Annual Report 2011

DELTICOM
Aktiengesellschaft

Profile

Delticom is Europe's leading online tyre retailer. Founded in 1999, the Hanover-based company has more than 100 online shops in 41 countries, among others the *ReifenDirekt* domains in Germany, Switzerland and Austria, mytyres.co.uk in UK and 123pneus.fr in France. Delticom offers a wide range of products for its private and business customers: more than 25,000 models from over 100 tyre brands for cars, motorcycles, commercial vehicles and buses, but also complete wheels, motor oil, replacement parts and accessories.

Delticom's customers enjoy all the advantages of modern E-Commerce: convenience in order placing, quick, efficient delivery, clear cost information and, last but not least, low prices. The products are delivered in two business days to any address the customer chooses. Alternatively, Delticom delivers the tyres to one of more than 30,000 service partners (8,100 in Germany alone) for professional fitting directly on to the customer's vehicle at a reasonable price.

Thanks to its cost-efficient processes, Delticom is a profitable and growing operation. After a successful 2011, the company intends to maintain and build upon its position as market leader in 2012. The online tyre trade is large and dynamic – and Delticom is on the right track to continue taking advantage of this.

Key Figures

		01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010 *	–/+ (%, %p)
Revenues	€ million	480.0	419.6	+14.4
Total income	€ million	488.3	425.3	+14.8
Gross margin[1]	%	27.4	28.5	–1.1
Gross profit	€ million	139.9	125.2	+11.7
EBIT	€ million	52.9	47.6	+11.2
EBIT margin[2]	%	11.0	11.3	–0.3
Net income	€ million	36.0	32.6	+10.4
Earnings per share[3]	€	3.04	2.76	+10.4
Total assets	€ million	166.4	149.3	+11.4
Inventories	€ million	106.5	52.2	+103.9
Investments[4]	€ million	8.6	4.3	+97.2
Capital Employed[5]	€ million	79.1	71.4	+10.8
Return on Capital Employed[6]	%	66.9	66.7	+0.2
Equity	€ million	75.5	71.3	+5.8
Equity ratio	%	45.4	47.8	–2.4
Return on equity	%	47.7	45.7	+2.0
Liquidity position[7]	€ million	22.2	67.8	–67.3
Operating cash flow	€ million	–9.6	51.7	
Free cash flow[8]	€ million	–18.1	48.2	

* restated according to IAS 8, due to changes in inventory valuation method, see Statements and Notes

(1) Gross profit ex other operating income in % of revenues
(2) Consolidated earnings before interest and taxes (EBIT) to revenues
(3) Undiluted
(4) Investments in tangible and intangible assets
(5) Capital Employed = total assets – current liabilities
(6) ROCE = EBIT / Capital Employed
(7) Liquidity position = cash and cash equivalents + liquidity reserve
(8) Free cash flow = Operating cash flow – Capex

Highlights 2011

Revenues up +14.4% to € 480.0 million
(previous year: € 419.6 million)

EBIT margin of 11.0% EBIT increased +11.2% from € 47.6 million to € 52.9 million

Earnings per share
+10.4% from € 2.76 to € 3.04

Planned dividend of € 2.95 per share
(previous year: € 2.72)

More than 900,000 new customers in 2011. Customer basis grown to 5.3 million

30,000

service partners worldwide, more than 8,000 in Germany alone

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Letter to Our Shareholders

Dear shareholders, colleagues and friends,

2011 was a successful year for Delticom. Annual revenues increased by 14.4 % to € 480.0 million and EBIT by 11.2 % to € 52.9 million. With 11.0 % the EBIT margin was just slightly lower than in the exceptionally strong previous year. In total the consolidated net profit amounted to € 36.0 million or € 3.04 per share – after a result of € 32.6 million the previous year – an increase of 10.4 %. Delticom has once again been able to continue the string of revenues and earnings increases, unbroken since the company's founding in 1999.

These results are all the more remarkable when one considers the less-than-ideal overall environment in which they were achieved. At the beginning of 2011 many economists had assumed that the international economy would continue its recovery. However, growth began to slow as the year went on, and around Europe, austerity measures implemented by various national governments began to have a negative effect on consumption in the private sector. Furthermore, many tyre manufacturers had to raise their prices over the course of the year to reflect the significant increase in their material costs.

Even the weather was not on our side. On the one hand, the winter tyre season began at the end of Q3 and thus relatively early. One reason was probably people’s vivid memories of the sheer quantities of snow that had fallen during the previous winter. But on the other hand this initial high demand could not be sustained throughout the entire season: the closing quarter lacked substantial snowfall and temperatures across Europe were too mild.

Nevertheless, the mild winter weather demonstrated to us once again how important it is for our operation to have ample own stock. As an online tyre retailer, it is essential that we are able to fill customer orders at all times, at attractive prices. By adding a large new warehouse facility last year we were able to stock up considerably well ahead of the season. This strategic decision paid off in the closing quarter as it allowed us to ship more tyres than in the previous year. Compared to the extraordinarily strong prior-year base this represents a noteworthy achievement. The volume effects resulted in quarterly revenues of € 182.3 million – an increase of 12.2 % over the previous year's Q4.

In a difficult market environment our business model has once again proven its value. The success of Delticom rests on a broad product offering at attractive prices, the international footprint, a high degree of automation and a solid balance sheet.

In 2012, we want to grow faster than the markets we are active in, just as in the previous years. The substantially increased storage capacity allowed us to start buying stock for the imminent summer season earlier than usual. Our purchasing activities for winter tyres are also at a more advanced stage than at this time last year. Building on the investments into improved warehouse infrastructure, Delticom is on track for future growth. Our customers will benefit from these developments, with faster delivery of tyres during the peak season.

So far, the weather in the first months of the current year has not helped us to grow the business substantially year-on-year. But while weather conditions will continue to play a role in the short-term, the share of tyre sales made online remains comparatively low. At the same time more and more motorists are turning to the Internet in the search for lower-priced alternatives. Against this background, our low cost structure allows us to offer customers better prices – a key factor for growing sales in times of softer consumer demand.

Even if market and weather conditions in 2012 are not better than last year, we believe that we can achieve a sales increase of 10 %. With margins at last year's levels, revenues should be able to grow in line with sales.

Delticom's operations are profitable and the business model is asset-light. Our processes are flexible as well as resilient. The company enjoys sufficient liquidity. Accordingly, we intend to have you, our shareholders, participate in our success, as has been the case in past years. At Delticom's Annual General Meeting on 30.04.2012, the Management Board and Supervisory Board will propose a dividend of € 2.95, an increase of 8.5 % on last year.

Delticom is active in a distribution channel which is becoming increasingly important. We are confident in our ability to consolidate and build upon our leadership position in the European online tyre trade. In this context, the Supervisory Board this week appointed Mrs Susann Dörsel-Müller (operation centres and customer service) and Mr Sascha Jürgensen (logistics) to the company's Management Board. Both of these Delticom managers have headed the daily operations in their departments for several years and will now take on the full responsibility for the further development of their respective areas. The other three Management Board members have extended their contracts by five years. We are convinced that this mix of continuity and fresh momentum will help tackle the tasks ahead of us even better than before.

We would like to take this opportunity to thank our colleagues and business partners for their creative and spirited contributions to our business. Thanks also to the Supervisory Board for their constructive and cooperative working relationship with the Management Board. Finally, our thanks go out to you, our shareholders, for the trust you have placed in Delticom.

Hanover, 22 March 2012

Rainer Binder

Susann Dörsel-Müller

Philip v. Grolman

Sascha Jürgensen

Frank Schuhardt

Report of the Supervisory Board

Dear Shareholders,

during the past fiscal year, the Supervisory Board fulfilled its tasks and duties, in accordance with legal requirements and Delticom's articles of incorporation. We regularly advised and supervised the Management Board. Furthermore, we were involved in all decisions of material importance to the company. On a regular basis, we dealt intensively with the net assets, financial position and the results of operation as well as with the company's risk management. We received written reports on a monthly basis. Scope and contents of the reports had been defined beforehand. The Supervisory Board was routinely informed about the course of business and major business events. Furthermore, the Supervisory Board took the opportunity to engage the Management Board in lively exchanges of information and ideas. As in the years before we also had regular telephone calls and meetings with individual members of the Management Board to discuss current events and developments.

In addition, outside of the meetings the members of the Supervisory Board provided consulting to the Management Board. In instances where decisions were needed to be made quickly we took them in circulation procedure. All decisions made during the reporting period were unanimous.

The Supervisory Board is made up of Mr Andreas Prüfer (Chairman), Mr Michael Thöne-Flöge (Deputy Chairman) and Mr Alan Revie. The Supervisory Board has not established any committees in the sense of Section 107(3) of the AktG (German Public Limited Companies Act), as this was considered unnecessary in light of only three Members.

Meetings of the Supervisory Board
There were four regular Supervisory Board meetings in 2011. Each of the meetings were attended by all members. Three resolutions were passed by way of written circulation procedure.

At the meeting on 18.03.2011 we concerned ourselves with the financial statements and management reports of Delticom AG and the Group, as well as with the appropriation of the balance sheet profit. A further topic was the annual corporate governance statement and the declaration of compliance with the German Corporate Governance Code. Moreover, we agreed on the agenda for the Shareholders' General Meeting on 03.05.2011.

At the meeting on 03.05.2011 we discussed the company's course of business, among other things. After the re-election of the Supervisory Board members by the AGM, Dr. Andreas Prüfer was appointed Supervisory Board Chairman, and Mr. Michael Thöne-Flöge was appointed Deputy Chairman of the Supervisory Board. Mr. Michael Thöne-Flöge was also appointed as an independent financial expert.

At the third meeting on 23.08.2011, the Management Board reported on the Group's current business and financial positions following the conclusion of the second quarter of the financial year 2011. We also conducted the efficiency audit of our work using a catalogue of questions – as recommended by section 5.6 of the German Corporate Governance Code. The Board also discussed the company's risk management system in detail.

At the last regular meeting on 15.11.2011 we reviewed and approved the medium-term and investment planning for Delticom AG and its subsidiary Delticom North America Inc.

Along with the regular meetings, the following three resolutions were passed by way of written circulation procedure:

On 30.06.2011, the Supervisory Board granted its approval to the conclusion of the service agreement with a backup computing center. On 13.07.2011 the Supervisory Board approved a capital increase at Delticom North America Inc. On 17.08.2011, the Supervisory Board approved the Management Board's proposal to draw on an loan for infrastructure investments in the Sehnde warehouse.

Corporate Governance

In March 2012, together with the Management Board, we issued a declaration stating that all Delticom's activities are in conformity with Section 161 of the German Corporate Governance Code. This declaration has been made permanently available on the Delticom AG web page www.delti.com/CG and will be updated every year after the accounts review meeting of the Supervisory Board.

Additionally, information on corporate governance at Delticom AG is contained in the Corporate Governance Report for the purposes of Section 3.10 of the German Corporate Governance Code.

In financial year 2011, no conflicts of interest among members of the Board or the Supervisory Board occurred which would require disclosure to the Supervisory Board and would need to be reported to the Annual General Meeting.

Rendering of accounts

In its accounts review meeting on 20.03.2012 the Supervisory Board discussed in detail the documentation relating to the financial statements and the auditor's report. Particular attention was paid to the annual financial statements of Delticom AG (prepared according to the regulations of the HGB – German Commercial Code), and the consolidated financial statements of the Delticom Group (prepared according to the regulations of IFRS – International Financial Reporting Standards), both of which had a reporting date of 31.12.2011. In addition, the Supervisory Board reviewed the management reports for both the company and the group for the 2011 fiscal year. The auditor's reports, the annual financial statements for the AG and the consolidated financial statements prepared by the Management Board, the dependent company report and the management reports for Delticom AG and for the group as well as the Management Board's proposal for the use of net retained profits were submitted to the Supervisory Board in good time, so that we had sufficient opportunity to study them. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Fuhrberger Straße 5, 30625 Hanover, audited the annual financial statements. There are no concerns regarding the auditor's independence.

In the auditor's opinion, the parent company single-entity annual financial statements and the consolidated financial statements present a true and fair view of the financial and assets position, results of operations, as well as the cash flows, of both the company and the Group, in accordance with accounting regulations. The auditor's review of the dependent company report resulted in no reservations. The auditor has issued an unqualified audit certificate for both areas. The auditor's certificate for the dependent company report contains the following wording: "Following our audit and assessment in accordance with our duties, we confirm that the actual statements made in the report are correct, and that the consideration paid by the company in legal transactions listed in the report was not inappropriately high, or that disbenefits were compensated for."

As part of its assessment of the risk management system, the auditor confirmed that the Management Board had implemented the measures required pursuant Section 91 Paragraph 2 of the German Stock Corporation Act (AktG) for identifying risks which could jeopardise the company as a going concern at an early juncture. At the meeting on 20.03.2012 representatives of the auditor were present, to report on key audit results, and to be available to provide supplementary information to the Supervisory Board. Independently of the auditors, the Supervisory Board reviewed the annual financial statements, the consolidated financial statements and the management reports. The Supervisory Board followed the views of the auditors fully. With this, the annual financial statements of Delticom AG have been adopted. The Supervisory Board has followed the Management Board's proposal for the appropriation of the net retained earnings.

The Supervisory Board would like to thank the Managing Board and all employees for their excellent work.

Hanover, 20.03.2012

Andreas Prüfer

Management Report of Delticom AG

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Business Operations

Since it’s foundation in 1999, Hanover-based Delticom has significantly grown in revenues and profits, both in Germany and abroad. Today the company is Europe's leading online tyre retailer. The E-Commerce division operates 126 online shops in 41 countries.

Segments

The company's business is segmented along two divisions: E-Commerce and Wholesale.

E-Commerce

Most of the group's revenues are generated by the E-Commerce division. Delticom sells tyres and other products over 126 online shops to private and business customers. The online shop which generates the most revenues is ReifenDirekt – a well-known brand in the German speaking Internet community.

Delticom generates a large share of its revenues by selling from own inventories. This stock-and-ship business strengthens the ties with manufacturers and enhances the supply capability, while generating good margins. Using drop-ship fulfilment, the company also sells goods from the warehouses of manufacturers and wholesalers: Either the tyres are transported directly from the supplier to the customer, or Delticom commissions parcel services to carry out the delivery.

The online shops present the entire product range in a consistent look and feel. A high level of service quality is secured by the global fitting partner network and hotlines catering for the different languages.

The group offers its product range in 41 countries, with a focus on the EU market and other European countries such as Switzerland and Norway. Delticom also sells tyres outside Europe, focusing mainly on the USA and, since 2010 also on Asia.

Wholesale

Delticom's Wholesale division sells tyres to wholesalers in Germany and abroad.

Products

Replacement tyres

Delticom generates the bulk of its revenues through sales of brand-new replacement tyres for cars. We offer a product range of unequalled breadth: More than 100 tyre brands and 25,000 models, all of which can generally be shipped within short lead times, as well as rims and complete wheels. In addition, we sell tyres for a variety of vehicles such as motorcycles, trucks, industrial vehicles and also bicycles. Not only do we sell premium manufacturers' tyres, but also a large number of attractively priced quality tyres in the medium and budget price segments. Visitors of our websites have 24/7 access to test reports and manufacturers' specs for all our products. Thus customers are well-informed before placing an order.

Seasonal product ranges

In Germany, as well as in the Europe's northern and Alpine regions, tyre retailing is characterised by seasonal changes in the weather. With our product ranges we cater to all our customers' needs to drive safely on Europe's roads.

Innovative products

In recent years, our customers have increasingly enquired about ultra-high-performance and innovative products such as run-flat tyres. The growing interest in environmentally sustainable products is reflected in our product range: We market tyres which help to reduce fuel consumption.

Accessories and spare parts

Thanks to the supplementary range of accessories articles, engine oil, snow chains, batteries and selected spare parts, Delticom is increasingly able to tap cross selling potentials and boost revenue per customer accordingly.

Market environment

Replacement tyre market

The world tyre market is divided into two parts: the first supplies tyres to newly manufactured vehicles (original equipment), the second part relates to replacement tyres. In established markets, sales of replacement tyres dominate, while a relatively large proportion of business in emerging markets is accounted for original equipment tyres. Of relevance to Delticom is only the replacement market, which accounts for approximately three-quarters of world tyre sales. More than 60 % of all tyres sold are car tyres, while around 20 % are truck tyres, the rest are motorcycle tyres, and industrial and special tyres.

Europe, where the bulk of Delticom's activity takes place, accounts for roughly one-third of global tyre demand. A further third is sold in North America, while Asian markets provide another 20 % of total world sales. Demand for replacement tyres in Europe is concentrated in five main markets: Germany, France, Great Britain, Italy and Spain. Taking unit sales and weighting with average tyre prices, the European market volume relevant to Delticom amounts to well above € 11 billion.

Tyre distribution chain

The largest tyre manufacturers command a significant share of the world tyre market. Additionally, a number of medium-sized players have established themselves globally. As has been the case in other product groups, other smaller manufacturers based in emerging countries have been gaining a foothold.

Wholesalers traditionally carry out a warehousing and logistics function in the tyre distribution chain, usually for several brands. At the same time, wholesalers operate as "brokers" on the global markets, thereby balancing regional differences and timing mismatches of supply and demand.

European tyre trading is highly fragmented. Different sales channels compete directly with each other: independent tyre dealers, manufacturers' chains, independent garages as well as national and international fast-fit chains, and now for some years online retailers.

Online tyre dealing

In the past, it was barely possible for tyre buyers to gain an overview of the market's entire available product range. Nowadays, consumers increasingly gather information online and use the Internet to search for attractively priced options. Broadly available highspeed connections further drive the growth of the E-Commerce as a sales channel.

However, the share of tyre sales made online is still relatively low. We estimate that online tyre sales have accounted for not much more than 6 % of European sales to end customers in 2011.

In Europe, there are still great variations from country to country in the share of online tyre sales. As an example, market observers see the proportion of tyres sold online in Germany still considerably below 10 %. There is, however, striking potential, as it is evident from a study conducted by the German motorists’ organisation Allgemeiner Deutscher Automobil-Club (ADAC). According to this study, 19.2 % of participants (previous year: 16.5 %) said they would buy tyres online in the future. Among younger participants who make greater use of the Internet, the figure was notably higher, at 31.0 % (previous year: 30.8 %).

With its strong internet presence and international profile, Delticom is well positioned to both drive and benefit from the consumer shift towards online tyre purchases.

Competitive position

Low barriers to entry

In some countries tyre retailers and chains have taken to offering their products online – primarily as an additional sales channel intended to complement their main, bricks-and-mortar sales outlets. With barriers to entry being low, Delticom competes with many smaller, regionally specialised online dealers. In the medium term, competition will become tougher, as the Internet as a sales channel for tyres is gaining momentum.

First mover

As "first-mover", we have established good business relationships with manufacturers and wholesalers in Europe over recent years. Based on current Internet revenues, Delticom is significantly larger than its competitors and unlike them active in all of Europe. This allows us to react rapidly to regional differences in supply and demand. Furthermore, the mix of stock-and-ship and drop-ship fulfilment helps to balance out demand fluctuations.

Streamlined value chain

Because we focus on online trading, we have no need for physical sales outlets with labour-intensive on-site service. Delticom maintains a tightly-knit network of more than 30,000 professional fitting partners who stand ready to change our customers' tyres on request.

