to cover a credit requirement from one or several banks (usually in exchange for collateral) and that the customer can draw upon as required.

CRM
Customer relationship management system. Software solution for the systematic configuration of customer relationship processes.

Cross-selling
Efforts to sell customers complementary products or services.

Cryptography
Originally the science of the encryption of information. Today, cryptography also concerns the conception, definition and design of information systems and information security.

Currency swap
In a currency swap, two contracting parties swap two currencies at the current exchange rate and then swap them back at the same rate at a later date.Cyberattack
Targeted, external attack on major computer networks that are important for specific infrastructure.

D

Dashboard
Method to clearly present information on a monitor using small programs that are designed to look like traditional dashboard gauges.

Design sprint
A time-limited, five-step process of design thinking with the aim of reducing the risk for the market launch of a new product or service.

DNA
Scientific definition: deoxyribonucleic acid, carrier of unique genetic information, i.e. the material basis for genes. The "DNA" of a company means the particular characteristics of a company that give it a competitive edge or bundle unique selling propositions. FP's DNA is defined by actuation, sensor technology, connectivity and cryptography.

E

Edge computing
Decentralised data processing at the edge of the network via intelligent devices. Model for IoT.

eIDAS
European regulation on electronic identification and trust services for electronic transactions.

Electronic signature (e-signature)
Data record that confirms the identity of the sender of an e-mail, for example, and that the message has not been changed. Legally binding by dint of European directive and German Digital Signature Act in the form of the qualified electronic signature.

Embedded software
Software that takes on certain control, monitoring and corrective functions within technical apparatus, e.g. in a car.

EMC
Electromagnetic compatibility. Ability of an electronic device not to interfere with others through electromagnetism.

End-to-end solution
End-to-end solution means that FP as a provider of an application program, software and a system meets all of the customer's software and hardware requirements, so no other provider is involved in meeting the requirements. Everything from a single source, covering the entire value chain.

ERP
Enterprise resource planning. ERP systems support the planning of enterprise resources such as finance, human resources, merchandise, etc. ERP combines various back-office systems such as production, finance, HR, sales and materials management systems.

ESD
Electrostatic discharge.

F

Finance lease
A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership. All other leases are classified as operating leases. The classification is made at the commencement of the lease [IAS 17.4 and 8].

Financial covenants
Blanket term for additional contractual clauses or side agreements in loan and bond agreements with enterprises.

Forfaiting
The purchase of receivables – usually without recourse to the seller in the event of default.

FP Digital Office
Umbrella term for FP’s digital products intended as an office solution for small and medium-sized companies, e.g. FP Sign, Parcel Shipping etc.

FP Input
FP Input takes on structured incoming mail processing of all incoming mail including digital storage of scanned documents.

FP Output
FP Output takes over the customer's data flows. FP takes care of the entire production process from the preparation of data, printing, inserting, franking and handing over the letters to the delivery service or alternatively digital delivery.

FP Parcel Shipping
A new FP solution for parcel shipment with multi-carrier selection, franking and tracking of parcels.

FP Product Roadmap
Plan to develop new products and services, including in the field of franking systems.

FP Secure Gateway
The latest FP product "FP Secure Gateway" is the perfect solution for security requirements in the IoT environment and has a scalable number of input sensors.

FP Sign
FP Sign is a cloud-based software solution for the secure, confidential and legally binding digital signing and exchange of contracts and documents.

Freedom to operate analysis
Analysis of whether third parties already have property rights with respect to the development, manufacture and market launch of a new product.

G

Gateway
Component (hardware and/or software) that establishes a connection between two systems.

Going concern
Positive forecast of continuation for the coming fiscal year.

H

Hardware security module
External or internal computer accessory for encrypting and decrypting sensitive data.

Hybrid mail services
Hybrid mail services transform data into mailable letters and vice versa.

I

Industry 4.0
Term from the German federal government's High-Tech Strategy 2020, which postulates the fourth industrial revolution. Following mechanisation (Industry 1.0), mass production (2.0) and automation (3.0), production in Industry 4.0 is governed by the Internet of Things.

Infrastructure discount
Since 1 January 2018, the infrastructure discount has replaced Deutsche Post AG's volume discount. This requires specific conditions to be met, including with regard to machine-readable postage paid impressions.

Inserter release
A new option to combine inserting and franking.

Intellectual property
A category of property that includes intangible creations of the human intellect.

IoT
Internet of Things. The Internet of Things in industrial application, synonymous with Industry 4.0.

