

REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD OF FRANCO TYP-POSTALIA HOLDING AG (FP GROUP)

With this report, the Supervisory Board provides details of its activities in accordance with section 171(2) of the German Stock Corporation Act (Aktiengesetz – AktG). In the fiscal year 2016, the Supervisory Board performed the duties required of it pursuant to prevailing law, the Articles of Association and the Rules of Procedure, while taking the associated decisions as and when necessary. The Supervisory Board regularly advised the Management Board on the company's management, monitored its work and dealt continuously with the course of business and situation of the FP Group. The Supervisory Board was directly involved in all important decisions from an early stage. The Management Board informed the members of the Supervisory Board regularly, comprehensively and in due time. Whenever a decision was required from the Supervisory Board regarding individual measures of the Management Board, the Supervisory Board passed resolutions on this, if necessary by written procedure. A total of seven in situ meetings took place in the past year. Of these, four were ordinary meetings and three were extraordinary meetings. The Management Board participated in six Supervisory Board meetings.

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

- Conclusion of new Group financing
- Reorganisation of Finance department
- ACT strategy in combination with FP FIT measures

The 2016 joint meetings of the Supervisory Board and the Management Board were held on 11 January, 29 February, 7 April, 6 June, 28 September, 21 November and 16 December (budget meeting).

TOPICS HANDLED BY THE SUPERVISORY BOARD IN 2016

Net assets, financial position and results of operations

At every meeting, the Management Board reported on the net assets, financial position and results of operations of the FP Group. At the meeting on 29 February, the Management Board told the Supervisory Board about the current Group financing situation and explained why the financing had to be restructured. The Management Board kept the Supervisory Board regularly informed about the progress of the negotiations, but especially at the Supervisory Board meetings on 7 April and 6 June. With effect from 24 June 2016, the new syndicated loan agreement with a volume of EUR 120 million and an option for an additional EUR 30 million was signed, considerably improving the Group's flexibility. At the meeting on 28 September, the Management Board gave the Supervisory Board an overview of the since completed reorganisation of the Finance department, which included the appointment of a Tax Director, a Controlling Director and a Treasurer. The first successful results of the reorganisation were presented in detail at the meetings on 7 April, 28 September, 21 November and 16 December and are already visible in the considerably improved tax rate.

The budget for the following year that is prepared annually by the Management Board was also discussed in detail by the Supervisory and Management Boards at the meetings held on 21 November and 16 December. The Supervisory Board approved the budget on 16 December.

ACT STRATEGY IN COMBINATION WITH FP FIT MEASURES

After the appointment of Rüdiger Andreas Günther as CEO, the FP 2020 strategy introduced for the Group in 2015 was subjected to a thorough review. The Supervisory Board was involved in the processes. It was informed of the results continuously and in detail at the meetings on 7 April, 6 June and 28 September. The Supervisory Board not only consented to the newly developed strategy, but also voiced its explicit approval.

The ACT strategy and the associated FP FIT measures comprise of promising initiatives and they clearly bring out the potential of FP. The Supervisory Board is supporting the strategy process and the now necessary implementation of ACT with the associated investments with full confidence.

FRANKING, INSERTING, MAIL SERVICES AND SOFTWARE PRODUCT SEGMENTS

The ACT strategy shifts the focus back onto the Franking and Inserting segment as the FP Group's key product segment. The development of the traditional franking and inserting machine business was addressed and discussed in detail at every meeting of the Supervisory Board.

The Supervisory Board and Management Board agree that the FP Group can continue to grow in the traditional business. In parallel, digitalisation will continue to influence and change documentation and communication processes. Here, ACT is a convincing strategy for the FP Group. Therefore, the development of the Mail Services and Software segment is still an important focus point. In the past year, the Management Board and the Supervisory Board regularly presented and discussed the development of the Mail Services and Software business areas in detail at the Supervisory Board meetings and outside these meetings. Two significant events are notable here. On 10 October 2016, the FP Group acquired the remaining 49% stake in internet-access GmbH (IAB) by concluding a purchase and assignment agreement. Therefore, IAB is now a 100% subsidiary of the FP Group.