A streamlined and scalable value chain has been created by largely automated business processes. Our lean cost base puts us in the position to offer our customers a broad product range at attractive prices. Due to the strong balance sheet we can make purchases off-season and are able to deliver products at any time.

Even though competitive pressure is likely to rise, we expect Delticom to remain one of Europe’s leading online tyre retailers, due to its economies of scale and competitive head start.

Economic and regulatory factors influencing the course of business

Vehicle stock, mileage, replacement cycle

The growing importance of the Internet as a sales channel is the key factor of our business success. However, Delticom is not fully independent of the tyre market's underlying volume growth.

Currently there are more than 224 million cars on Europe's roads and highways. The average age of this vehicle stock is around 8 years. Approximately 70 % of these cars are less than 10 years old. Today, vehicles are ever more durable and longer lasting. As a result, even in case of declines in new car registrations, the number of vehicles being driven will continue to increase in years to come.

In Europe, the average car and the tyres mounted on it travel 15,000 kilometres annually. Thanks to similar road conditions throughout Europe, tyres typically require replacement after 60,000 kilometres of travel. As a result, the replacement cycle is roughly four years. Some drivers will respond to the rising cost of running a car – particularly fuel prices – by limiting the use of their cars or changing to smaller, more economical models. Market experts take the view that the average annual car mileage will decrease. This implies a corresponding decline in tyre usage and a lengthened replacement cycle.

It is generally expected that the sale of replacement tyres in both Europe and the USA will experience lower rates of growth in coming years than has been the case to date. In the long term, substantial growth will only come from Eastern European countries and emerging economies like China and Brazil, where levels of vehicle density remain comparatively low.

Price and mix

On the one hand revenues and margins of a tyre dealer are determined by volume demand and unit sales, on the other hand by purchase and selling prices.

Raw material price trends are a key pricing factor, particularly those for natural rubber and oil. Changes in raw material prices only factor into tyre manufacturers' calculations four to six months down the line.

Manufacturers have successfully made their production operations more flexible over recent years. Today, they are generally in a good position to adapt their capacities to the actual demand. Despite this, over- and understocking in the supply chain occur time and again. This has an impact on prices between manufacturers, traders and end-customers. Margins can come under pressure if there is a lack of sales-drivers such as beneficial weather conditions.

The tyre demand is distributed across premium brands and lower-tier brands as well as budget tyres. The actual mix depends on the region, season and the economic situation of the tyre buyer. If the mix shifts, the average value of the basket of goods sold changes, and consequently so do revenue and margin.

Weather-dependend demand

In many countries, business with car replacement tyres depends to a large extent on the seasons with their different weather and road conditions. For example, the business in the northern parts of Europe and in German-speaking countries is characterised by two peak periods – the purchase of summer tyres in spring and winter tyres in early winter.

Volume is generally weaker in the first quarter, as most winter tyres are bought and fitted with the first snow, and thus before the end of the year. By contrast the second quarter is characterised by strong sales: With the rising temperatures in April and May many motorists buy new summer replacement tyres for their cars.

The third quarter is a transitional quarter between the summer and winter business, with sales volumes somewhat weaker than in the preceeding quarter. In most European countries, the last quarter generates the highest sales as motorists face difficult road conditions and become aware of the fact that they need new winter tyres.

Both the summer and the winter tyre season cover a longer period of many months. Consequently, the demand often shifts between quarters, due to an earlier or later onset of the season. Furthermore, base effects often influence year-on-year growth rates because weather conditions usually differ between subsequent years. The seasonal variations warp the long-term trend. They do not hint at a structural change in growth patterns, but simply reflect the weather-related demand.

Weather conditions vary considerably throughout the different countries. Thanks to its international business model, Delticom is often able to at least partially compensate for weaker sales in some countries with growth in other markets.

Regulatory effects

Legislation also influences demand. In Germany, for example, winter tyres have been required by law (known in Germany as the "situative Winterreifenpflicht") since 2006. This regulation was revised in 2010, and stipulates that in conditions of "black ice, hard-packed snow, slush, ice or frost”, vehicles may only be driven with winter or all-weather tyres that are labelled as such. Non-compliance with this regulation can result fines as well as penalty points in the traffic register. Moreover, drivers also run the risk of having courts to void the car insurance. In parts of Scandinavia and the Alpine regions, motorists must generally fit winter tyres to their vehicles during particular periods of the year.

EU tyre labelling

Improved tyre characteristics contribute to road safety and can play a significant part in reducing transport energy intensity and emissions.

According to a directive issued by the European Union, all tyres produced after 01.07.2012 and sold from 01.11.2012 onwards have to carry standardised labels that classify and depict ratings regarding fuel efficiency, wet grip and external rolling noise. This classification will apply to tyres for cars, vans, light trucks and trucks. Exceptions will include retreaded tyres, offroad tyres for commercial purposes, spiked tyres and racing tyres.

A system similar to the EU’s energy efficiency ratings for household appliances will inform tyre buyers about the products’ characteristics. A coloured-coded scale from A to G will be used for fuel efficiency: a dark green A will stand for the best level, while a red G will stand for the lowest level of energy efficiency. Another A-to-G rating system will be used to assess wet grip, while the third element to the labelling system will indicate external rolling noise in decibels.

Tyre makers will have to test and certify their products in line with methods approved by the European Commission.

With this directive the European Commission aims to ensure that private and business tyre buyers have access to ample factual information before making a purchase. The tyre label will promote transparency and help car owners to make an informed choice about the qualities they prefer.

Of course it will be impossible for tyre dealers to place all of their stock on display in the sales area of their premises. Nevertheless, instead of showing the physical label, the dealers will at least be obliged to provide consumers with the mere label information prior to purchasing. Additionally, the information shown on the label must be included on the invoice.

Experts from the tyre industry believe that the EU's labelling system will tilt the mix on the European market towards premium tyres.

Delticom will use its online shops as well as the various other forms of communication with customers to provide extensive information about the labels applied to the products.

Company Management and Strategy

Our core business is selling replacement tyres in Europe. We broaden the product range continuously, with expanding geographical reach. In the end customer business, the company does not maintain any outlets but solely sells online. We deliver goods from our own inventories and third party warehouses. Revenues and EBIT are equally important performance indicators in company management. They are supplemented by other key performance indicators along the value chain.

Management by Objectives

Financial objectives

Both the company as a whole and the different business areas are run using financial and non-financial objectives.

- Revenues and revenue growth of the Group are recorded along the primary segments E-Commerce and Wholesale. During the year, current sales and revenues are compared against the short term and medium term targets.
- Divisional managers and shop managers steer their business according to unit sales, revenues and costs directly attributable to sales, like transportation costs, stocking costs and marketing costs. Target agreements are also based on quarterly and yearly contribution margins.
- For Delticom as a whole, the key financial figure is EBIT.

Liquidity

Current and forward rolling budgeted liquidity measures additionally represent an important management metric in our day-to-day business. Liquidity management targets and instruments are covered in section *Organisation – Liquidity management*.

Net Working Capital

Particular emphasis is placed on net working capital, which draws together capital employed in trade receivables, inventories and trade payables in a single figure (see section *Finance and net assets – Working Capital*).

Capital Employed

The capital required for business operations, otherwise referred to as capital employed, is the sum of non-current assets, net working capital and net cash (see section *Finance and net assets – Balance sheet structure*). Capital employed amounted to € 79.1 million as of 31.12.2011 (previous year: € 71.4 million).

ROCE

In the context of value-based corporate management we use the Return on Capital Employed (ROCE) as the main performance metric. ROCE is calculated as EBIT (2011: € 52.9 million; 2010: € 47.6 million) as a ratio of capital employed. For the period under review, ROCE amounted to 66.9 % (2010: 66.7 %).

Non-financial objectives

Apart from financial objectives, management and employees use non-financial objectives to manage the business:

- Due to the great importance of own stock for margin and delivery capability, additions and disposals from warehouses are strictly controlled using flow of goods and warehouse management metrics.
- In warehousing and transportation logistics we use performance indicators like throughput, delivery time, aging structure and stock turn rates.
- The efficiency of online marketing has a considerable impact on the company's sales and results. Marketing success is measured with key figures from the area of web analytics and metrics related to search engine marketing.
- We negotiate so called "Service Level Agreements" (SLA) with our logistics and outsourcing partners. The SLAs define process-specific ratios and reporting thresholds.

Financial and non-financial performance indicators are aggregated in different views, summarised in reports and distributed automatically. The reporting forms the basis for discussions among Management Board, the controlling function and the individual departments. Cross-departmental meetings ensure a constant exchange of information in the company.

Key financial indicators are presented on the inside front cover of the annual report.

Strategy

Management intends to defend and extend the company's leading position in the European online tyre trade. The E-Commerce division will continue to make a strong contribution to our corporate growth over the coming years.

Focus

We focus on selling tyres to European private end customers and mainly increase our reach organically, into other products, regions and customer groups.

For the last years Delticom has grown organically rather than through acquisitions of other companies. We intend to continue with this strategy but stand ready to openly evaluate opportunities as they arise.

Online only

In the E-Commerce division Delticom sells exclusively online, does not operate any bricks-and-mortar outlets, has few fixed assets and low personnel costs. Cost-effective online advertising allows us to reach different target groups. Further automation and additional outsourcing are going to streamline the organisation.

Optimised sourcing

A large part of revenues is generated by the sale of goods from the company’s own warehouses (stock-and-ship). Buying in bulk in low season guarantees good purchasing conditions and allows us to deliver tyres to the end customers in high season. Drop-ship fulfilment – our suppliers shipping directly to our customers – completes our product range and supports the working capital management. Each method of delivery has its own advantages. Therefore we shall continue to use both.

Reliable partners

Improving our already good relationships to our partners is important to us. Over the past years dependable business ties have been established with manufacturers and wholesalers both in Germany and abroad. Reliable, long-standing parcel services deliver the goods in a timely and cost effective manner. Delticom's customers can access a network of thousands of fitting partners who stand ready to mount the tyres. Hotline services and parts of order processing have been outsourced to operations centres.

Wholesale

The company does not anticipate any significant growth in the wholesale division over the coming years. The division nevertheless allows the company to pursue important strategic objectives. Firstly, Delticom obtains market intelligence from the global tyre markets. Secondly, the company can also move larger volumes in a short period of time, allowing it to rapidly establish itself in new countries.

Organisation

Delticom is a lean company with 116 employees working mainly at the Hanover head office. We are supported by partners in the warehouses and transportation logistics. Manual routine work is outsourced to operation centres. The highly automated business processes form a company-wide, scalable value chain.

Legal Structure

As of 31.12.2011, the Delticom group of companies comprised the following subsidiaries.

- Reifendirekt GmbH, Hanover (Germany)
- Pnebo Gesellschaft für Reifengroßhandel und Logistik mbH, Hanover (Germany)
- Delticom Tyres Ltd., Oxford (United Kingdom)
- NETIX S.R.L., Timisoara (Romania)
- Delticom North America Inc., Wilmington (Delaware, USA)
- Tyrepac Pte. Ltd., Singapur
- Hongkong Tyrepac Ltd.

Delticom AG owns 100 % of shares in all subsidiaries, with the exception of Singapore-based Tyrepac and its Hongkong subsidiary where Delticom holds a majority interest amounting to 50.9 %.

Delticom runs the business mainly from the Hanover head office.

Corporate Governance

As a German joint-stock corporation, Delticom operates a dual management system, with a Supervisory Board and a Management Board: The boards' common goal is to achieve a sustainable appreciation of corporate value.

Supervisory Board

The Supervisory Board appoints, supervises and advises the Management Board, and is directly included in decisions of fundamental significance for the company. As part of its supervisory and advisory function, the Supervisory Board also works closely together with the Management Board outside the scope of its meetings.

Management Board

The Management Board determines the company's strategy, which it coordinates with the Supervisory Board, and subsequently implements. It informs the Supervisory Board regularly, promptly and comprehensively about all relevant questions relating to planning, business development, risk position, risk management, and compliance with codes of conduct, laws and guidelines.

Management Board members bear joint responsibility for overall management. As the result of the business allocation plan, they also have clearly defined and delineated task areas for which they are individually responsible. Along with regular Management Board meetings, there is a constant exchange of information between Management Board members.

Compensation System

The Supervisory Board is responsible for determining the structure of the compensation system as well as the compensation of the individual members of the Management Board. The Supervisory Board reviews the appropriateness of the compensation system on a regular basis. The total compensation of each of the Management Board members is determined on the basis of three criteria:

- a monthly base salary
- performance-related, variable remuneration
- variable components with a long-term incentive

The performance-related components for all of the members of the Management Board are based on Delticom AG's operating results. In addition, Mr. Schuhardt, member of the Management Board, was allowed to participate in a stock option program as a variable component with a long-term incentive. As in the previous year, none of the members of the board were granted advances on their salaries or given loans during 2011.

Members of the Supervisory Board receive a fixed compensation without performance-related components.

Corporate Governance Statement

The *Corporate Governance Statement* which can be downloaded from the website at www.delti.com/CG, provides further information about corporate governance, the working methodology of the Management and Supervisory boards, and practical aspects of corporate management.

Dependent company report (Section 312 Paragraph 3 AktG – German Stock Corporation Act)

According to Section 312 of the German Stock Corporation Act (AktG), Delticom has prepared a dependent company report and concluded this report with the following declaration by the Management Board: "We declare that Delticom AG has received reasonable compensation for all of the transactions and activities listed in the report on relationships with affiliated companies according to the circumstances which were known to us on the date on which the transactions were performed. Other reporting-related activities were neither performed nor not performed."

Employees

116 employees

In the reporting period on average 116 staff members were employed at Delticom (previous year: 101). We focused on employing new colleagues in the logistics area last year. Goods distribution to various warehouses, and goods delivery, represent central business processes within the company. We also added staff in the IT areas, with the aim of remaining innovative in the face of a rapidly changing environment.

Education and training

Delticom offers its staff both personal and professional development opportunities with targeted education and further training programs. Salaries are supplemented by performance bonuses wherever possible. The company provides an employee pension scheme for its staff members.

We offer training to junior staff both in business and IT areas. Four young people started an on-the-job training at Delticom AG last year. A total of 12 trainees were employed as of the end of 2011 (previous year: 9).

Individual responsibility

Creative and motivated employees form the basis of our corporate success. Consequently, we grant our staff latitudes for independent action within the scope of daily work, and assign responsibilities accordingly. All staff members are expected to improve established processes with regard to costs, quality, throughput and scalability. Every employee is encouraged to initiate new and enhance existing processes and systems. Efficiency and successful teamwork are promoted by short communication and decision-making paths.

Employees' confidence in the company and mutual loyalty are essential to successful cooperation, including in difficult situations. This is the only way in which human capital can benefit corporate objectives.

IT infrastructure

Good work needs good tools. For Delticom, as an E-Commerce company, this means: high-speed Internet, and open but yet nonetheless secure browser and e-mail accounts installed on high-performance office computers and external home-based workplaces. Our network infrastructure also includes our outsourced operations centres.

Important business processes

Purchasing

Over the last few years, we have established stable business relationships with manufacturers and wholesalers (supplier capital). The purchasing department regularly forecasts prospective volumes by tyre brands and models, procures the goods and allocates deliveries to warehouses, shops and countries. In addition, the purchasing department sets selling prices of available stocks in line with demand.

Customer acquisition

We acquire most of our new customers through online marketing. This includes search engine marketing and optimization, affiliate marketing, and listings in price search engines. Regular newsletter campaigns increase retention and customer loyalty. We also cooperate with organisations such as the German motorists' organisation ADAC to disseminate information to potential customers.

Many end consumers are not yet aware that they can buy tyres online easily, securely and at a good price. For this reason, our PR department routinely publishes information on the advantages of buying online and draws consumers' attention to our shops.

In total, last year we were able to attract 921 thousand new customers, or –3.8 % year-on-year (2010: 958 thousand).

Customer Capital

Since the company's founding more than 5.3 million customers have made purchases in our online shops (previous year: 4.3 million, double counting not excluded). Our customer base represents a valuable form of capital: firstly, satisfied customers gladly return, secondly we are recommended to friends and acquaintances.

Last year, 431 thousand existing customers (previous year: 372 thousand, +15.7 %) made repeat purchases at Delticom. Given the long replacement cycle in the tyre business this is a pleasing figure which should rise further over the next few years.

Warehousing

Delticom carries own inventories in rented warehouses. We have built up significant Process Capital with the investments into packaging machines, warehouse infrastructure, as well as into proprietary inventory management systems.

Transportation logistics

The products sold online are shipped to the customers by parcel service companies. The service partners collect the goods directly from the warehouse locations. We track rolling in, delivery and return shipments of articles with software which uses automated interfaces to integrate with our partner companies' systems.

Ordering process and order processing

At Delticom, the individual steps of the business processes are triggered largely by internally developed software. Some of the order processing and responding to customer enquiries has been outsourced to operations centres.

Research and Development

Proprietary software

Highly specific proprietary software solutions have played a key role in the company's success over the past few years. This software largely automates the order and delivery process at low costs. Existing solutions are maintained and extended on an ongoing basis.

Suggestions and change requests are prioritised in an inter-departmental steering committee and implemented by the Software Development department accordingly.

Test markets

As Delticom operates on an international basis, the impact of innovations in the shops (such as different order routes, types of payment and service offers) have first to be assessed in test markets before allowing the changes to be rolled out on a global basis. Additionally, Delticom always enters new geographical markets with a test phase. Only after successful completion of the tests the business is ramped up in the respective country. We regularly adjust our processing and customer communication to regional specifics.

Liquidity management

Liquidity management aims mainly to finance the inventories flexibly and at low costs. A strong balance sheet is one of the cornerstones of our business relationships with major suppliers. Delticom's business model is highly profitable without being capital intensive. Since its IPO in 2006, Delticom has had access to sufficient financial resources, despite the long-standing policy of fully distributing profits.

Corporate treasury function

The seasonality in the tyre trade, amplified by the strong underlying growth of the company, result in broad fluctuations in our cash position over the course of the year. In order to remain as independent as possible from external capital providers in the future we have established a corporate treasury function, tasked with the day-to-day liquidity management. Among others, it uses the following instruments:

- **Payments settlement processes.** Delticom's online shops operate in 41 countries. This results in small-scale payment transactions with partner banks in both Germany and abroad. We use cash pooling wherever possible and focus on avoiding current-account liabilities.
- **Letters of credit.** Some goods are purchased using letters of credit.

- **Hedging.** Currency exposure from trading is hedged centrally. Over time, we adjust hedges in order to match incoming and outgoing cash flows as well as possible, taking the latest available information into consideration.
- **Trade accounts payable to suppliers.** Payment terms conceded by suppliers are monitored by the corporate treasury function. The department also decides whether and which liabilities should be repaid ahead of schedule.
- **Money market investments.** We routinely monitor interest rates for fixed-term deposits and other investment types such as government bonds and money market funds. In all investment matters we restrict ourselves to issuers with high credit rating, and distribute our investments among various counterparties to minimise default risk.
- **Liquidity reserve.** We can retain some of our available liquidity as a liquidity reserve. This is intended primarily as a risk provision for extraordinary expenses, and, secondly, to allow fast action should acquisition opportunities arise. The liquidity reserve is at least equivalent to the volume of securities held as current assets in the balance sheet. Depending on market situation, the liquidity reserve can also include short-term deposits which would be accounted for as cash and cash equivalents, according to IFRS rules.
- **Credit lines.** We have arranged cash lines with some of our banking partners. Some existing bank guarantees from letters of credit can be converted into cash lines if required.