Iteration
The process of repeating the same or similar actions multiple times to approximate a solution or a certain target.

J

Juconn GmbH
Since January 2019, FP has held a 15% interest in Juconn GmbH in order to offer customers the entire IoT value chain.

M

Mail Services
The Mail Services segment comprises the franking service – collecting unfranked outbound post and providing the franking – and the consolidation service – sorting the post by postcode and delivering it in batches to a sorting office of Deutsche Post AG or an alternative postal distributor (Secure mail business).

O

Operating lease
A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership. All other leases are classified as operating leases. The classification is made at the commencement of the lease [IAS 17.4 and 8].

P

Parcel Shipping
A software solution that allows the sender to choose the best provider for sending their parcels and packages, taking account of various criteria.

Part-performance discount
A part-performance discount is granted under part-performance contracts with Deutsche Post when letters are delivered, processed and consolidated at a sorting office.

PKI
In cryptology, public key infrastructure is a system that can issue, distribute and check digital certificates.

PostBase One
PostBase One replaced CentorMail in spring 2016 and is a new system in the upper performance class of the PostBase product family. PostBase One enables the franking of medium and large mail volumes.

PostBase Vision
PostBase Vision is the consistent further development of the PostBase "Classic" franking system, which was introduced in 2012. The colour touch display that adapts to the user automatically has increased in size by 40% and swivels automatically. It now allows users to control functions with swiping gestures and enter text and QR codes on the PostBase Vision directly.

PostBase100
PostBase 100 is a system of the PostBase product family. A special feature is its dynamic scale, which allows customers to conveniently process stacks of uniform mixed mail.

Proof of concept
Demonstration of feasibility.

R

Recurring revenue
We define recurring revenue as revenue from rental and lease agreements as well as, for example, from services and consumables in connection with the installed base. It is generated over the term of the machines and is thus not affected by any cyclical fluctuations in the sales of new machines.

S

Sale and lease back
Sale of assets that are then used by way of rental or leasing.

Sensor technology
With sensor technology, external and internal operating conditions are recorded by sensors, which are used to control drive components via special software programs.

Shared service centre (SSC)
Pooling of an organisation's internal services with the aim of achieving greater efficiency through synergies.

Signature
Legally binding signature. An electronic signature, or e-signature, can replace a handwritten signature. FP Sign is a service for signing digital documents in conformity with the law.

Signature (digital, electronic)
See e-signature, FP Sign.

Social media
Blanket term for online services such as Facebook or Twitter, which allow users to communicate with each other in groups and to share content.

Stärkenkompass
Stärkenkompass is the world's first and only digital tool for collecting and visualising feedback on strengths. More than 1,000 FP employees around the world attended the Stärkenkompass workshops.

Start-up
Newly founded company.

Strategic controller
Strategic control is used to describe the process companies use to control the preparation and execution of strategic plans.

T

Target operating model
Model that describes the desired state of an organisation’s operating model.

Time to PoC
Time to proof of concept (PoC). Important milestone in project development. Basis for further work, as it validates the project concept. It thus services as decision basis for the further course of the project and allows the identification and minimisation of risks.

Tixi.com
The operations of the IoT specialist were acquired in May 2018.

TransACTmail
Online letter service for private customers. Users transmit their text via a browser-based app to FP, which prints, inserts and sends the letter. The service is available starting with a single letter.

Transformation
Developing new, digital business areas.

Triggering event
Event that triggers an impairment test.

U

Upselling
Efforts to offer customers higher-value products and services as a next step.

V

Vision 360
Our portal that gives customers an overview of the relevant system data for the franking systems. It includes a help centre and the option to view invoices, orders and contracts and handle service requests.

W

White spot
Market segments that are not yet served or are served only by a few current offers (also "unused market potential" or "identification of opportunities for innovation").

WIFI (WLAN)
Wireless local area network. Short-range local data transmission network using radio waves. Internationally mostly referred to as Wi-Fi.

Financial calendar

FINANCIAL CALENDAR	
Consolidated financial statements 2020	29 April 2021
Results for the first quarter 2021	27 May 2021
Annual General Meeting, Berlin	16 June 2021
Results for the half year 2021	31 August 2021
Results for the third quarter 2021	18 November 2021

We cannot exclude the possibility of postponements, please check the current status at http://www.fp-francotyp.com.