The status of Mentana-Claimsoft GmbH, and especially De-Mail, was discussed at the meetings on 29 February, 7 April, 6 June, 28 September and 21 November. The introduction of the De-Mail standard for secure, confidential and legally binding digital communication is still starting more slowly than originally hoped. The FP Group's main focus is therefore shifting to other software products and services that can be developed and marketed on the basis of Mentana-Claimsoft's high level of know-how and special expertise in encryption, archiving and signature software. These can be further enhanced and developed, especially in connection with the development of new digital products for customers of the FP Group in line with ACT. FP-Sign is one of these products.

MEMBERS OF THE MANAGEMENT BOARD

The Supervisory Board appointed Rüdiger Andreas Günther as a member of the Management Board and CEO with effect on 11 January 2016. Rüdiger Andreas Günther thus succeeded Hans Szymanski, whose appointment was terminated by amicable and mutual agreement. As CEO and CFO, Rüdiger Andreas Günther is responsible for Strategic Business Development, Finance / Accounting / Controlling / Tax / Treasury, Corporate Communications / Investor Relations, Public Relations, HR / Legal / Compliance, Mergers & Acquisitions and Production / Procurement / Quality.

The Management Board contract of Thomas Grethe as member of the Management Board of Francotyp-Postalia Holding AG responsible for the Franking and Inserting segment (Sales Germany, International, Asia, Product Management, Strategic Business Development), Internal Audit and Strategic Marketing / Brand Management was extended to 30 June 2018 with effect on 1 July 2016.

In connection with the German Corporate Governance Code's recommendation for the remuneration system of the Management Board, the Supervisory Board dealt intensively with the issue of the remuneration structure in 2016. The Supervisory Board is consulting with an external independent remuneration expert for the assessment and further discussion of remuneration.

WORK IN THE COMMITTEES

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

In this capacity, the Supervisory Board examines and monitors the financial reporting process as well as the effectiveness of the internal monitoring system, risk management system and internal audit system. Examination and monitoring is based on the regular reports by the Management Board.

AUDITING THE ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Supervisory Board has the task of examining the financial statements, the consolidated financial statements and the combined management and group management report by the Management Board. The same applies to the report and conclusions reached by the independent auditor and independent auditor for the Group. KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, has audited the annual financial statements of Francotyp-Postalia Holding AG as of 31 December 2016 as well as the consolidated financial statements and combined Group management report as of 31 December 2016, and has issued an unqualified opinion thereof in each case.

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

During the balance sheet meeting held by the Supervisory Board on 30 March 2017, in the presence of the independent auditor, who reported on key audit findings, the 2016 annual financial statements, 2016 consolidated financial statements and combined Group management report and audit reports were discussed comprehensively. The Supervisory Board concurs with the Management Board's presentation of the company's and Group's situation in its reports and annual financial statements as well as with the results of the audit reports. Accordingly, the Supervisory Board raises no objections thereto. The Supervisory Board approved by resolution the financial statements prepared by the Management Board on 30 March 2017. The financial statements for 2016 have thus been established in accordance with section 172 AktG.

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

CORPORATE GOVERNANCE

The Management Board and Supervisory Board issued a Declaration of Compliance with the German Corporate Governance Code (the Code) in accordance with section 161 AktG, which now forms part of the Declaration on Corporate Governance in accordance with section 289a HGB, and will make this declaration permanently available to shareholders on the Francotyp-Postalia Holding AG website. The Management Board and the Supervisory Board broadly comply with the suggestions and recommendations of the Code. The Declaration on Corporate Governance, which also forms part of the 2016 Annual Report, and the Declaration of Compliance give detailed explanations of points where the Management Board and the Supervisory Board digress from the Code's suggestions and recommendations.

In accordance with the compliance guidelines introduced worldwide in 2011, the Supervisory Board receives regular reports on compliance in the FP Group.

EXPRESSION OF THANKS

The Supervisory Board would like to thank the members of the Management Board, the managing directors of the subsidiaries and all employees for their commitment and achievements in the fiscal year 2016. Thanks also go to our customers and partners, who have likewise made a major contribution to the success of our company. In addition, we would like to thank our shareholders for the confidence they show in the company.

April 2017

The Supervisory Board
Francotyp-Postalia Holding AG



Klaus Röhrig