Liquidity planning

Liquidity management is based on the annual budget as approved by the Management Board at year-end for the following year. The budget forms the framework for rolling medium term plans which match cash inflows and outflows. Liquidity planning is supplemented by a catalogue of measures that defines threshold values and cash safety levels for escalation procedures.

General conditions in 2011

At the beginning of 2011 many economists assumed that the international economy would continue its recovery. However, growth began to slow as the year went on. Austerity measures implemented by various European governments began to burden consumption in the private sector. In addition, the mild weather which dominated the final quarter of the year meant that Europe's tyre dealers registered lower sales figures for winter tyres than in the same period the previous year.

Macroeconomic development

Europe

At the beginning of the year, Europeans were confident that they would be able to leave the crisis behind them in the foreseeable future. However, during the summer the mood darkened in many places as it became clear that huge debt burdens might crush certain European countries. In the latter half of the year this led to uncertainty on the part of consumers. Rising costs of living and fears of more setbacks down the line depressed consumer sentiment even further.

Germany

The situation in Germany was starkly different, as the country's economic performance remained positive in 2011. The recovery was driven by rebounding exports, with additional tail winds from surprisingly strong private consumption. Unemployment figures declined, while rising pay levels increased shoppers' propensity to buy. The dip in the fourth quarter hardly dampened the overall positive picture.

US Dollar

In the USA, the combination of sustained high unemployment rates and fragile economic growth had its foot on the break towards recovery of private consumption. The Federal Reserve continued to keep interest rates low as part of its efforts to encourage economic activity. Over the course of the year, though, the dollar gained ground against the euro, mainly due to the intensifying crisis in the euro zone.

Tyre markets

Volatile commodities markets

The situation on the international commodities markets remains tense. Crude oil and natural rubber both hit historic highs during the early months of the year. While the cost of natural rubber declined towards the end of the year, crude oil has continued to remain expensive. Tyre manufacturers were forced to increase prices again last year in order to at least partially cover the upward trend of input costs.

Disappointing summer season

Last year, tyre manufacturers were able to sell more summer products to retailers than in the previous year. This increase was not just due to the low prior-year base but was also driven by aggressive restocking following the high expectations of tyre dealers associated with the 2011 summer tyre season.

Mild temperatures in the early weeks of the year led to relatively low demand for winter tyres. As a result, Europe's tyre dealers started the first quarter on a much weaker note than a year before.

With the onset of the summer tyre season in March, the situation improved somewhat in Europe's main markets, even though sales of summer tyres remained below last year's levels in many countries. In an early estimate, the German association of tyre dealers (BRV, Bundesverband Reifenhandel und Vulkaniseur-Handwerk e. V.) showed a 1.3 % decline in summer tyre sell-out volumes for Germany.

Winter weather in Q4 too mild

During the 2010 winter, high demand from consumers had met with low supply levels and poor availability. This led to repeated shortages along the tyre distribution chain. For 2011, Europe's tyre dealers tried to prepare themselves by replenishing their winter tyre stocks earlier than usual.

Despite mild weather, the winter tyre season actually began at the end of the third quarter and thus relatively early. One reason was probably people's vivid memories of the sheer quantities of snow that fell during the previous year. Furthermore, changes to regulations in Germany also prompted motorists to buy winter tyres. In the end, though, this initial high demand could not be sustained throughout the entire season because it did not snow in the closing quarter, neither in traditional winter tyre regions nor elsewhere in Europe.

According to preliminary indications from industry associations, 2011 is said to have experienced a sharp year-on-year drop in winter tyre sales. Despite this, however, winter tyres have moved increasingly into focus for safety-conscious motorists, also in the countries with low changeover rates.

Business performance and earnings situation

2011 was a successful year for Delticom. The prime reason for the positive development were the high stock levels which gave rise to strong sales at good prices throughout the seasons, in particular for winter tyres. For the whole year revenues increased by 14.4 % to € 480.0 million and EBIT by 11.2 % to € 52.9 million. With an EBIT margin of 11.0 % the profitability was just slightly lower than in the exceptionally strong prior year.

Revenues

The table *Revenues by division* shows a multi-year comparison of the revenues in the two segments *E-Commerce* and *Wholesale*:

Revenues by division

in € thousand

	2011	%	+%	2010	%	+%	2009	%
Revenues	**480,010**	**100.0**	**14.4**	**419,577**	**100.0**	**34.8**	**311,259**	**100.0**
Primary Segments								
E-Commerce	455,647	94.9	12.9	403,697	96.2	36.2	296,498	95.3
Wholesale	24,363	5.1	53.4	15,880	3.8	7.6	14,761	4.7
Regions								
EU	371,673	77.4	11.7	332,874	79.3	30.7	254,749	81.8
Rest	108,338	22.6	25.0	86,703	20.7	53.4	56,509	18.2

Revenues

Over the course of 2011, Delticom generated revenues of € 480.0 million, a plus of 14.4 % from prior-year's € 419.6 million. Compared to the previous year, average sell-out prices were substantially higher. The reason was that sell-in prices from manufacturers to retailers increased on average by up to 10 %. We were able to pass on much of this increase to customers.

E-Commerce

Revenues in the E-Commerce division were up year-on-year by 12.9 %, from € 403.7 million to € 455.6 million. After two disappointing years revenues in the Wholesale division rebounded by 53.4 % to € 24.4 million (2010: € 15.9 million). The share of E-Commerce revenues amounted to 94.9 %, compared to 96.2 % in the previous year.

Delticom won 921 thousand new customers in 2011. The number was slightly lower than last year's strong base (2010: 958 thousand, 2009: 805 thousand). In addition, customers who repeatedly come back contribute strongly to the success of the business. In the past year 431 thousand of those customers (2010: 372 thousand, +15.7 %) made repeat purchases at Delticom.

Regional split

The group offers its product range in 41 countries, with the majority of sales in EU countries. Revenues in those countries totalled € 371.7 million (+11.7 %). Operations in Europe are not restricted to EU member states but also include countries such as Switzerland and Norway. Delticom also sells tyres outside Europe, especially in the USA. Across all non-EU countries the revenue contribution for 2011 was € 108.3 million (+25.0 %).

1st quarter

There was not much snowfall in the beginning of 2011. Winter tyre sales across Europe were thus weaker than in the previous year. With the spring-like temperatures in March the business with summer tyres gained visibly more momentum. In the first quarter, Delticom was able to generate revenues of € 85.4 million (Q1 10: € 74.5 million) – a plus of 14.6 %, in spite of the previous year's strong base.

2nd quarter

In anticipation of a course of the summer tyre business similar to the favourable prior year, stock levels in the tyre distribution chain in 2011 had moved up faster and higher than in the year before. In the end, the European summer tyre trade in Q2 lagged behind expectations, though. This was also the case with Delticom, where positive figures in May barely managed to offset a comparatively weak April. In the second quarter, Delticom was able to generate revenues of € 112.9 million (Q2 10: € 102.9 million) – a plus of 9.8 %, in spite of the previous year's strong base.

3rd quarter

Good summer tyre sales and an early start into the winter tyre season helped third quarter revenues to lift by 24.7 % to € 99.4 million (Q3 10: € 79.7 million). It shows that winter tyres are increasingly in demand, not only in the countries where car drivers traditionally change over from summer to winter tyres but also elsewhere in Europe.

4th quarter

Car drivers usually become aware of the fact that they need new tyres when they face difficult road conditions. The previous winter of 2010 had seen massive snowfalls. Last winter, though, the European tyre trade had to grapple with unusually mild weather and much less snowfalls. According to preliminary estimates, market experts see 2011 winter tyre sales to end customers substantially lower than in the year before.

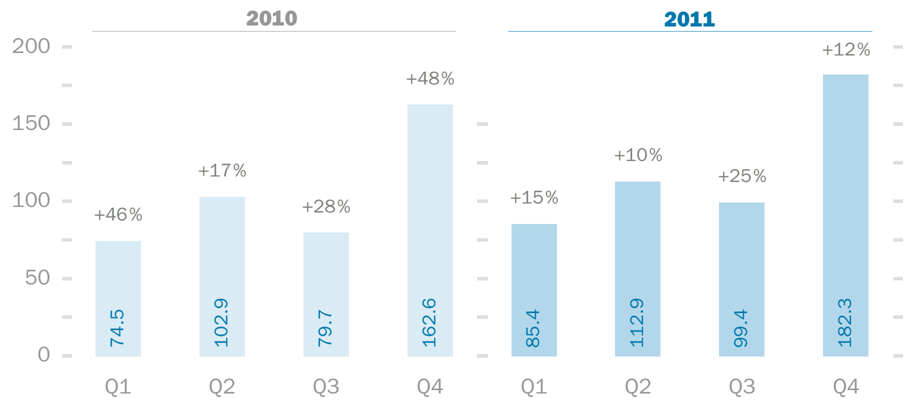
Delticom, though, was once again able to increase both Q4 volume and revenues year-on-year. After the new warehouse had been taken into operations in Q2, Delticom was able to stock up tyres for the winter business. The company was then able to sell those tyres, winning new customers with attractive prices. Taking into account the extremely strong prior-year base, revenues in Q4 11 still grew by 12.2 %, from € 162.6 million to € 182.3 million.

Seasonality

The chart *Revenues trend* summarises the development of the quarterly revenues.

Revenues trend

quarterly revenues in € million



Key expense positions

Cost of sales

In an environment of rising purchasing prices, Delticom was to a good extent able to cushion the hikes by early purchasing. Thanks to the increased volume Delticom also benefited from economies of scale in the procurement function.

The cost of sales increased in the reporting period by 16.1 %, from € 300.1 million in 2010 to € 348.4 million. Compared with the prior-year period, the ratio of cost of sales to revenues increased from 71.5 % to 72.6 % of revenues. The cost of sales in the E-Commerce division increased by 14.3 % from € 286.0 million to € 327.0 million (71.8 % of divisional revenues (previous year: 70.9 %). In the Wholesale division, the cost of sales increased by 51.8 % to € 21.4 million (previous year: € 14.1 million), corresponding to 87.6 % of this division's revenues (previous year: 88.6 %).

Personnel expenses

One of the key factors for Delticom's successful growth is that its workflows are mostly automated; only an increasingly small proportion of transactions requires manual supplementary processing. Thanks to these highly efficient operating workflows, the company has been able to keep staff levels low in 2011 despite increasing transaction volumes. In the reporting period on average 116 staff members were employed at Delticom (previous year: 101).

Compared to the prior-year period, the personnel expenses ratio (staff expenditures as percentage of revenues) decreased slightly from 1.6 % to 1.5 %.

Depreciation

In order to prevent overageing, the condition of these warehoused tyres is reviewed regularly. Stocks identified during this process are then sold at a discount price in our online shops – naturally with an explanation for the price break. In the past years, Delticom has not had to write off any stock due to overageing.

Depreciation pertains solely to the stated property, plant and equipment. Due to the low capital intensity of the business model, deprecation of fixed assets was with € 2.1 million still relatively low (previous year: € 1.3 million).

Other operationg expenses

Overall the other operating expenses totalled € 77.7 million in the past financial year, an increase of € 8.2 million or 11.7 % over the prior-year value of € 69.5 million.

Transportation costs

Among the other operating expenses, transportation costs is the largest line item. Tyres sold online are picked up at the delivery points by parcel services which then transport the tyres to the customers or fitting stations. As business volumes increases, so too do the transportation costs, from € 34.5 million by 8.4 % to € 37.4 million.

The share of transportation costs against revenues decreased from 8.2 % in 2010 to 7.8 % in 2011. The reason for this was mainly the significant price effect in the revenues for the last financial year. In addition, economies of scale arising from the centralised warehouse infrastructure helped to further drive down costs.

Stocking costs

Stocking costs went up in line with sales growth by 13.1 % from € 4.5 million to € 5.1 million. The reason for the year-on-year deterioration of this expense position is that the share of revenues from stock-and-ship business slightly grew in comparison to drop-ship business (where no direct stocking costs accrue to Delticom). The share of revenues was nearly unchanged at 1.1 %. Due to the expansion of warehouse capacity rents and overheads increased by 40.1 %, from € 3.5 million to € 4.9 million.

Marketing

In the reporting period, costs for advertising totalled € 10.0 million, after € 9.0 million in 2010. This represents a marketing expense ratio (marketing expenses as a percentage of revenues) of 2.1 %, flat year-on-year. One of the reasons was probably the vivid memories of the snowy winter of 2010 which encouraged safety-conscious car drivers to purchase their tyres early in the winter season of 2011. Costs were also lower due to the fact that the client base has grown continuously over the course of the years, lowering the marketing expenses for referrals.

Operations centres

The hotline and selected parts of the customer and supplier processes are outsourced to external service providers. In the reporting period, the costs for those operations centres increased year-on-year by 28.5 %, from € 3.8 million to € 4.9 million. The reason for this increase was the addition of new personnel, in line with revenue growth, as well as generally higher wage levels.

Bad debt losses

Compared to the previous year, bad debt losses dropped from € 1,640 thousand to € 1,003 thousand, a decrease of 38.8 %. In the business with private end customers, 2011 fraud prevention has been raised to a higher level, using organisational and technical means. Credit insurance helped to minimize the risk of bad debt losses in the Wholesale division. In addition, strict credit checks were run on business E-Commerce customers. To ensure a disciplined approach we have installed a credit department which is tasked to allocate credit lines according to preset rules.

FX losses

A large portion of tyre purchases is made in foreign currency, usually US-Dollar. The FX exposure is hedged with forward contracts. FX losses are accounted for in the other operating expenses. In 2011 the FX losses amounted to € 5.8 million (previous year: € 4.8 million). In principle the FX losses are balanced with FX gains from the hedges. Gains and losses might accrue in different quarters, due to the long duration of the underlying transactions and the corresponding hedges. In the reporting period, the balance from FX gains and losses was € 0.5 million (previous year: € –0.7 million).

Earnings position

The table *abridged profit and loss statement* summarises key income and expense items from past years' profit and loss statements.

abridged profit and loss statement

in € thousand

	2011	%	+%	2010	%	+%	2009	%
Revenues	**480,010**	100.0	14.4	**419,577**	100.0	34.8	**311,259**	100.0
Other operating income	8,319	1.7	44.6	5,751	1.4	33.3	4,315	1.4
Total operating income	**488,329**	101.7	14.8	**425,328**	101.4	34.8	**315,574**	101.4
Cost of goods sold	348,387	72.6	16.1	300,100	71.5	32.9	225,790	72.5
Gross profit	**139,942**	29.2	11.7	**125,228**	29.8	39.5	**89,784**	28.8
Personnel expenses	7,225	1.5	6.2	6,804	1.6	17.3	5,801	1.9
Other operating expenses	77,671	16.2	11.7	69,510	16.6	29.8	53,541	17.2
EBIT	**52,945**	11.0	11.2	**47,620**	11.3	61.9	**29,405**	9.4
Depreciation	2,101	0.4	62.3	1,295	0.3	24.8	1,037	0.3
EBITDA	**55,046**	11.5	12.5	**48,914**	11.7	60.7	**30,442**	9.8
Net financial result	0	0.0	–99.6	102	0.0	–37.6	163	0.1
EBT	**52,945**	11.0	10.9	**47,721**	11.4	61.4	**29,568**	9.5
Income taxes	16,916	3.5	12.1	15,092	3.6	61.6	9,340	3.0
Consolidated net income	**36,029**	7.5	10.4	**32,629**	7.8	61.3	**20,228**	6.5

Gross margin

The gross margin (trade margin ex other operating expenses) for the full year was 27.4 % after 28.5 % in the prior-year period. Counterintuitively, the lower gross margin was materially due to our larger stock. In the preceding years, we always had to inflate selling prices to slow down sales towards the end of the season, not to be sold out prematurely. The past winter, though, was the first time Delticom had enough tyres to offer consumers attractive prices throughout the entire season. In the end, the gross margin of 28.8 % earned in the 2011 closing quarter was not distorted by shortages and thus came in lower than in the prior-year winter (Q4 10: 30.6 %). Compared to the snowy winter of 2009, though, we ended the year 2011 on a positive note, in particular after accounting for the unusually mild weather conditions (Q4 09: 28.8 %).

The two divisions – E-Commerce and Wholesale – operate at different gross margins. As usual, E-Commerce was able to achieve a better margin (2011: 28.2 %, 2010: 29.1 %) than Wholesale (2011: 12.4 %, 2010: 11.4 %). Because revenues from Wholesale grew at a faster rate than in E-Commerce (+53.4 % vs. +12.9 %) the group gross margin was diluted further.

Other operating income

Other operating income increased in 2011 in line with revenues by 44.6 % to € 8.3 million (previous year: € 5.8 million). Currency gains amounted to € 6.3 million (previous year: € 4.1 million). Another line item in other operating income was insurance compensations of € 31 thousand (previous year: € 78 thousand).

Gross profit

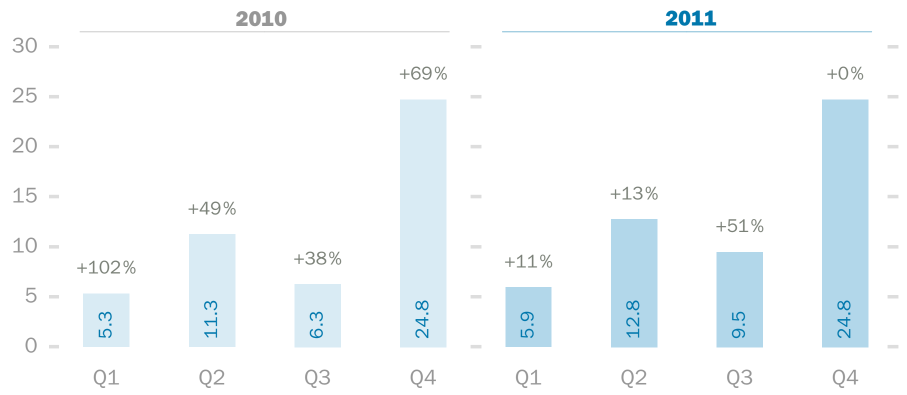
Altogether, the gross profit advanced in the reporting period by 11.7 % year-on-year, from € 125.2 million to € 139.9 million. Gross profit in relation to total income (€ 488.3 million, 2010: € 425.3 million) came down slightly, from 29.4 % in 2010 to 28.7 % in 2011.

EBIT

Earnings before interest and taxes (EBIT) improved during the reporting period to € 52.9 million (2010: € 47.6 million). This corresponds to an EBIT margin of 11.0 % (2010: 11.3 %). As shown by the quarterly presentation in chart *EBIT*, the reason for that was in particular the successful fourth quarter, although the effect in 2011 was not as pronounced than in 2010.

EBIT

quarterly, in € million



Financial income

The continually low Euro money market rates led to a poor financial income of € 128 thousand (2010: € 134 thousand). This was amplified by the fact that

Delticom was again often able to pay suppliers earlier than necessary, like in the years before.