Imprint

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Fourth sustainability report

Sustainability has long been a firm fixture at numerous levels of our company. Growing sustainably is part of our responsibility as a global corporation to our employees, to our customers and suppliers, to our shareholders, and to our social and natural environment. Growing keeps us in a position to constantly improve our fulfilment of this responsibility. Our comprehensive sustainability report (separate non-financial report) describes how we meet this responsibility. It is available on our website at https://www.fp-francotyp.com/sustainability-report[9]).

Forward looking statement

This annual report contains statements that relate to the future and are based on assumptions and estimates made by the management of Francotyp-Postalia Holding AG. Even if the management is of the opinion that these assumptions and estimates are appropriate, the actual development and the actual future results may vary from these assumptions and estimates as a result of a variety of factors. These factors include, for example, changes to the overall economic environment, the statutory and regulatory conditions in Germany and the EU and changes in the industry. Francotyp-Postalia Holding AG makes no guarantee and accepts no liability for future development and the actual results achieved in the future matching the assumptions and estimates stated in this annual report. It is neither the intention of Francotyp-Postalia Holding AG nor does Francotyp-Postalia Holding AG accept a special obligation to update statements related to the future in order to align them with events or developments that take place after this report is published. The annual report is available in German. It is available for download in both languages at www.fp-francotyp.com[1]). If there are variances, the German version has priority over the English translation.

[9])THIS CROSS REFERENCE IS NOT PART OF THE AUDIT OF THE FINANCIAL STATEMENTS BY KPMG AG WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT.

Multi-year overview

FIGURES IN ACCORDANCE WITH CONSOLIDATED FINANCIAL STATEMENTS (IN EUR MILLION)

	2020	2019	2018	2017	2016
Revenue	195.9	209.1	204.2	206.3	203.0
Recurring revenue	127.1	161.2	160.6	162.6	161.9
EBITDA	8.0	33.3	17.3	26.3	27.2
as percentage of revenue	4.1	15.9	8.5	12.8	13.4
EBIT	-14.0	5.9	0.0	7.3	9.7
as percentage of revenue	-7.1	2.8	–	3.5	4.8
Consolidated profit/loss	-15.1	1.7	0.9	4.6	6.2
as percentage of revenue	-7.7	0.8	0.4	2.3	3.1
Free cash flow	11.4	1.7	3.0	5.8	4.6
Adjusted free cash flow	15.4	12.4	10.9	9.9	9.5
Share capital	16.3	16.3	16.3	16.3	16.2
Equity	13.7	32.0	31.3	33.0	35.9
as percentage of balance sheet total	7.9	17.2	18.7	19.4	21.5
Return on equity (%)	-110.2	5.3	2.9	14.1	17.2
Debt capital	160.3	154.3	136.0	136.8	131.4
Net debt	23.8	31.7	18.1	19.5	19.8
as percentage of balance sheet total	174	99	58	59	55
Balance sheet total	174.0	186.3	167.2	169.8	167.3
Share price end of year (EUR)	3.20	3.45	3.00	4.66	5.49
Earnings per share (basic in EUR)	-0.94	0.11	0.06	0.29	0.36
Earnings per share (diluted in EUR)	-0.94	0.11	0.06	0.28	0.36
Employees (end of period)	1,003	**1,012**	**1,055**	**1,067**	**1,052**

1) Comparative period 2018 adjusted.

Key figures

FIGURES IN ACCORDANCE WITH CONSOLIDATED FINANCIAL STATEMENTS (IN EUR MILLION)

	2020	2019	Change in %
Revenue	195.9	209.1	-6.3
Recurring revenue	127.1	161.2	-21.2
EBITDA	8.0	33.3	-76.0
as percentage of revenue	4.1	15.9	
EBIT	-14.0	5.9	n.a.
as percentage of revenue	–7.1	2.8	
Consolidated profit/loss	-15.1	1.7	n.a.
as percentage of revenue	–7.7	0.8	
Free cash flow	12.4	1.7	n.a.
Adjusted free cash flow	15.4	12.4	n.a.
Share capital	16.3	16.3	0.0
Equity	13.7	32.0	n.a.
as percentage of balance sheet total	7.9	17.2	
Return on equity (%)	–110.2	5.3	
Debt capital	160.3	154.3	3.9
Net debt	23.8	31.7	-24.9
as percentage of balance sheet total	174	99.1	
Balance sheet total	174.0	186.3	-6.6
Share price end of year (EUR)	3.20	3.45	-7.2
Earnings per share (basic in EUR)	-0.94	0.11	n.a.
Earnings per share (diluted in EUR)	-0.94	0.11	n.a.
Employees (end of period)	1,003	**1,012**	**-0.9**

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