In Q3 the company made use of credit lines to help funding inventories. Consequently, financial expenses in 2011 increased to € 127 thousand (2010: € 32 thousand). The total financial result was balanced (2010: € 102 thousand).

Tax rate unchanged

The expenditure for income taxes was € 16.9 million (previous year: € 15.1 million). This equates to a tax rate of 32.0 % (2010: 31.6 %).

Net income and dividend

Consolidated net income for 2011 grew from € 32.6 million to € 36.0 million. This corresponds to earnings per share (EPS) of € 3.04 (undiluted, 2010: € 2.76), a step-up of 10.4 %.

At Delticom's Annual General Meeting on 30.04.2012, the Management Board and the Supervisory Board will propose a dividend of € 2.95 per share – an increase of 8.5 % compared to the dividend for financial year 2010 of € 2.72.

Overall statement on the earnings position

In the past financial year the earnings situation of the company has developed well. Revenues were up 14.4 % to € 480.0 million. The E-Commerce division was able to increase revenues by 12.9 %. Q4 was of key importance to our success: despite exceptionally strong figures from the previous year, we were able to expand revenues by 12.2 %. Holding enough stock at favourable prices helped to reach a Q4 EBIT margin of 13.6 %.

Over the course of the year, EBIT progressed from € 47.6 million to € 52.9 million, a plus of € 5.3 million or 11.2 %. In total the consolidated net profit amounted to € 36.0 million or € 3.04 per share – after a prior-year result of € 32.6 million an increase of 10.4 %. Delticom has once again been able to continue the string of revenues and earnings increases, unbroken since the company's founding in 1999.

Financial and assets position

Delticom has a solid balance sheet. Despite investments and inventory build-up in our warehouses, the liquidity levels remain sufficiently high. The low capital intensity of the online business model ensures a good financial position for future growth.

Investments

In the reporting period, investments amounted to € 8.6 million (previous year: € 4.3 million).

Strategic significance of warehousing business

Delticom generates a significant part of its revenues through the sale from its own warehouses. Holding own stocks is essential to be able to make deliveries also at seasonal peaks. Tyre warehousing also allows us to achieve economies of scale in procurement and allows flexible utilisation of business opportunities in Germany and abroad. We aim to increase our own warehousing capacity in line with rising sales. Our strategy is to successively expand the capacity by renting new warehousing facilities. At the same time, we are letting rental contracts for older, smaller warehouse expire. This helps to grow in a more organic fashion.

In order to take advantage of economies of scale and learning effects in warehousing logistics, we constantly invest in the expansion of our warehouses' information, conveying and packaging technology. As a result, products can be prepared for dispatch more rapidly and at lower costs. In addition, warehouse infrastructure investments also simplify the way we work together with our transportation service providers. This pays off, particularly during seasonal peaks of the tyre trade.

New large-scale warehouse equipment investments

Along this line, 2011 saw a significant step-up increase in capacity owing to a new large-scale warehouse. Reported investments of € 8.4 million (2010: € 3.4 million) relate primarily to capital equipment for this facility.

We decided to discontinue the lease of on of our smaller warehouses; it was closed at the start of 2012. We have no plans for expanding our warehousing capacity over the course of the current fiscal year, with the exception of setting up smaller satellite warehouses abroad, if necessary.

Intangible assets

Delticom also invested € 0.1 million in intangible assets. This mainly relates to software, as well as web domains for E-Commerce shops with complementing product ranges.

Depreciation up from a low base

In line with our gradual warehouse capacity expansion and the parallel investments into warehousing infrastructure, scheduled depreciation rose by 62.3 %

from € 1.3 million in 2010 to € 2.1 million. The low absolute level of depreciation underlines the low capital intensity of Delticom's business.

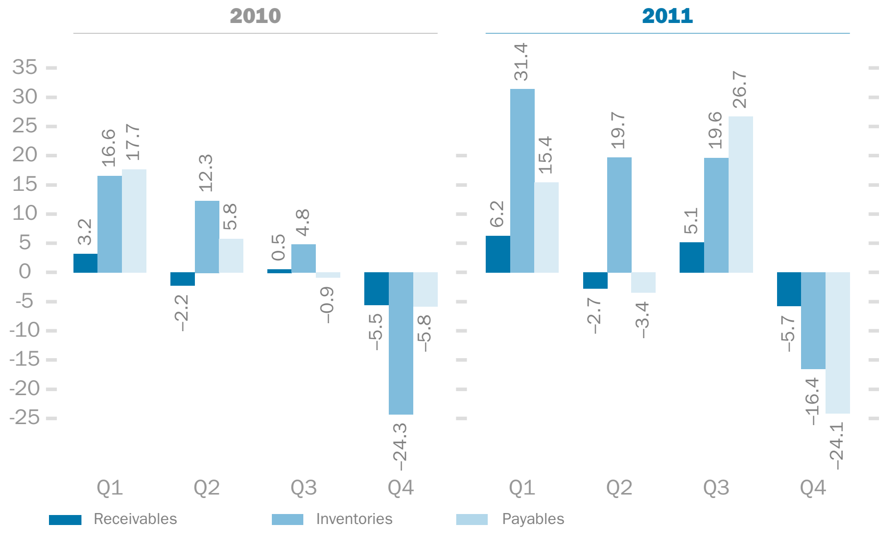
Working Capital

Working Capital Management

We define Net Working Capital as the balance of funds tied-up in inventories, receivables and payables from our main trading activities. In 2011 the Net Working Capital expanded from € 1.8 million to € 44.4 million. The chart *Working Capital* illustrates the changes in the components of Net Working Capital quarter-to-quarter for the last two years.

Working Capital

in € million



Receivables

In order to account for the actual commitment of capital from trading, we subtract from accounts receivable the line items for payments received on account of orders and customer credit (both included in the balance sheet item of other current liabilities).

Usually the receivables follow the seasonal pattern quite closely. Still, owing to the reporting date distorting effects are unavoidable. The accounts receivable stood at € 10.1 million on 31.12.2011, only slightly lower than last year (31.12.2010: € 10.9 million). Due to the unusually mild weather conditions, December saw a smaller proportion of the winter business than in the year before. As a result, in contrast to 2010, many orders paid for by customers were already fulfilled as of 31.12.2011. This led to a comparatively low value of prepayments received, amounting to € 2.8 million (31.12.2010: € 5.3 million). Additionally, more repayments on cancelled orders had been completed by the end of the year. This resulted in customer credits also being lower, at € 1.8 million (31.12.2010: € 3.0 million).

In total, working capital commitment in receivables increased from € 2.6 million as of 31.12.2010 to € 5.6 million as of 31.12.2011. Average Days Sales Outstanding (DSO, average receivables divided by average revenue per day) came down from 4.0 to 3.1 days.

Inventories

For years without significant increases in warehouse capacity the ups and downs of the inventories roughly follow the seasons, as shown in the quarterly revenues (see also chart *Revenues trend*). 2011 played out differently: Because of the new warehouse taken into operations in May, we were able to ramp up stocks significantly towards the end of the year, preparing the business for the winter season.

At the onset of the winter quarter the inventory value totalled € 122.9 million, up € 46.5 million on the previous year's figure of € 76.5 million. Though almost no snow fell anywhere in Europe, we were able to sell the bulk of the tyres we had bought at good prices in the preceding quarters.

Nevertheless, the net change in inventory levels in Q4 11 amounted to € –16.4 million, a low figure. The reason for this was the stock build-up for 2012. As usual, we have already bought many summer tyres for the upcoming season. This time, though, our strategy also focuses on securing winter tyre stocks, well in advance of Q4 12. With inventories as of 31.12.2011 at € 106.5 million (31.12.2010:€ 52.2 million), we assume that we will – as last year – have to finance some of our purchasing via loans and credit lines in the coming quarters.

Due to the strong growth of the inventory position, average Days Inventory Outstanding for 2011 (DIO, average inventory level divided by average cost of sales per day) have significantly expanded to 83.1 days. This effect was compounded by the fact that Delticom's stocks were virtually sold out end of 2010 after that winter's snowy weather. As a result, the average days in inventory for 2010 was 57.8 days, an exceptionally low figure.

Payables

Traditionally, accounts payable is an essential source of financing in the tyre trade. For the purpose of analysis we reduce these payables by the amount credited to suppliers (included in the balance sheet line item of other current receivables). When comparing balance sheet dates, this figure increased from € 53.0 million to € 67.6 million, while the difference in inventories corresponds to a decline of 101.5 % to 63.5 %. This means that, compared to the previous year, Delticom financed a much larger share of inventories with equity.

Payment terms granted to Delticom by its suppliers are usually good. Very often we do not have to make use of the terms to their full extent, though. Taking market situation and liquidity into account, we can opt to settle payables with advanced repayments. The calculated average Days Payable Outstanding (DPO, average volume of accounts payable divided by average cost of sales per day) has gone up over the course of the past financial year, from 54.9 to 63.8 days.

Cash conversion cycle

Structurally, we do not intend to take advantage of longer payment terms from suppliers to cover the higher days in inventory figure. Delticom can finance its business at lower costs by using loans and credit lines. In the end, the 2011 cash conversion cycle (= DSO + DIO – DPO, as defined above) calculates as 22.4 days, substantially longer than in the previous years (2010: 6.9; 2009: 12.8).

Cash flow

Operating cash flow

The cash flow from ordinary business activities (operating cash flow) for the period under review was € –9.6 million. The strong decrease from last year's € 51.7 million was due to the significantly higher level of funds tied up in net working capital (€ 42.6 million, see section *Working Capital*).

In contrast with the start of 2011, today the replenishment cycle is much further advanced. As 2012 seasonal target stock levels are only moderately higher than last year's, we therefore do not have to replenish as aggressively as 2011. Assuming a normal course of business for 2012, we expect the cash flow to rebound towards the end of the year.

Investing activities

During the reporting period, investments into property, plant and equipment amounted to € 8.4 million. Including the investments into intangibles, the resulting capex was € 8.5 million (previous year: € 3.5 million).

The cash outflow from investing activities was partly offset by cash inflow from the sale of money market funds to the value of € 1.0 million (previous year: € 2.0 million). According to IFRS, these money market funds are not treated as cash equivalents but rather accounted for as marketable securities ("liquidity reserve", see chapter *Organisation – Liquidity management*).

As a result, the cash flow from investment activities totalled € –7.5 million (previous year: € –2.3 million).

Financing activities

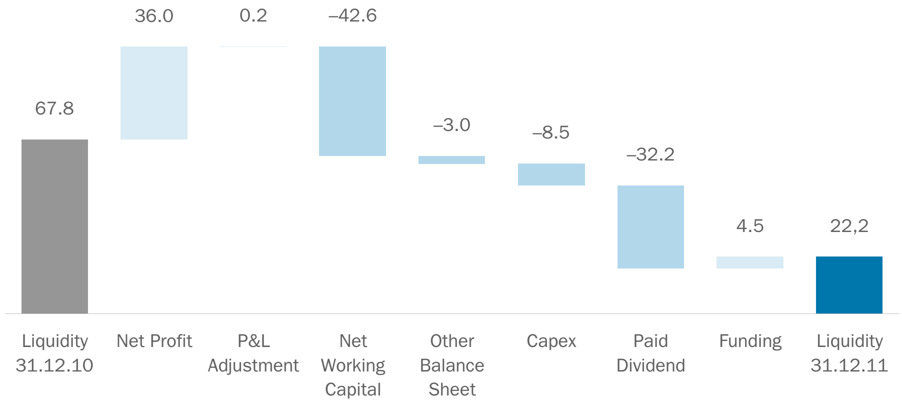
In the reporting period, Delticom recorded a cash flow from financing activities amounting to € –27.7 million. The disbursements due to redemption of loans (€ –0.5 million) and the payout of the 2010 cash dividend (€ –32.2 million) were accompanied by payments coming from the utilisation of credit lines and raising of loans (€ 4.8 million), as well as a payment on account of stock options being exercised (€ 0.1 million).

Liquidity according cash flow

Based on the cash flow, the chart *Liquidity Bridge* illustrates how the liquidity position changed in the course of the year.

Liquidity Bridge

in million €



The starting point is the liquidity position as of 31.12.2010 amounting to € 67.8 million. We add the consolidated net income and account for the cash flow by adding the balance of non-cash expenses and income totalling € 0.2 million. The year-on-year increase of funds tied up in Net Working Capital was € 42.6 million. For other balance sheet items, additional € 3.0 million have to be taken into account. Subtracting the capex and the cash outflow from paying out the dividend for the 2010 financial year we arrive at a liquidity total on 31.12.2011 of € 22.2 million.

Free cash flow

The free cash flow (operating cash flow less capex) came down from € 48.2 million to € –18.1 million.

Free cash flow

Assuming that the Annual General Meeting follows the dividend recommendation of the Management and Supervisory Boards, the total cash-out resulting from the dividend payment of € 34.9 million (previous year: € 32.2 million) will far exceed the free cash flow of € –18.1 million (operating cash flow less capex, prior-year: € 48.2 million).

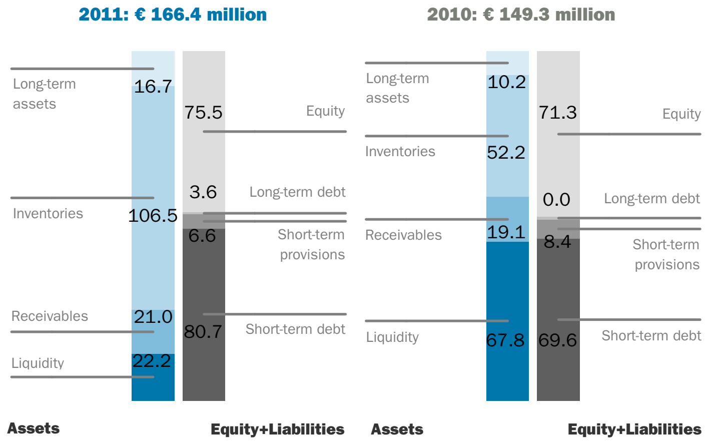
The gap is largely due to the accelerated buildup of inventories. Due to limited warehouse capacity, we cannot simply increase stocks at the same rate. Like with the operating cash flow, we expect the free cash flow to recover over the course of the year.

Balance sheet structure

As of 31.12.2011 the balance sheet total amounted to € 166.4 million (+11.4 %, 31.12.2010: € 149.3 million). The chart *Balance Sheet Structure* illustrates the continued low capital intensity of the business model.

Balance Sheet Structure

in million €



Abridged balance sheet

in € thousand

	31.12.11	%	+%	31.12.10	%	+%	31.12.09	%
Assets								
Non-current assets	16,669	10.0	63.9	10,169	6.8	47.2	6,910	6.5
Fixed assets	16,098	9.7	66.8	9,654	6.5	45.8	6,621	6.2
Other non-current assets	571	0.3	10.8	516	0.3	78.6	289	0.3
Current assets	149,695	90.0	7.6	139,178	93.2	39.3	99,938	93.5
Inventories	106,492	64.0	103.9	52,227	35.0	21.9	42,858	40.1
Receivables	21,006	12.6	9.9	19,117	12.8	16.3	16,438	15.4
Liquidity	22,197	13.3	–67.3	67,834	45.4	66.9	40,642	38.0
Securities	0	0.0	–100.0	1,036	0.7	–65.9	3,039	2.8
Cash and cash equivalents	22,197	13.3	–66.8	66,798	44.7	77.6	37,603	35.2
Assets	**166,364**	**100.0**	**11.4**	**149,348**	**100.0**	**39.8**	**106,848**	**100.0**
Equity and Liabilities								
Long-term funds	79,108	47.6	10.8	71,387	47.8	20.4	59,276	55.5
Equity	75,480	45.4	5.8	71,341	47.8	21.3	58,794	55.0
Long-term debt	3,628	2.2	7879.6	45	0.0	–90.6	482	0.5
Provisions	30	0.0	–33.9	45	0.0	7.8	42	0.0
Liabilities	3,597	2.2		0	0.0	–100.0	440	0.4
Short-term debt	87,256	52.4	11.9	77,961	52.2	63.9	47,573	44.5
Provisions	6,560	3.9	–21.7	8,379	5.6	136.6	3,542	3.3
Liabilities	80,696	48.5	16.0	69,582	46.6	58.0	44,031	41.2
Equity and Liabilities	**166,364**	**100.0**	**11.4**	**149,348**	**100.0**	**39.8**	**106,848**	**100.0**

Non-current assets

On the assets side of the balance sheet, the non-current assets grew to € 16.7 million, an increase of 63.9 % against the low prior-year basis of € 10.2 million.

Low capital intensity despite higher warehouse capacity

The fixed assets grew by 66.8 % to € 16.1 million. In the course of the expansion of warehouse capacity the predominant additions to fixed assets came from investments in property, plant and equipment. Despite the steep incline, on 31.12.2011 in absolute terms the fixed assets were only 8.6 % of the balance sheet total (previous year: 5.2 %).

Deferred tax assets

An important single line item in the other non-current assets (31.12.2011: € 0.6 million, 31.12.2010: € 0.5 million) were deferred taxes of € 0.2 million (31.12.2010: € 0.2 million). These tax assets result from losses carried forward in the subsidiary Delticom North America Inc.

Inventories up as planned

Among the current assets, the inventories are the biggest line item. They grew by € 54.3 million or 103.9 % to € 106.5 million (31.12.2010: € 52.2 million). The chapter *Financial and assets position – Working Capital* presents the reasons for the increase in detail.

Receivables remained at low level

At year-end the accounts receivable amounted to € 10.1 million, down from last-year € 10.9 million by 7.2 %. In the course of the recent financial and credit crisis, the claims management has been tightened, resulting in a better quality in the receivables.

As part of the other current assets of € 10.9 million the refund claims from taxes increased by 73.7 %, from € 5.1 million to € 8.8 million. In total, the receivables position increased only slightly by 9.9 % to € 21.0 million (previous year: € 19.1 million).

Liquidity position

Cash and cash equivalents registered outflows of € –44.6 million. Furthermore, short-term money market funds were reduced by € 1.0 million. Consequently, the total liquidity as shown on the balance sheet came down by € 45.6 million and totalled € 22.2 million on 31.12.2011 (prior year: € 67.8 million).

In total, current assets grew by 7.6 %, thus less than revenues. The share of balance sheet total came down slightly, from 93.2 % to 90.0 %.

Current liabilities up

On the liabilities side of the balance sheet, the current liabilities increased by € 9.3 million or 11.9 % to € 87.3 million.

Short-term provisions decreased by € 1.8 million or 21.7 % to € 6.6 million (prior-year: € 8.4 million), thereof provisions for taxes valuing € 3.8 million (previous year: € 6.2 million).

As part of the € 80.7 million in short-term liabilities as of 31.12.2011, € 68.2 million were recorded as accounts payable, corresponding to a share of 41.0 % of balance sheet total. Compared to the position of € 53.6 million from the prior-year period, accounts payable increased by € 14.6 million or +27.3 %.

In the other current liabilities of € 11.2 million (previous year: € 16.0 million) € 2.8 million are attributable to payments received on account of orders (previous year: € 5.3 million) and € 1.8 million to customer credits (previous year: € 3.0 million).

Long-term liabilities

The debt shown in the chart above is composed of a long-term investment loan of € 3.6 million (previous year: € 0.0 million) and non-current provisions to the order of € 30 thousand (previous year: € 45 thousand).

Equity up, equity ratio slightly down

On the liabilities side of the balance sheet the equity position grew by € 4.1 million or 5.8 % from € 71.3 million to € 75.5 million. The structure of the liabilities and shareholders' equity shows a slight downturn in the equity ratio, from 47.8 % to 45.4 %. As a result, Delticom is funded long-term almost entirely by equity. As of 31.12.2011 the coverage ratio of fixed assets and inventories totalling € 122.6 million to long-term funding was 64.5 % (prior year: 115.4 %).

Off-balance-sheet items

Apart from the assets shown on the balance sheet, Delticom also uses off-balance-sheet assets. This pertains mainly to certain leased or rented goods. Details can be found in the notes in chapter *Other notes – Contingent liabilities and other financial commitments*.

Delticom routinely sells receivables which have been fully written-off to debt collection agencies. The history of write-offs is included in the notes in chapter *Notes to the balance sheet – Current assets – (15) Receivables*.

Overall statement on the financial and assets position

Significant financial flexibility

Delticom can rely on its healthy financial and assets position. At € 22.2 million, our liquidity remains sufficiently high (previous year: € 67.8 million). Our balance sheet strength had a positive impact on our working capital management last year: we increased inventories, and were able to pay off many liabilities ahead of schedule.

Solid balance sheet as basis for further growth

Delticom has a solid balance sheet. This sends an important signal to our partners. As illustrated by the non-current assets amounting to just 9.7 % of total assets, our capital-intensity remained low. With its scalable business model, the company is well structured financially for its future growth.

Risk Report

As a company that operates internationally, Delticom is exposed to varying types of risk. In order to be able to identify, evaluate and respond to such risks in a timely fashion, Delticom put in place a risk management system early on. The system is based on corporate guidelines for the early risk detection and risk management. At present we do not identify any individual risks which might endanger the Group as a going concern.

Definitions

Risks and opportunities

Delticom defines risks as events that make it difficult or even impossible for us to achieve our business objectives within a given timeframe. These events may be of an internal or external nature to the company. Key risk areas include market shares, revenue expectations, margins and levels of customer satisfaction.

We do not operate a separate opportunities management system.

Risk management

In our risk management function, we formulate and monitor measures that are meant to

- reduce potential damage (e.g. FX forwards and insurances),
- reduce the probability of occurrence (e.g. through opting for a low-risk course of action or launching of monitoring systems), or
- avoid risks.

As part of risk management, decisions can also be made to consciously enter into risks. We do this in the cases where the related opportunities outweigh the potential risks, and where we are in a position to cope with potential worst-case damages.

Early risk detection system

Our early risk identification system consists of all organisational processes that precede actual risk management. This system is tasked to

- identify material and critical going-concern risks at an early stage,
- analyse and assess these risks,
- determine responsibilities for risk monitoring and
- communicate risks to the right people in time.

As early risk identification and risk management go hand-in-hand, both concepts are summarised below under "risk management" in its broader sense.

Risk assessment

24-month observation horizon

The classification and measurement of risk is derived by comparison to our business goals. Objectives are regularly set as part of our strategic (five-year timeframe) and budget planning (current and following year). We apply a standard 24-month observation horizon for risk management.

Reporting thresholds

The company's equity is used as the calculation basis for reporting thresholds. As of 31.12.2011, we differentiated between going-concern risks (€ 10 million), significant risks (€ 2.5 million), and low risks (€ 0.2 million).

Gross risk

In our analysis, we always initially regard risks as gross risks, in other words, excluding countermeasures. Countermeasures are assessed as to how effectively they avoid, reduce or devolve risk (event risk and loss amount) to third parties.

Net risk

Net risks are then derived by subtracting expected effects of specific countermeasures from gross risk value. Expected loss amounts are derived from gross and net risks by weighting them according to event risks, and regularly prioritising them.

Risk management organisation

Delticom's risk management is based on these three pillars: Risk Support Team, Risk Management, and Management Board.

Risk Support Team

The functional areas and departments are the smallest organisational units within Delticom's risk management function. As a Risk Support Team, functional area managers identify and assess the relevant risks. They propose and subsequently implement action plans.

Risk manager

The Risk Manager is a member of the company-wide Project Management function. He has authority to issue guidelines for methods and codes of conduct in the context of risk management. He also coordinates risk reporting at Delticom and reports directly to the responsible member of the Management Board.

Management Board

The Management Board ensures comprehensive risk reporting in collaboration with the Risk Manager. In line with the requirements of corporate law, the Management Board ensures appropriate risk management and controlling within the company, in close cooperation with the Supervisory Board. The Management Board approves suitable risk mitigation measures.

Communication and reporting

The Risk Manager is responsible for regular risk reporting. In addition, all staff members are also required to report risks directly to the Management Board as part of ad hoc reporting, if deemed necessary.

Software

Delticom employs special software that satisfies all statutory requirements in order to support its risk management function.

Risk inventory

The Risk Manager conducts an annual risk inventory. It is then adjusted to changes in risk situations over the course of the year. As part of assembling the risk inventory, all functional and corporate areas assess whether new risks have arisen compared with short and medium term planning. At the same time, a check is conducted as to whether and how approved measures have already successfully limited known risks, and whether there is any further requirement for action. As part of this, the Risk Support Team helps the Risk Manager to integrate area-specific developments into the assessment.

Key individual risks

Macroeconomic risks

A rising rate of inflation could become a risk factor for consumption. It cannot be ruled out that raising living costs could hurt consumption over the next months. Faced with an increase in costs of living, some tyre buyers might not simply want to buy the same tyre at a lower price. They might even turn to lower-tier brands and budget tyres, which in turn would lead to a decline in demand for premium brands. While such a trend would not necessarily impact unit sales volume negatively, it would nevertheless drive down the value of each transaction by means of lower prices.

Lower average mileage driven due to ongoing increases of vehicle costs. In the event that the costs for running a car increase substantially, motorists might limit the amount of use of their vehicles during periods of crisis. In this scenario tyre wear is reduced and the purchase of replacements is delayed. Some car owners will even delay buying replacement tyres in spite of being aware of dangerously low tread on their tyres.

Austerity measures implemented by some governments could put further pressure on consumers. Some euro zone countries caught in the grip of the current crisis could attempt to scale back government spending further. Any resulting economic downturn might lead motorists to ease up on car use and so leave longer intervals between tyre purchases. It is unclear if the low number of newly registered vehicles in these countries could have a positive effect in the medium term on demand for replacement tyres for used cars.

Prices can fall during recessions. A permanently lower demand would put serious pressure on prices. Such a scenario does not carry a high probability but the damage to Delticom could be substantial. Typically we strive to achieve stable profit margins, even at the expense of short-term declines in revenue. Delticom has sufficient cash at its disposal to be able to resist a sustained downturn in prices.

Sector-specific risks

The replacement tyre trade is subject to seasonal fluctuations. Because of this unpredictable factor, differences in performance between quarters and year-over-year are unavoidable. As Delticom continues to internationalize its activities, we expect a diminishing effect of these seasonal factors on our performance – in many European markets, winter tyres do not play a significant role in the mix. During times of lower revenues, Delticom will continue to both hone its cost structure and penetrate business segments less affected by seasonal factors.

Unfavourable weather conditions can lead to the build-up of excess inventories at Delticom. Delticom purchases part of its forecast sales quantities before the season starts. We warehouse these tyres, in order to be able to deliver tyres to our customers even at seasonal high times. Delticom generates a large share of its revenues by selling from own inventories. In the case the sales slump, the inventories levels might stay high, with increased risk of overageing.

In order to prevent overageing, the condition of warehoused tyres is reviewed regularly. Stocks older than a predefined threshold are then offered at a discount in our online shops (with an explanation for the price break), or sold in our Wholesale business. In the past years, Delticom has not had to write down any stock due to overageing. There are no liquidity risks: the company has sufficient financing to be able to make payment even during periods of high inventory levels.

Regional or global excess inventories along the supply chain might burden price levels. Excess inventories along the supply chain occur frequently, mainly due to weather-related demand. This may lead to price distortions on the market. Since replacement tyre purchases cannot be delayed indefinitely, the supply chain usually settles down in the following season. We take the overall Europe-wide supply situation into account in our purchasing function, and we regularly assess warehousing and pricing policy alternatives.

Procurement risks

Unlabelled tyres or those which carry an inferior label might be crowded out by labelled ones, necessitating excessive rebates to clear the stock. As of 01.07.2012, the new EU tyre label will allow retailers to promote tyres by showing information with regards to fuel efficiency, wet grip and external rolling noise. Labels will be mandatory as of 01.11.2012 for tyres produced from 01.07.2012 onwards. Tyre makers can apply labels to their products on 30.05.2012 at the earliest. It is currently not clear how the tyres in different price brackets will test, and how the labels will differ. There is a risk that customer demand could gravitate strongly towards premium tyres with superior labels. Delticom has already undertaken measures to meet mandatory labelling regulations. In any case, we assume that customer behaviour will not be affected significantly in 2012.

Changes in input prices at the manufacturing level. Changes in commodity prices, in particular for oil and rubber, play a significant role in sell-in pricing (manufacturers to retailers). Fluctuation of raw material pricing only factor into tyre manufacturers' calculations four to six months down the line and are then passed on downstream to tyre retailers.

In the last few years, tyre prices have generally risen. It is not impossible, however, that in a hypothetical case, prices might fall over a period of several quarters in the wake of difficult developments on the market. We are monitoring the input factors to this situation and adjusting our purchasing policies to be able to respond to probable price changes.

Suppliers may run into commercial and financial difficulties. In our global purchasing function, we minimize immediate default risks through letters of credit. As a tyre dealer, a factor that contributes to the low risk is that we offer a broad brand portfolio. If any supplier is unable to fulfil their obligations in a particular tyre model, we can always procure the tyres from other parties.

Financial Risks

As a globally operating company, Delticom invoices and pays invoices in currencies which are not the Euro. This results in currency risks. Delticom hedges against these risks by using suitable financial instruments, in particular forward contracts. Guidelines govern the use of permissible hedging instruments and strategies. The effectiveness of these hedges is monitored by the corporate treasury function on a regular basis. In addition, Delticom works with banking partners who have many years' experience in the import/export business.

A strong Euro can erode Delticom's competitive position in countries with weaker currencies. Delticom also sells its products to end-customers outside the Euro zone. This generates economic currency risks that we counter as far as possible through the procurement of tyres in foreign currencies. To the extent that the corresponding market is strategically significant, we also examine complex hedging strategies in the instance of a continued depreciation of a foreign currency. In the USA, Delticom operates exclusively using drop-ship fulfilment. This creates a natural hedge for end-customer business; we accept the residual currency translation risk.

Customers could find themselves with payment difficulties. In the tyre trade customer payment behaviour is usually good. It can deteriorate in difficult times, though. We have stringent credit issuing practices and work together with industry specialists to assess credit risk and facilitate debt collection. In the Wholesale division we try to limit the default risk as far as possible by means of credit insurances.

Strategic risks

Delticom operates in a competitive market with low entry barriers. The price level and thus the margins achieved can drop considerably as a result of competitive pressure. However, there are considerable barriers to grow to a size comparable to Delticom. Good buying prices and a streamlined cost basis allow a high level of price flexibility. Increasing internationalisation at Delticom diversifies country risk: This is because it can be assumed that prices could come under pressure for a short period in individual countries, but not over the whole of Europe.

Misjudgements of future market trends may result in market share losses. In the tyre trade, there is always the risk that future sales volumes are forecasted incorrectly. The E-Commerce channel is reporting strong growth and is gaining market shares overall. If we misjudge the speed of this trend, we could lose market share relative to our online competitors. Due to our strategic orientation, we regard both the sales and earnings growth as objectives of equal value (see section *Corporate management and strategy – internal management system*). We accept the risk stemming from the fact that growth in business volume can only accelerate to the extent that the supporting processes can be adapted at the same speed.

We operate on an international scale but are lean in terms of company culture and organisation. We therefore cannot expand our lead over competitors or even maintain market shares at all times and in all places. We limit our market share dilution by gradually further developing our organisation and staff, as well as our partners in Germany and abroad.

Delticom's business activities are based on the sustained acceptance of the Internet as channel for buying tyres. Specialty tyre retailers and the other distribution channels play a key role in the tyre trade. This will not change in future: Many motorists will continue to buy their tyres from bricks-and-mortar tyre retailers. However, as is also the case for other merchandise, online tyre sales have already reached a sizeable dimension. Delticom's own revenue growth, as well as that of the competitors, suggest that acceptance of the Internet as a sales venue is neither declining nor stagnating, but rather continues to grow.

Personnel risks

Untrained staff and insufficient monitoring of customer orders can lead to customers receiving erroneous information and increase the rate of errors in order processing. This could result in a drop of customer satisfaction and lead to lower sales. Delticom's specialist staff trains the employees who work in our customer management operations centres. Independent of our specialist departments, auditing processes have been set up to monitor and ensure compliance with agreed service levels. As part of its "S@ferShopping" audit, TÜV Süd conducts an annual inspection of all Delticom processes and systems, including customer satisfaction.

Departure of key staff might negatively impact our business success. All corporate areas of Delticom depend on key personnel to a significant degree. As a market leader, we have created important know-how. We run the risk that this know-how is diluted when personnel leaves us to join our competitors. This risk is taken into account when structuring employment contracts. We place an emphasis on performance-related compensation.

IT risks

Delticom's business operations depend on the functioning and stability of complex IT systems to a high degree. At Delticom, all important IT systems, service providers and suppliers are set up in a redundant fashion. If service providers or suppliers suffer IT breakdowns, at least one further service provider or supplier can always take over related tasks. In the event of our computing centre breaking down we can rapidly migrate to a backup facility.

An emergency manual with an extensive catalogue of escalation measures helps us to react rapidly and in a structured manner in emergency cases.

Our computing centres are secured against unauthorised access, and operate essential fire prevention measures. Firewalls and other technical measures safeguard Internet access to our systems.

As the result of its IT-supported business transactions, Delticom has access to sensitive information about customers, partners and suppliers. For customers, it is important that their personal information is kept private. In our online shops we provide our customers with detailed information about data protection and privacy. We treat personal data and other sensitive information with meticulous care, taking into account all statutory regulations. Stringent rules and technical safeguards ensure that customer data does not fall into the wrong hands. Independent authorities routinely inspect Delticom's IT security.

With respect to our suppliers, purchasing and payment terms represent confidential information. In protecting our relations we do not simply rely on procedural instructions but also safeguard inventory management and pricing systems with technical access controls.

Legal risks

Legal disputes can impact the Delticom Group negatively. In order to obtain prior advice in respect to brand, copyright, contract or liability issues, Delticom employs an in-house lawyer and works together with well-known domestic and non-domestic law firms. In addition to an adequate policy on making provisions, Delticom pursues an effective debt collection policy. The company cooperates with specialised collection agencies on a regional basis.

Overall statement on the risk situation

Delticom has an extensive, well integrated and well functioning early risk detection and risk management system. In the last financial year, risk potential was identified at an early stage and reported promptly to the Management Board which allowed targeted countermeasures to be rapidly implemented. Systems and processes in the area of risk and opportunities management have proved successful; they are being further developed on an ongoing basis.

At present we can not identify any individual risks which might jeopardise the company as a going concern. The sum of the individual risks does not pose a threat to Delticom's continued existence.

Accounting-related ICS and RMS

Description of key characteristics of the accounting-related internal controlling system (ICS) and risk management system (RMS) with respect to the (Group) accounting process (§ 289 Paragraph 5 and § 315 Paragraph 2 Number 5 HGB – German Commercial Code)

Amending the statements with regards to the risk management made above, key characteristics of the internal controlling and risk management system with respect to the (Group) accounting process can be described as follows:

Organisation

The accounting-related internal controlling system covers the controlling, legal, accounting and corporate treasury functions, whose areas of responsibility are clearly delineated within the controlling system. The controlling system comprises all requisite principles, procedures and measures to ensure that accounting is effective, economically efficient and duly complying with relevant statutory regulations.

Role of the Management and Supervisory Boards

The Management Board is responsible for implementation and compliance with statutory regulations. It reports regularly to the Supervisory Board on the overall financial position of Delticom. The Supervisory Board oversees the efficacy of the internal controlling system. In accordance with the agreement, the auditor immediately reports to the Chairman of the Supervisory Board on all key findings and occurences arising from the audit which are of significance to the work of the Supervisory Board.

Group accounting

Due to the great importance of Delticom AG in the Group the accounting process is organised centrally. Delticom AG's Group accounting function prepares the consolidated financial statements according to International Financial Reporting Standards (IFRS). For this purpose, we have set up Group guidelines for the following topics:

- general accounting principles and methods
- regulations relating to balance sheet, income statement, statement of comprehensive income, notes to the financial statements, management report, cash flow statement, shareholders' equity and segment reporting
- requirements arising from prevailing European Union legislation
- specific formal requirements for consolidated financial statements
- groups of consolidated companies

The Group guidelines also contain specific instructions as to how Group intercompany transactions should be mapped, invoiced, and how corresponding balances should be cleared.

IT-supported work processes

The consolidated companies' financial statements are compiled using IT-supported working processes. These include an authorisation concept, audit routines and version controls. Along with manual process controls applying the "four eyes" principle, we also use software to enforce parallel process controls. We utilise an integrated bookkeeping and consolidation system for the actual calculations.

Outlook

In hindsight, 2011 turned out worse than expected, both for the economy in general and for the tyre trade in particular. Thanks to the new warehouse, though, Delticom was able to meet its goals with regards to revenues and profitability. Against the background of continued E-Commerce growth, we forecast a revenues growth of at least 10 % for 2012, at an EBIT margin flat year-on-year.

Significant events after the reporting date

There were no events of particular significance after the reporting date of 31.12.2011.

Poor weather in January and February

On the one hand winter tyres sales received a brief boost early in 2012 when all of Europe experienced a cold snap. On the other hand, though, demand for summer tyres has remained depressed so far. As temperatures rose in late February, tyre retailers registered some initial sales of summer tyres. Still, drawing from experience, we expect sales not to take off until temperatures start becoming milder in March and April.

Forecast report

Explanation of deviations from 2011 forecast

Guidance unchanged in 2011

In our plans for 2011 we had initially assumed sales growth of around 10 %, on the back of the strong performance the previous year. We expected the underlying trend for the past winter to be negative because a number of extraordinary effects had worked in our favour in the closing quarter of the preceding year. In particular, the shortage-related inflation of sell-out prices in winter 2010 was a one-off event. This lead us to predict a decline in our 2011 EBIT margin of about one percentage point. In Q4 11, tyre dealers were faced with very mild and virtually snow-free weather conditions. However, thanks to large inventories at attractive prices, we actually managed to sell more winter tyres than in the previous year. As a result, we were able to slightly outperform our full-year forecast with regard to both sales volume and revenues.

Future macroeconomic environment

Uneven economic development

Over the past months, economists have gradually lowered their growth forecasts for Europe. Emerging markets are expected to enter a period of moderate slowdown of economic activity. Though many countries are now showing initial signs of recovery, the overall economic picture for 2012 has not yet changed sustainably for the better.

Debt crisis burdens consumption in Europe

Despite the austerity measures planned and implemented to tackle the sovereign debt crisis, it is difficult to predict what future developments might be. Some observers fear that the restraint of government spending could keep unemployment high and consumer confidence depressed across many countries in the euro zone.

Future sector-specific development

Purchasing prices

After the price of natural rubber softened during the second half of the year, it has recently rebounded somewhat. Global output is expected to come down over the coming months, as the dry season is about to begin in the main rubber-producing regions. Tensions in Africa and the Middle East often have an impact on the price of crude oil, another essential raw material for the production of tyres. Due to high input prices and their continued volatility we believe it is increasingly unlikely that the coming months will see a decline in costs. Some manufacturers have already announced additional price increases for winter tyres, coming into force over the course of the year.

Tyre trade

According to a preliminary forecast, the BRV expects 2012 sales of car tyres to be basically flat year-on-year. Even in a scenario like this, it should be possible to pass on upstream price increases to consumers. After a winter with less dynamic sales than hoped for, though, current winter tyre stock levels in Europe's distribution chain are said to be higher than last year. A lasting slump in demand – for example due to yet another mild winter, or due to European consumers' growing reluctance to spend – could force dealers to adjust prices downwards to clear their stocks.

Labelling

This year new EU tyre labelling regulations will come into force. As of 01.11.2012, European tyre dealers will be obliged to show their customers a standardised label with colour indicators for fuel efficiency, wet grip and external rolling noise. Tyres produced before the 01.07.2012 can be sold without the need to provide them with the new labels.

For the tyre trade, the deadline for implementing the directive falls right in the middle of the winter season. As a result, we do not believe that customers' purchasing decisions will be affected materially with respect to either winter or summer tyres in 2012. However, it remains to be seen if or to what extent labelling is going to have an impact on tyre buyers' preferences in subsequent years. It is quite possible that demand could shift towards tyres in the better ratings categories. If tyre quality continues to improve and customers are willing to trade up, labelling could become a supporting factor for prices, thus benefiting Europe's tyre trade.

2012 forecast

E-Commerce grows in importance

The share of online sales in the tyre market continues to be comparatively low. Nevertheless, more and more motorists are turning to the Internet in the search for lower-priced alternatives. We believe that Delticom will continue to win market share from competing channels over the course of the year.

Revenues up 10 % at stable margins

Even for a scenario where market and weather do not improve over 2011, Delticom management regards a revenue growth of 10 % as achievable. Assuming margins at prior-year levels, earnings should grow in line with revenues.

Income tax rate at 32 %

We do not anticipate extraordinary tax effects for 2012. For our budget, we plan with an income tax rate of approximately 32 % (2011: 32.0 %).

Inventories

The substantially increased warehouse capacity has allowed us to start buying stock for the imminent summer season earlier than usual. Our purchasing activities for winter tyres are also at a more advanced stage than at this time last year. Consequently, this year, we will not have to replenish as fast as in 2011. Assuming the stock levels peak around the onset of the winter tyre season in September, our aim is to run the stock up to about prior-year levels. Compared to last year however, we expect the mix to lean more towards winter tyres.

Capex

We have already completed a good part of the necessary investment into the infrastructure of the new warehouse. In the upcoming months we want to continue to invest into expanding our information, material handling and packaging technology. We closed a smaller warehouse at the start of 2012. According to our capacity plans, we currently do not have any immediate need for additional warehouse space. Investment volumes are thus expected to be substantially lower than last year. For 2012, we forecast a capex in the region of € 5.5 million.

Liquidity

At this early time in the year, the visibility with regards to how liquidity will develop over the course of the next months is still rather poor. Similar to last year, we will certainly have to rely in part on loans and credit lines to finance our stock, especially in the second and third quarters. On the other hand, we do not plan to ramp up stocks at the same pace as during the same period the previous year. As a result, cashflow and liquidity are likely to display positive developments towards the end of the year.

Medium term planning

Additional warehouse capacities needed in the medium term

We need to stock goods in order to maintain our ability to deliver in peak periods. By investing in the infrastructure of our warehouses, we can ship the tyres both faster and at lower costs. In the medium term, we will have to increase capacity in line with revenues. This means that capex must be expected to rise proportionally.

Europe is core market

Delticom currently operates online shops in 41 countries. We intend to consolidate and expand our market position in these countries in the years to come. Replacement tyre markets are also increasing in attractiveness in emerging economies outside Europe, due to rising numbers of new vehicle registrations in these regions. Despite this potential for expansion, we see our company's geographical focus remaining in Europe in the medium term.

Product range

Delticom is Europe's leading online tyre retailer. Our sales focus is on replacement tyres for cars. We intend to maintain a diverse range of brands in order to be able to furnish our customers with the same wide choice of products as in the past. Additionally, we continue to push internationalisation of other product categories such as motorcycle tyres, truck tyres, automobile accessories and replacement parts.

Medium term outlook

Delticom's business model is resilient and the company has a solid balance sheet. These factors allow us to seize opportunities flexibly. As a consequence, for the medium term we expect to stay on a double-digit growth path, both for revenues and earnings. We are therefore confident that Delticom will continue to grow at a rate above the market trend.

The Delticom share

The Delticom share (WKN 514680, ISIN DE0005146807, stock market symbol DEX) closed 2011 at € 66.70, achieving a performance of +5.5 % over the course of the year. DEX is a stable member of the German small- and midcap index SDAX.

Stock markets 2011

Macroeconomic worries

The year of 2011 was a historical year by many measures. Europe's sovereign debt crisis continued to weigh not just on Europe, but also on its global trading partners. In the U.S. we witnessed a deficit ceiling fiasco of epic proportions followed by an historic credit downgrade for the U.S. government. Global macroeconomic issues driven by deleveraging hampered investment returns.

The DAX developed in line with these macroeconomic worries. It started the year at a level of 6,990 points points and hit the yearly high of 7,528 points on 02.05.2011. On 12.09.2011 it marked a low at 5,072 points. The rest of the year was characterised by an upward trend with low volatility. The DAX closed the year at 5,898 points. In total, the DAX came down by 1,091 points or 15.6 %.

SDAX lost ground

The German small- and midcap index SDAX moved at the same level as the DAX with –15.7 %. It started at 5,245 points and decreased by 824 points over the course of the year, closing at 4,421 points.

Development of the Delticom share (DEX)

Benchmarks

The first choice as benchmark is the SDAX – Delticom has been a member since 22.12.2008. Apart from this, we use the Dow Jones STOXX Total Market Index General Retailers (DJSGR) as an additional benchmark for DEX. The DJSGR contains leading European non-food general retailers.

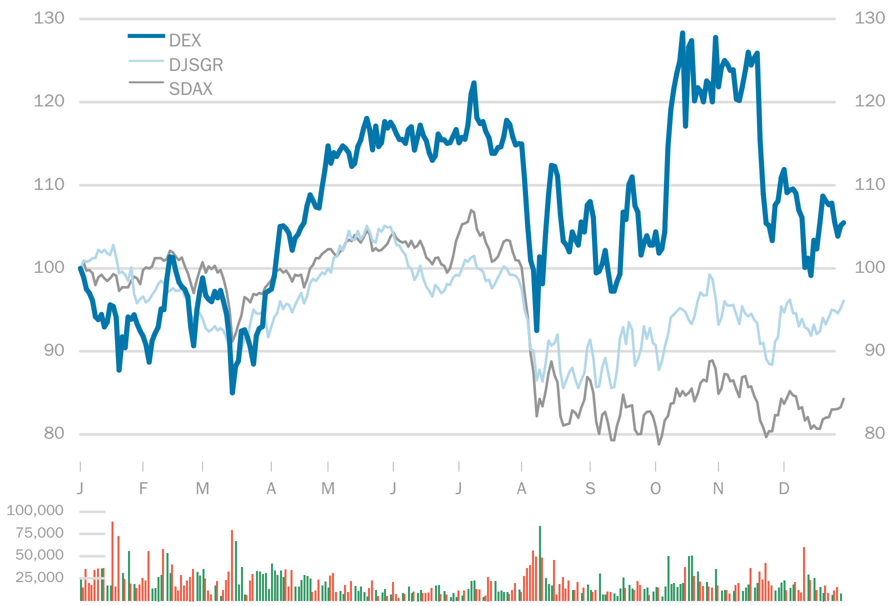
As customary, we use the performance index which takes dividend payments into account for both SDAX and DJSGR. When comparing the performance of DEX to the benchmarks we therefore take the dividend for 2010 into consideration, amounting € 2.72 per share as decided on the Annual General Meeting on 03.05.2011. The chart *Share performance* shows the performance of DEX, SDAX and DJSGR since the beginning of 2011 over the course of the year.

DEX performance

After beginning the year at € 65.66, the Delticom share (DEX) kept approximately to the level of its benchmark indices during the year's first quarter. The share's low for the year was recorded on 15.03.2011, at € 55.82. In the second quarter Delticom shares slightly started to outperform the SDAX. Very favourable Q3 figures strengthened this positive trend. On 14.10.2011 DEX reached an annual high of € 81.13. For the remainder of the closing quarter the share price came increasingly under pressure, probably due to the mild winter weather.

Share performance 2011

indexed, traded volume in shares (XETRA)



DEX closed the year on € 66.70. Including the dividend this translated into a total performance of +5.5 %. In the course of 2011 the market capitalisation of DEX increased from € 777.9 million to € 790.2 million.

Index membership

SDAX Ranking

On 22.12.2008 DEX was included in the SDAX. Membership in the index is determined by the Deutsche Börse according to a ranking published as *Cash Market: Monthly Index Ranking – MDAX*. The ranking depends on free float market capitalisation and traded volume of shares included in MDAX and SDAX. According to the criterion of "free float market capitalisation" DEX stood at 53 on 31.12.2011 (2010: 59). In the criterion "traded volume" DEX dropped from 57 to 59.

Apart from SDAX and CXPR, DEX is included in the calculation of the following indices:

- DAX International Mid 100
- GEX (German Entrepreneur Index)
- DAXplus Family Index

- NISAX20
- FAZ-Index

Earnings per share and dividend recommendation

Undiluted earnings per share are € 3.04 (2010: € 2.76). Diluted earnings per share are € 3.02 (previous year: € 2.73).

The calculation of the earnings per share was based on net income after taxes totalling € 36,029,174.25 (previous year: € 32,629,337.15) and the weighted average number of shares outstanding during the fiscal year and the number of potential shares from options totalling 11,945,250 shares (previous year: 11,945,250 shares).

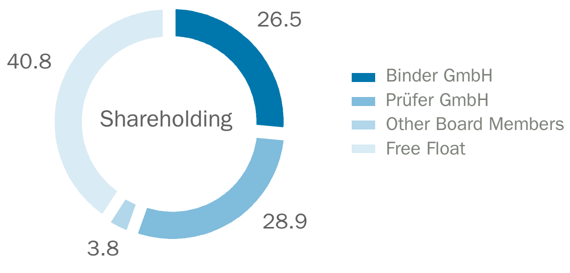
At Delticom's Annual General Meeting on 30.04.2012, the Management Board and the Supervisory Board will propose a dividend of € 2.95 per share – an increase of 8.5 % compared to the dividend for financial year 2010 of € 2.72.

Shareholder structure

There were no material changes in the shareholder structure of Delticom AG in 2011.

Shareholder structure

Shareholding in % of the 11,847,440 shares outstanding, as of 31.12.2011



The shares of Prüfer GmbH and Binder GmbH are attributed to the company founders Andreas Prüfer and Rainer Binder. As in previous years, Andreas Prüfer as Head of the Supervisory Board and Rainer Binder as CEO have again increased their shareholding in 2011.

The Corporate Governance report lists the total holdings of the board members, split into the Supervisory Board and the Executive Board.

Coverage

In total 11 analysts from renowned banks and brokers regularly offer their views on the course of Delticom's business and future prospects (in the order in which they initiated coverage, with recommendations as of 29.02.2012):

- Frank Schwope, NORD/LB (Buy)
- Jürgen Pieper, Bankhaus Metzler (Buy)
- Andreas Inderst, Exane BNP Paribas (Outperform)
- Lars Dannenberg, Berenberg Bank (Buy)
- Tim Rokossa, Deutsche Bank (Hold)
- Marcus Sander, Macquarie (Outperform)
- Christian Ludwig, Bankhaus Lampe (Buy)
- Dennis Schmitt, Commerzbank (Buy)
- Christopher Johnen, HSBC (Neutral)
- Jennifer Gaußmann, Cheuvreux (Outperform)
- Sascha Berresch, Hauck & Aufhäuser (Sell)

Investor relations activities

Since the IPO we have attached great importance to the ongoing dialogue with institutional and private investors, as well as analysts and the financial press. The aim of our investor relations activities is to pass on comprehensive company-specific information to interested parties quickly and reliably. This extends to the timely publication of company news and the precise depiction of developments in management reports and investor presentations. We accompany the release of financial statements with conference calls.

Apart from the yearly analyst conference on the occasion of the German Equity Forum in Frankfurt, the Management Board presented business developments and strategy during 7 road shows and conferences in Frankfurt, Amsterdam, Milan, London, Zurich and Geneva. Furthermore, we had many one-on-one talks with investors.

The Internet is an important part of financial communications. On www.delti.com/Investor_Relations we offer annual- and quarterly reports as well as investor and analyst presentation for download.

The investor relations department gladly answers any further questions:

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Stock key information

		01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Number of shares	shares	11,847,440	11,839,440
Share capital	€	11,847,440	11,839,440
Share price at the beginning of the year[1]	€	65.66	28.75
Share price at year-end[1]	€	66.70	66.50
Share performance[1]	%	+1.6	+131.3
Share price high/low[1]	€	81.13 / 55.82	68,4 / 25,6
Market capitalisation[2]	€ million	790.2	787.3
Average trading volume per day (XETRA)	shares	20,408	23,870
EPS (undiluted)	€	3.04	2.76
EPS (diluted)	€	3.02	2.73
Equity per share	€	6.37	6.03
Dividend per share[3]	€	2.95	2.72
Dividend amount[4]	€ million	34.9	32.2
Payout ratio (IFRS)	%	97.0	98.7
Payout ratio (HGB)	%	100.3	99.1
Dividend yield[2]	%	4.4	4.1

(1) based on closing prices
(2) based on official closing price at end of year
(3) conditional on approval at the Annual General Meeting

Information Required Under Takeover Law Section 315 Paragraph 4 HGB (German Commercial Code)

The following section presents the information under takeover law required within the meaning of Section 315 Paragraph 4 of the HGB (German Commercial Code).

Composition of subscribed capital

Following the IPO on 26.10.2006, the subscribed capital consisted of 3,946,480 ordinary no-par value registered shares (no-par shares), each with a proportionate interest of € 1.00 in the company's share capital. The subscribed capital tripled after the capital increase out of retained earnings and the resulting issuance of new shares, decided upon during the Annual General Meeting on 19.05.2009. The subscribed capital was increased by 8,000 shares on 06.05.2011 when Management Board member Frank Schuhardt exercised 8,000 option rights that entitled him to subscribe for 8,000 of the company's new no-par value registered shares. The share capital now amounts to € 11,847,440.00 and is split into 11,847,440 ordinary no-par value registered shares (no-par shares), each with a proportionate interest of € 1.00 in the company's share capital.

Delticom AG's shareholders are neither restricted by German legislation nor by the company's articles of incorporation on their decision to buy or sell shares. Only the statutory prohibitions on voting rights apply. As parties to a pooling agreement, shareholders Prüfer GmbH and Binder GmbH are nevertheless restricted to such an extent in exercising their voting rights that they are required to coordinate their voting behaviour with respect to a uniform issuing of votes at the Annual General Meeting.

Only the shareholders Binder GmbH and Prüfer GmbH, both of which are based in Hanover/Germany, hold direct interests in the company that exceed 10 % of Delticom AG's voting rights. Indirect interests that exceed 10 % of Delticom AG's voting rights exist on the part of Mr. Rainer Binder, Hanover, to whom Binder GmbH's direct interest is attributed pursuant to Section 22 Paragraph 1 Clause 1 Number 1 of the German Securities Trading Act (WpHG), and on the part of Dr. Andreas Prüfer, to whom Prüfer GmbH's indirect stake is attributed pursuant to Section 22 Paragraph 1 Clause 1 Number 1 of the German Securities Trading Act (WpHG). The pooling agreement, whose parties are Prüfer GmbH, Binder GmbH, Mr. Rainer Binder and Dr. Andreas Prüfer, also results in a mutual attribution of voting rights in the meaning of Section 22 Paragraph 2 Clause 1 of the German Securities Trading Act (WpHG).

An indirect equity interest exceeding 10 % of the voting rights of Delticom AG exists since 02.08.2011 according to a voting rights announcement submitted to Delticom AG on 09.08.2011 by Capital Research and Management Company, Los Angeles, USA. The respective voting rights are fully attributable to Capital

Research and Management Company pursuant to Section 22 Paragraph 1 Clause 1 Number 6 of the German Securities Trading Act (WpHG).

There are no shares with special rights which grant the holders controlling powers. There is also no specifically designed control of voting rights for employees holding an interest in the share capital and who do not directly exercise their control rights.

Employees do not participate in equity so that employees cannot directly exercise their controlling rights.

Management Board members are generally nominated and recalled from office pursuant to Sections 84 ff. of the German Stock Corporation Act (AktG). In addition, Section 6 Paragraph 1 Clause 3 of Delticom AG's articles of incorporation stipulates that Management Board members must not have exceeded their 65th birthday when ending the period of office for which they were appointed. Pursuant to Section 6 Paragraph 2 Clause 2 of the articles of incorporation, the Supervisory Board determines the number of Management Board members in line with statutory regulations. Pursuant to Section 17 Paragraph 3 Clause 1 of Delticom AG's articles of incorporation, amendments to the articles of incorporation require a simple majority of votes submitted, and, by way of divergence from Section 179 Paragraph 2 Clause 1 of the German Stock Corporation Act (AktG), only a simple majority of share capital represented to the extent that a larger capital majority is not mandatory according to the law.

The regulations that authorize the Management Board to issue shares are set out in section 5 "Level and division of share capital" of the articles of incorporation of Delticom AG, and those concerning the repurchase of shares in Sections 71 ff. of the German Stock Corporation Act (AktG) and corresponding authorization resolutions passed by the Annual General Meeting.

Authorised Capital 2011

The Ordinary Annual General Meeting of 03.05.2011 authorized the Management Board to increase the company's share capital, with Supervisory Board assent, until 02.05.2016 through issuing, once or on several occasions, a total of up to 5,919,722 new no-par registered shares against cash or non-cash capital contributions by total of up to € 5,919,720.00 *(Authorized Capital 2011)*. *Authorized Capital 2011* was entered in the commercial register on 10.06.2011. With the Supervisory Board's assent, the Management Board is authorized to exclude subscription rights for capital increases against non-cash capital contributions, and, in some instances, in the case of cash capital increases.

Contingent Capital I/2006

The General Meeting of 30.08.2006 authorised the Management Board or the Supervisory Board in lieu of the Management Board to the extent that options are granted to members of the Management Board, to grant options for the subscription of up to 100,000 new no-par value registered shares of the company to the members of the company’s Management Board and its employees, on one or several occasions up to 29.08.2011. By way of a resolution by the General Meeting on 30.08.2006, the company’s share capital was conditionally increased by € 100,000 by issuing a total of up to 100,000 new no-par value registered shares *(Contingent Capital I/2006)*.

Contingent Capital I/2006 serves exclusively to grant shares to the holders of options issued by the company on the basis of the authorisation granted by the General Meeting on 30.08.2006 for the granting of options. The *Contingent Capital I/2006* was entered in the commercial register on 01.09.2006.

As a result of the capital increase from retained earnings by means of the issuance of new shares, decided upon by the Annual General Meeting on 19.05.2009, the *Contingent Capital I/2006* increased proportionally to the share capital to € 300,000. The capital increase and the amendment of the articles of incorporation relating to the *Contingent Capital I/2006* were entered in the commercial register of the Hanover court on 10.06.2009. *Contingent Capital I/2006* amounts to currently € 292,000.00 due to the exercise of 8,000 option rights that entitled Management Board member Frank Schuhardt to subscribe for 8,000 of the company's new no-par ordinary registered shares.

Contingent Capital I/2011

The Annual General Meeting of 03.05.2011 authorized the Management Board, with Supervisory Board assent (respectively the Supervisory Board instead of the Management Board to the extent that option rights are granted to Management Board members), to grant until 02.05.2016, once or on several occasions, option rights to subscribe for a total of up to 300,000 of the company's new no-par registered shares to members of the company's Management Board and to employees of the company. The company's share capital is conditionally increased by up to € 300,000.00 through issuing up to 300,000 new no-par registered shares (Contingent Capital I/2011).

Contingent Capital I/2011 serves exclusively to grant new shares to the holders of conversion or warrant rights that are issued pursuant to the aforementioned authorization resolution by Delticom AG. *Contingent Capital I/2011* was entered in the commercial register on 10.06.2011.

Contingent Capital II/2011

The Annual General Meeting on 03.05.2011 authorized the Management Board, with the approval of the Supervisory Board to issue on one or several occasions bearer or registered convertible bonds or bonds with warrants up to 02.05.2016 with a total nominal amount of up to € 200,000,000.00 with or without a limited duration and to grant the holders of these convertible bonds or bonds with warrants conversion rights or options to subscribe to a total of up to 5,300,000 no-par value registered shares of the company with a proportionate interest in the share capital totalling € 5,300,000.00 according to the details of the terms and conditions for the convertible bonds or bonds with warrants.

This authorisation may be exercised in whole or in part. In some instances, the Management Board is authorised, with the Supervisory Board's assent, to exclude shareholder subscription rights when issuing convertible or warrant bonds. By way of a resolution by the Annual General Meeting on 03.05.2011, the company's share capital was conditionally increased by up to € 5,300,000.00 by issuing up to 5,300,000 new no-par value registered shares *(Contingent Capital II/2011)*.

Contingent Capital II/2011 serves exclusively to grant new shares to the holders of conversion or warrant rights that are issued pursuant to the aforementioned authorization resolution by Delticom AG or by companies in which Delticom owns a direct or indirect majority interest. *Contingent Capital II/2011* was entered in the commercial register on 10.06.2011.

Management Board authorisations to repurchase and re-utilise treasury shares

With an Annual General Meeting resolution of 11.05.2010, the company was authorised to acquire its own shares up to 10 % of the share capital existing when the resolution was passed. This authorisation is valid until 10.05.2015. The authorisation may be exercised in full or in part, on one or several occasions, for one or for several purposes by the company or by third parties for the company's account. The shares are acquired, at the Management Board's discretion, via the stock exchange or via a public purchase offer or via a public request to issue this type of offer.

The compensation per share paid for the acquisition of shares via the stock exchange (without incidental acquisition costs) may not be more than 10 % above or below the price identified in the XETRA trading system (or a comparable successor system) on the stock market day in the opening auction. If shares are acquire via a public purchase offer or a public request to issue a purchase offer, the offered purchase price or the thresholds for the offered purchase price range per share (without incidental acquisition costs) may not be more than 10 % higher or lower than the respective value of a share of the company.

In the case of a public purchase offer, the relevant price is the price calculated by the closing auction in XETRA trading (or a comparable successor system) on the stock market trading day before the date when the offer is announced, and in the case of a public solicitation to issue a purchase offer, the price calculated by the closing auction in XETRA trading (or a comparable successor system) on the last stock market day before the date on which the company accepts the offers.

If there are significant differences between the relevant prices after the purchase offer is published, the offer can be adjusted. The Management Board is authorised to utilise the acquired treasury shares for all statutorily permissible purposes. In particular, it may withdraw and cancel the shares, sell them in return for non-cash payments, dispose of them by means other than the stock market or through an offer to shareholders, or offer them to employees of the company or its Group companies for purchase, or offer them to holders of subscription rights to satisfy the company's obligation arising from the stock option plan that was set up pursuant to the Annual General Meeting resolution of 30.08.2006. Shareholders' subscription rights can be excluded under certain conditions.

Key conditioned agreements of the company

According to the option terms and conditions, in the event of a change in control at the company the stock options of the Management Board member Frank Schuhardt are immediately exercisable, provided options have been vested. Options which have not yet been vested lapse without substitution. The first stock option tranche comprising 15,810 options was issued on 22.11.2007, the second tranche of 37,500 options was issued on 08.05.2008, and the third tranche of 15,000 options was issued on 30.03.2009. All options which are part of the stock option plans vest after 2 years.

Accordingly, the waiting period for these tranches had expired as of the balance sheet date, and the option rights that had been issued would have been exercisable immediately given a change of control, whereby the number of stock options from the third tranche has meanwhile reduced to 29,500 in the case of the exercise of option rights by Mr. Schuhardt described in Number 1.

The company has concluded no compensation agreements with Management Board members or employees for the instance of a takeover offer.

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The figures as of 31.12.2010 were adjusted on the basis of the change in method pursuant to IAS 8 (please refer to the notes *Change in inventory measurement method*).

Consolidated Income Statement

in € thousand	Notes	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Revenues	(1)	**480,010**	**419,577**
Other operating income	(2)	8,319	5,751
Total operating income		**488,329**	**425,328**
Cost of goods sold	(3)	–348,387	–300,100
Gross profit		**139,942**	**125,228**
Personnel expenses	(4)	–7,225	–6,804
Depreciation of intangible assets and property, plant and equipment	(5)	–2,101	–1,295
Other operating expenses	(6)	–77,671	–69,510
Earnings before interest and taxes (EBIT)		**52,945**	**47,620**
Financial expenses		–127	–32
Financial income		128	134
Net financial result	(7)	**0**	**102**
Earnings before taxes (EBT)		**52,945**	**47,721**
Income taxes	(8)	–16,916	–15,092
Consolidated net income		**36,029**	**32,629**
Thereof allocable to:			
Shareholders of Delticom AG		36,029	32,629
Earnings per share (basic)	(9)	3.04	2.76
Earnings per share (diluted)	(9)	3.02	2.73

Statement of Recognised Income and Expenses

in € thousand	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Consolidated Net Income	**36,029**	**32,629**
Changes in the financial year recorded directly in equity		
Changes in currency translation	219	–46
Changes in value of financial assets in the “available-for-sale assets” category		
Changes in current value recorded directly in equity	12	4
Recognition of settled hedging transactions with effect on income	–27	–22
Deferred tax on current changes without effect on income	5	6
Other comprehensive income for the period	**209**	**–58**
Total comprehensive income for the period	**36,238**	**32,571**

see also Notes 21

Consolidated Balance Sheet

Assets

in € thousand	Notes	31.12.2011	31.12.2010
Non-current assets		**16,669**	**10,169**
Intangible assets	(10)	1,032	1,112
Property, plant and equipment	(11)	14,241	7,724
Financial assets		825	818
Deferred taxes	(12)	215	169
Other receivables	(13)	356	347
Current assets		**149,695**	**139,178**
Inventories	(14)	106,492	52,227
Accounts receivable	(15)	10,146	10,928
Other current assets	(16)	10,860	8,189
Securities	(17)	0	1,036
Cash and cash equivalents	(18)	22,197	66,798
Assets		**166,364**	**149,348**

Shareholders' Equity and Liabilities

in € thousand	Notes	31.12.2011	31.12.2010
Equity		**75,480**	**71,341**
Subscribed capital	(19)	11,847	11,839
Share premium	(20)	24,311	24,216
Other components of equity	(21)	50	–159
Retained earnings	(22)	200	200
Net retained profits	(23)	39,072	35,246
Liabilities		**90,884**	**78,006**
Non-current liabilities		**3,628**	**45**
Long-term borrowings	(24)	3,150	0
Non-current provisions	(25)	30	45
Deferred tax liabilities	(26)	447	0
Current liabilities		**87,256**	**77,961**
Provisions for taxes	(25)	3,839	6,179
Other current provisions	(25)	2,721	2,200
Accounts payable	(27)	68,250	53,615
Short-term borrowings	(24)	1,244	0
Other current liabilities	(29)	11,202	15,967
Shareholders' equity and liabilities		**166,364**	**149,348**

Consolidated Cash Flow Statement

in € thousand	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Earnings before interest and taxes (EBIT)	**52,945**	**47,620**
Depreciation of intangible assets and property, plant and equipment	2,101	1,295
Changes in other provisions	506	1,576
Net gain on the disposal of assets	4	1
Changes in inventories	–54,265	–9,369
Changes in receivables and other assets not allocated to investing or financing activity	–1,908	–2,920
Changes in payables and other liabilities not allocated to investing or financing activity	9,847	25,655
Interest received	128	134
Interest paid	–98	–32
Income tax paid	–18,855	–12,268
Cash flow from operating activities	**–9,595**	**51,692**
Proceeds from the disposal of property, plant and equipment	2	10
Payments for investments in property, plant and equipment	–8,433	–3,405
Proceeds from the disposal of intangible assets	1	0
Payments for investments in intangible assets	–113	–115
Payments for investments in financial assets	–7	–818
Changes in liquidity reserve	1,036	2,003
Cash flow from investing activities	**–7,513**	**–2,324**
Dividends paid by Delticom AG	–32,203	–20,127
Payments from additions to capital	98	0
Cash inflow of financial liabilities	4,844	0
Cash outflow of financial liabilities	–450	0
Cash flow from financing activities	**–27,711**	**–20,127**
Changes in cash and cash equivalents due to currency translation	219	–46
Cash and cash equivalents at the start of the period	66,798	37,603
Changes in cash and cash equivalents	–44,601	29,195
Cash and cash equivalents - end of period	**22,197**	**66,798**
For information only:		
Liquidity – start of period	**67,834**	**40,642**
Changes in cash and cash equivalents	–44,601	29,195
Changes in liquidity reserve	–1,036	–2,003
Liquidity – end of period	**22,197**	**67,834**
Changes in short-term borrowings	–4,394	0
Net Cash – end of period	**17,803**	**67,834**

Statement of Changes in Shareholders' Equity

in € thousand	Subscribed capital	Share premium	Reserve from currency translation	Revaluation Reserve	Accumulated profits / losses: Retained earnings	Accumulated profits / losses: Net retained profits	Accumulated profits / losses: total	Total equity
as of 1 January 2010	**11,839**	**24,112**	**–124**	**23**	**200**	**22,744**	**22,943**	**58,794**
Increase in share premium due to stock options		104						104
Dividends paid						–20,127	–20,127	–20,127
Total comprehensive income for the period			–46	–13		32,629	32,629	32,571
as of 31 December 2010	**11,839**	**24,216**	**–169**	**10**	**200**	**35,246**	**35,446**	**71,341**
as of 1 January 2011	**11,839**	**24,216**	**–169**	**10**	**200**	**35,246**	**35,446**	**71,341**
Shares of capital increase	8							8
Capital increase of issue new shares		90						90
Increase in share premium due to stock options		6						6
Dividends paid						–32,203	–32,203	–32,203
Total comprehensive income for the period			219	–10		36,029	36,029	36,238
as of 31 December 2011	**11,847**	**24,311**	**50**	**0**	**200**	**39,072**	**39,272**	**75,480**

see also Notes 19 – 23

Notes to the Consolidated Financial Statements of Delticom AG

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Segment reporting

Segment results

2011

in € thousand	E-Commerce	Wholesale	not allocated	Group
Revenues	**455,647**	**24,363**	**0**	**480,010**
Other operating income	7,497	172	649	8,319
Cost of goods sold	–327,036	–21,351	0	–348,387
Gross profit	**136,109**	**3,184**	**649**	**139,942**
Personnel expenses	–3,548	–500	–3,176	–7,225
Depreciation and amortization	–1,957	–1	–143	–2,101
thereof property, plant and equipment	–1,823	–1	–87	–1,911
thereof intangible assets	–134	0	–56	–191
Other operating expenses	–74,339	–939	–2,393	–77,671
thereof bad debt losses and one-off loan provisions	–1,003	0	0	–1,003
Segment result	**56,265**	**1,744**	**–5,063**	**52,945**
Net financial result				0
Income taxes				–16,916
Consolidated net income				**36,029**

2010

in € thousand	E-Commerce	Wholesale	not allocated	Group
Revenues	**403,697**	**15,880**	**0**	**419,577**
Other operating income	1,120	66	4,565	5,751
Cost of goods sold	–286,038	–14,062	0	–300,100
Gross profit	**118,779**	**1,884**	**4,565**	**125,228**
Personnel expenses	–2,874	–387	–3,543	–6,804
Depreciation and amortization	–1,139	–1	–155	–1,295
thereof property, plant and equipment	–998	–1	–102	–1,100
thereof intangible assets	–141	0	–53	–194
Other operating expenses	–66,142	–742	–2,626	–69,510
thereof bad debt losses and one-off loan provisions	–1,551	–89	0	–1,640
Segment result	**48,625**	**754**	**–1,759**	**47,620**
Net financial result				102
Income taxes				–15,092
Consolidated net income				**32,629**

Segment assets, segment liabilities and segment investments

as of 31 December 2011:

in € thousand	E-Commerce	Wholesale	not allocated	Group
Segment assets				
Intangible assets, property, plant and equipment and financial assets	15,798	3	296	16,098
Other non-current assets	294	0	62	356
Total non-current assets	**16,092**	**3**	**359**	**16,454**
Inventories	106,311	181	0	106,492
Accounts receivable	6,093	4,053	0	10,146
Cash and cash equivalents	17,055	0	5,142	22,197
Other assets	917	0	9,943	10,860
Total current assets	130,376	4,234	15,085	149,695
Total segment assets	**146,468**	**4,237**	**15,444**	**166,149**
Deferred taxes				215
Securities				0
Total assets				166,364
Segment liabilities				
Non-current segment liabilities	**0**	**0**	**3,180**	**3,180**
Other current provisions	2,421	0	300	2,721
Accounts payable	67,225	868	156	68,250
Other current borrowing	9,292	88	3,066	12,446
Current segment liabilities	**78,939**	**956**	**3,522**	**83,417**
Total segment liabilities	**78,939**	**956**	**6,703**	**86,597**
Deferred taxes and tax liabilities				4,286
Total segment assets				90,884
Segment investments				
Investments in financial assets	0	0	7	7
Intangible assets	29	0	84	113
Property, plant and equipment	8,402	0	31	8,433
Total investments	8,431	0	122	8,553

as of 31 December 2010:

in € thousand	E-Commerce	Wholesale	not allocated	Group
Segment assets				
Intangible assets, property, plant and equipment and financial assets	9,332	4	317	9,654
Other non-current assets	273	0	74	347
Total non-current assets	**9,605**	**4**	**391**	**10,001**
Inventories	51,202	1,025	0	52,227
Accounts receivable	7,618	3,310	0	10,928
Cash and cash equivalents	63,821	0	2,976	66,798
Other assets	864	6	7,319	8,189
Total current assets	123,506	4,341	10,295	138,142
Total segment assets	**133,111**	**4,345**	**10,686**	**148,143**
Deferred taxes				169
Securities				1,036
Total assets				149,348
Segment liabilities				
Non-current segment liabilities	**0**	**0**	**45**	**45**
Other current provisions	1,965	0	235	2,200
Accounts payable	53,090	457	69	53,615
Other current borrowing	13,909	57	2,000	15,967
Current segment liabilities	**68,964**	**513**	**2,304**	**71,782**
Total segment liabilities	**68,964**	**513**	**2,349**	**71,827**
Deferred taxes and tax liabilities				6,179
Total segment assets				78,006
Segment investments				
Investments in financial assets	0	0	818	818
Intangible assets	70	0	44	114
Property, plant and equipment	3,320	1	86	3,406
Total investments	3,389	1	948	4,338

General notes

Delticom AG (hereinafter referred to as the "company") is the parent company of the Delticom group (hereinafter referred to as the "Delticom"). Delticom AG is entered in the commercial register of Hanover local court. Delticom's address is Brühlstrasse 11, 30169 Hanover, Germany.

The company's activities are grouped under the divisions of E-Commerce and Wholesale.

Most of the group's revenues are generated by the E-Commerce division. Delticom sells tyres and other products over 126 online shops to private and business customers. The online shop which generates the most revenues is ReifenDirekt – a well-known brand in the German speaking Internet community. The group offers its product range in 41 countries, with a focus on the EU and other European countries such as Switzerland and Norway. Delticom also sells tyres outside Europe, with the main focus on the USA.

Delticom generates a large share of its revenues by selling from own inventories. This stock-and-ship business strengthens the relationships with manufacturers and enhances the supply capability, while generating good margins. Using drop-ship fulfilment, the company also sells goods from the warehouses of manufacturers and wholesalers. The tyres are either transported directly from the supplier to the customer, or Delticom lets parcel services carry out the delivery.

The online shops present the entire product range in a consistent look and feel. Hotlines in the different languages and the global fitting partner network secure a high level of service quality.

Delticom's Wholesale division sells tyres to wholesalers in Germany and abroad.

The Management Board had authorized these consolidated financial statements on 08.03.2012. The consolidated financial statements will be published and submitted to the operators of the electronic federal gazette, to make these public.

All calculations were carried out with full accuracy. As a consequence, the tables can show rounding differences.

Key accounting and valuation policies

General principles

Delticom AG prepares exempting consolidated financial statements in compliance with IFRS according to the option provided by Section 315a of the Handelsgesetzbuch (HGB – German Commercial Code). Delticom's consolidated financial statements for the fiscal year 2011 were prepared according to the accounting standards No. 1606/2002 prescribed by the International Accounting Standards Board (IASB) that were mandatory on the balance sheet date according to the EU Directive, based on the historical costs principle, restricted by financial assets and financial liabilities (including derivative financial instruments) carried at their fair value and recognised in income. The requirements of the standards and interpretations (SIC / IFRIC) applied were fulfilled without exception and lead to the financial statements providing a true and fair view of the Delticom's financial position and results of operations.

The consolidated financial statements were prepared in euros (€). This is both Delticom's functional and reporting currency. Amounts in the notes to the financial statements are generally presented in thousands of euros (€ thousand) unless otherwise stated.

Impact of new or changed standards:

Standard / interpretation		Mandatory application	EU commissions use on 31.12.11	Impact
IAS 32	Financial instruments: Classification of rights issues	01.02.10	yes	none
IFRS 1	Limited exemption from comparative IFRS 7 disclosures for first-time adopters	01.07.10	yes	none
IAS 24	Related party disclosures (Nov. 2009)	01.01.11	yes	none
IFRIC 14	Prepayments of a minimum funding requirement of pension plans	01.01.11	yes	none
IFRIC 19	Extinguishing financial liabilities with equity instruments	01.07.10	yes	none
	Improvements to IFRSs (May 2010)	01.07.10 / 01.01.11	yes	no major impact

New or amended standards not applied:

Standard / interpretation		Mandatory application	EU commissions use on 31.12.11	Impact
IFRS 7	Financial Instruments - Disclosure: Transfer of financial assets	01.07.11	yes	none
IFRS 1	Severe hyperinflation and removal of fixed dates for first-time adopters	01.07.11	no	none
IAS 12	Deferred tax: Recovery of underlying assets	01.01.12	no	no major impact
IAS 1	Presentation for financial statements: Other comprehensive income	01.07.12	no	no major impact
IFRS 7	Disclosure: Netting of financial assets and financial liabilities	01.01.13	no	not known
IAS 32	Netting of financial assets and financial liabilities	01.01.14	no	not known
IFRS 9	Financial Instruments: Classification and valuation: Financial assets (November 2009)	01.01.15	no	not known
IFRS 9	Financial Instruments: Classification and valuation: Financial liabilities (October 2010)	01.01.15	no	not known
IFRS 7 IFRS 9	Mandatory time of use and disclosure about the transition	01.01.15	no	not known
IFRS 10	Consolidated financial statements	01.01.13	no	not known
IFRS 11	Joint arrangements	01.01.13	no	none
IFRS 12	Disclosures of interests in other entities	01.01.13	no	not known
IFRS 13	Fair value measurement	01.01.13	no	not known
IAS 27	Separate financial statements	01.01.13	no	not known
IAS 28	Investments in associates and joint ventures	01.01.13	no	none
IAS 19	Employee benefits	01.01.13	no	not known
IFRIC 20	Stripping costs in the production phase of a surface mine	01.01.13	no	none

Group of consolidated companies

The Group of consolidated companies comprises Delticom AG, with its registered office in Hanover, registered at Hanover local court under the number HRB 58026, as well as the German subsidiary Reifendirekt GmbH, Hanover and Pnebo Gesellschaft für Reifengroßhandel und Logistik mbH, Hanover, as well as the foreign subsidiaries Delticom Tyres Ltd., Oxford (United Kingdom), NETIX S.R.L., Timisoara (Romania) and Delticom North America Inc. (Wilmington, Delaware, USA). Delticom AG holds a 100 % interest in all subsidiaries.

The Tyrepac Pte. Ltd., Singapore of which Delticom owns 50.9 % of the shares, is not consolidated due to its negligible impact on Delticom's net assets, financial position and results of operations. Instead it is recognized as a financial instrument pursuant to IAS 39. The same applies to Hongkong Tyrepac Ltd. (Hong Kong, founded on 15.04.2011), a fully-owned subsidiary company of Tyrepac Pte. Ltd. Singapore.

Consolidation methods

Subsidiaries comprise all material shareholding in companies where the parent company exercises financial and business policy control, regularly accompanied by a more than 50 % voting right share. Such subsidiaries are included at the date when the possibility of control exists, and such inclusion is discontinued when this possibility no longer exists.

Acquired subsidiaries are accounted for using the purchase method. Acquisition costs correspond to the fair value of the assets paid, the equity instruments issued and the debts resulting or taken over on the date of exchange plus the costs that can be directly allocated to the acquisition. Assets, liabilities and contingent liabilities that can be identified as part of a business combination are valued at their fair value on the date of exchange during initial consolidation, irrespective of the scope of the minority interests.

The amount by which the acquisition costs exceed the Group's share of the net assets measured at their fair value is carried as goodwill. If the acquisition costs are lower than the fair value of the net assets of the acquired subsidiary, the difference is taken directly to the income statement.

The consolidated financial statements are based on the financial statements prepared according to uniform accounting and valuation methods for the companies included in the consolidated financial statements. The balance sheet date for the single-entity financial statements for the companies included in the consolidated financial statements is the same as the balance sheet date for the consolidated financial statements.

All intra-group receivables and liabilities or provisions were eliminated during the consolidation of debts netting. Revenues from deliveries and services as well as interest payments and other income between the consolidated companies are offset against the expenses due in this regard (consolidation of income and expenses). Inter-company profits arising from deliveries and services within the Group are adjusted through profit or loss to reflect deferred tax. Deliveries and services within the Group were realised on standard market terms. There were no minority interests in equity and the earnings of subsidiaries that are controlled by the parent company.

Segment reporting

A business segment is a group of assets and operating activities that provides products or services, and that differs from the other divisions with regard to its opportunities and risks.

Delticom is a two-segment company: The company's activities that result in revenues and other income are grouped under the divisions of Wholesale and E-Commerce. In the Wholesale division, the company sells tyres from manufacturers, including under its own brand, to wholesalers. In the E-Commerce division, tyres are sold to dealers, workshops and end users via 126 shops (previous year: 120) in 41 countries. There are no other divisions that could constitute segments with a separate reporting requirement. As in previous years, there were no inter-segment revenues. These segments are managed internally via the Wholesale and E-Commerce divisions. Segment reporting is also in line with this breakdown.

Currency translation

Transactions denominated in foreign currency are converted in the individual statements of Delticom AG and its subsidiaries at the exchange rates prevailing on the date of the transaction. Monetary items in the balance sheet denominated in foreign currency are carried using the exchange rate on the balance sheet date, with any gains or losses recognised in income.

The items included in the financial statements of each company of the Group are measured based on the currency which is the currency of the primary economic environment in which the company operates (functional currency). The foreign companies which form part of the Delticom Group are, as a rule, independent sub-units, whose financial statements are translated to euros using the functional currency concept.

All assets and liabilities are translated using the exchange rate on the balance sheet date. Equity is carried at historical exchange rates. The items on the income statement are translated to euros using the weighted average annual rate of exchange. The resulting currency translation differences are taken directly to equity and carried under the reserve for currency translation differences, where they remain until the corresponding subsidiary exits the consolidated Group.

Country	Mid rate on 31.12.2011 € 1 =	Weighted yearly average rate € 1 =
UK	0.8372 GBP	0.8678 GBP
USA	1.2938 USD	1.3924 USD
Romania	4.3326 RON	4.2328 RON

Estimates and assumptions

Assumptions have been made and estimates used in the preparation of these consolidated financial statements that impact the disclosure and amount of the assets and liabilities, income and expenses and contingent liabilities carried in these statements. The assumptions and estimates are for the most part related to the stipulation of useful life, accounting and valuation of provisions, as well as the certainty of realising future tax relief. The assumptions on which the respective estimates are based are discussed for the individual items of the income statement and balance sheet. Actual values may vary in individual cases from the assumptions and estimates made. Any such deviations are recognised in income when they come to light.

Accounting and valuation principles

Intangible assets acquired for a fee are capitalised at cost plus the costs required to make these usable and are, to the extent that they have a definite useful life, written down over their useful life using the straight-line method on a pro rata basis. Costs that are associated with the maintenance of software are recognised as expenses when these are incurred. The scheduled straight-line depreciation is mostly based on the following useful lives:

	Useful life in years
Internet domains	20
Software	3–5

Property, plant and equipment is carried at cost less accumulated scheduled depreciation and impairment costs. Cost includes the purchase price including directly attributable incidental acquisition costs that are incurred to render the asset usable. Discounts, bonuses and rebates are deducted from the purchase price. Assets are depreciated using the straight-line method on a pro rata basis.

Subsequent costs are only recorded as part of the costs of the asset if it is probable that the future economic benefits will flow to the Group and the costs of the asset can be reliably identified. All other repairs and maintenance are recognised in income in the income statement in the fiscal year in which they are incurred.

The remaining book values and economic useful lives are reviewed on each balance sheet date and adjusted accordingly. If the book value of an asset exceeds its estimated recoverable amount, it is written down to the latter immediately. If the reasons for non-scheduled depreciation performed in previous years no longer apply, the asset is written up accordingly.

Gains and losses from the disposal of assets are calculated as the difference between the income from the sale and the book value and recognised in income.

The scheduled straight-line depreciation is mostly based on the following useful lives:

	Useful life years
Leasehold improvements	12–33
Machinery	4–15
Equipment	3–15
Office fittings	3–15

Leases are classified as finance leases if the major risks and opportunities associated with the ownership of the leased asset from use of the leased asset are transferred to Delticom.

Assets from finance leases are capitalised at the lower of the fair value of the leased asset and the cash value of the minimum lease payments. The lease instalments are broken down into an interest component and a repayment component to give constant interest for the liabilities from the lease. Lease liabilities are carried as non-current liabilities without considering interest.

The property, plant and equipment to be carried under finance leases is written down over the shorter of the asset's useful life or the term of the lease. If assets in a finance lease are transferred to a lessee, the cash value of the lease payments is carried as a receivable. Leasing income is recognised over the term of the lease using the annuity method. Delticom did not enter into any such leases in 2011.

All leases that do not meet the criteria of a finance lease are classified as operating leases, with the assets accounted for by the lessor.

The **financial instruments** carried on the balance sheet (financial assets and financial liabilities) within the meaning of IAS 32 and IAS 39 comprise specific financial investments, trade accounts receivable, cash and cash equivalents, trade accounts payable and certain other assets and liabilities resulting from contractual agreements.

Financial assets are broken down into the following categories: Financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets recognised. The classification depends on the purpose for which the respective financial assets were acquired. Management determines the classification of the financial assets upon initial recognition.

A financial asset is allocated to the category *financial assets at fair value through profit or loss* if it was, in principle, acquired with the intention to sell it over the short term, or if the financial asset was designated accordingly by the management. Derivatives also fall in this category, to the extent that these are not hedges. The category has two sub-categories: financial assets that have been *held for trading* from the outset, and financial assets that have been classified *at fair value through profit or loss* from the outset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They arise when the Group directly provides money, goods or services to a debtor without the intention of negotiating these receivables.

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, for which the Group's management has the intention and ability to hold these to maturity.

Available-for-sale financial assets are non-derivative financial assets that are classified as being available for sale and are not allocated to another category.

These financial instruments are carried under non-current assets to the extent that management does not intend to sell these within 12 months of the balance sheet date.

As a rule, sales and purchases of financial assets are accounted for on the date of the transaction – this is the date on which the company becomes a contracting party.

When these financial assets or liabilities are accounted for the first time, they are carried at cost which corresponds to the fair value of consideration taking into account transaction costs.

Financial assets that do not belong to the category *at fair value through profit or loss* are initially carried at their fair value plus transaction costs. They are booked out when the rights to payments from the investment have expired or been transferred, and the Group has mostly transferred all of the opportunities and risks that are associated with ownership.

Financial assets in the categories *available-for-sale* and *fair value through profit or loss* are measured at their fair value after initial recognition. *Loans and receivables* and *held-to-maturity* financial investments are carried at amortised cost using the effective interest method.

Realised and non-realised gains and losses from changes to the fair value of assets in the category *fair value through profit or loss* are recognised in income in the period in which they arise. Non-realised gains or losses from changes to the fair value of non-monetary securities in the *available-for-sale* category are taken to equity, to the extent that there is no impairment. If assets in this category are sold, the accumulated adjustments to the fair value included in equity are to be recorded in income in the income statement as gains or losses from financial assets.

An impairment test is performed on each balance sheet date to review whether there are objective reasons for impairment of a financial asset or a group of financial assets. For equity instruments classified as *available-for-sale*, a significant or lasting reduction in the fair value below acquisition costs of these equity instruments is treated as an indicator that the equity instruments are impaired.

As a rule, **inventories** are carried at the lower of cost or market and, if necessary, taking into account any write-downs for restricted marketability.

Costs are calculated based on the average cost method. The market price is the selling price during the course of normal business less selling costs. Borrowing costs are not capitalised as costs.

Change of inventory valuation method

In the period under review, the inventory valuation method was changed from a simple weighted average to a floating weighted average, allowing a more precise accounting of the net assets, financing position and results of operations. In the case of the floating weighted average, inventories are measured more closely to actual purchasing prices, since this valuation method allows both additions and disposals to be taken into account, while the simple weighted average takes only additions into consideration.

This change in method has been applied retrospectively, as required by IAS 8. Nevertheless, no earnings-neutral change to the prior-year starting balance sheet was applied, since the calculation of the floating weighted average on a retrospective basis was deemed infeasible with respect to the data available for 2009. The retrospective calculation starts on 01.01.2010. All resultant changes to inventories were recognized in the comparable period through the income statement under the cost of goods sold item. Deferred taxes were formed for the resulting changes in earnings.

In the following tables, the *published* column contains the figures published in the previous year. The *–/+ (IAS 8)* column shows the changes in Euro arising from the application of the new method, compared to the reported values. The *adjusted* column restates the period values as the result of the aforementioned changes. In other words, it shows those figures that would have arisen if Delticom had already applied the new valuation method in the comparable period of the current reporting period.

The balance sheet effects arising from the retrospective application of the new valuation method as of 31.12.2010 are as follows:

in € thousand	31.12.2010 reported	31.12.2010 –/+ (IAS 8)	31.12.2010 restated
Assets			
Deferred taxes	346	–178	169
Inventories	51,671	556	52,227
Shareholders' equity and liabilities			
Net retained profits	34,867	379	35,246

The adjustments to the inventories presented in the previous tables were allocated exclusively to the E-Commerce segment within the segment assets. In the *Group* column of the segment assets, the deferred taxes and tax liabilities item were adjusted correspondingly.

The income statement effects arising from the retrospective application of the new valuation method as of 31.12.2010 are as follows:

in € thousand	01.01.2010 – 31.12.2010 reported	01.01.2010 – 31.12.2010 –/+ (IAS 8)	01.01.2010 – 31.12.2010 restated
Cost of goods sold	–300,656	556	–300,100
Income taxes	–14,915	–178	–15,092
Consolidated net income	**32,251**	**379**	**32,629**
Earnings per share (basic)	2.72	0.03	2.76
Earnings per share (diluted)	2.70	0.03	2.73

The adjustments to the costs of goods sold presented in the previous tables were allocated exclusively to the E-Commerce segment within the segment results as of 31.12.2010. In the *Group* column of the segment results, earnings before interest and taxes and taxes themselves were adjusted correspondingly.

Apart from the changes to the consolidated result presented above, the change in the valuation method had no impact on the statements of total comprehensive income as of 31.12.2010.

In the consolidated cash flow statement, the earnings before interest and taxes and the changes in inventories items were adjusted in the period as of 31.12.2010. In each case, the changes of inventory value correspond to the changes in the cost of goods sold, by definition. As a consequence, cash flow from operating activities is not affected by the change in method.

In the statement of changes in shareholders' equity, the net retained profits, and consequently also the total equity as of 31.12.2010 and the amount carried forward as of 01.01.2011 were adjusted by € 379 thousand.

Trade accounts receivable and **other receivables** are initially carried at their fair value and then at amortised cost using the effective interest rate method and less impairment. Impairment is recognised for trade accounts receivable if there is objective evidence that it will not be possible to collect the due receivable in full.

The amount of the impairment is the difference between the book value of the receivable and the discounted value of the estimated future cash flows from this receivable, discounted using the effective interest rate. The carrying amount of the receivables is determined using special impairment account. Impairment is recognised as expense. Items denominated in foreign currency are measured at the mean rate of exchange on the balance sheet date.

Cash and cash equivalents are carried at their nominal amounts. This item is used to disclose bank balances that are exclusively current in nature, as well as cash in hand. Cash and cash equivalents denominated in foreign currency are translated using the exchange rate on the balance sheet date.

Deferred taxes were calculated in line with IAS 12. As a rule, deferred tax assets are formed for temporary differences between the carrying amounts in the tax base and the consolidated financial statements to the extent that it is probable, that in future taxable results will be available against which the temporary difference can be used. In addition, deferred taxes are also formed for losses carried forward which are expected to be realised in future. As a rule, deferred tax liabilities are formed for all taxable temporary differences between the carrying amounts in the tax base and the consolidated financial statements.

Deferred taxes are recorded directly under equity if the tax relates to items that are credited or charged directly to equity in the same or in a different period.

Deferred taxes are measured using the tax rates and tax regulations that apply on the balance sheet date or which have mostly been passed by law and which are expected to apply on the date the deferred taxes are realised or the deferred tax liability is expected to be paid. Deferred taxes for German companies are measured at a tax rate of 31.82 % (previous year: 31.93 %).

Deferred tax receivables and liabilities are netted to the extent that there is a legally enforceable right to set off the deferred tax receivables against the deferred tax liabilities and the deferred taxes are for the same tax authority.

Deferred tax receivables and deferred tax liabilities are carried under non-current assets or non-current liabilities according to IAS 1.70. Deferred tax assets and liabilities cannot be discounted according to IAS 12.53.

The German companies are subject to trade tax of 16.0 % (previous year: 16.1 %) of trade income. In the reporting period, the corporation tax rate was 15.0 % (previous year: 15.0 %) plus the solidarity surcharge of 5.5 % (previous year: 5.5 %) on corporation tax.

Foreign income taxes are calculated based on the applicable laws and regulation in the respective individual countries. The respective national tax rates are used.

Income tax provisions are netted with corresponding refund claims if these are in the same tax jurisdiction and are of the same type and term.

Provisions are only carried if the company has a current (legal or de facto) obligation to third parties as a result of a past event and it is probable that fulfilment of the obligation will lead to an outflow of resources, and the amount of the obligation can be reliably estimated. Provisions are formed taking into account all recognisable risks at the expected fulfilment amount and are not offset against any recourse claims.

Provisions are reviewed on each balance sheet date and adjusted to the current best estimate. If there is a material interest effect from the date of fulfilment of the obligation, the provision is carried at its cash value. To the extent that no reliable estimate is possible in individual cases, no provision is formed – instead a contingent liability is carried.

Trade accounts payable, **other liabilities** and **Financial liabilities** are initially carried at their fair values including transaction costs and measured in subsequent periods at amortised cost. The difference between the disbursement rate and the repayment amount is carried in the income statement over the term of the respective agreement using the effective interest rate method. Items denominated in foreign currency are measured at the mean rate of exchange on the balance sheet date.

Income is recognised if it is probable that the economic benefits associated with the corresponding transaction will accrue to the enterprise and the amount of the revenues can be reliably measured. As a rule, income from services is recognised on a pro rate basis over the period in which the service is performed. Revenues are carried less any price reductions and bulk rebates. For sales of trading goods, revenues are realised when the customer takes economic ownership, the latter does have to coincide with transfer of legal ownerhips. Deliveries of trading goods where a return is likely (judged on the basis of past experience) are not recognised in income.

Expenses are recognised if it is probable that the economic benefits associated with the corresponding transaction will flow out of the enterprise and the amount of the expenses can be reliably measured. Borrowing costs are carried exclusively in the income statement. These are not capitalised as a cost component.

Interest is carried in line with the effective interest on assets and liabilities.

Scheduled amortisation / depreciation is performed in line with the useful lives of intangible assets and property, plant and equipment. **Value adjustments** for assets (impairment test) at amortised cost are carried under extraordinary amortisation / depreciation. On each balance sheet date, Delticom performs an impairment test for its intangible assets and property, plant and equipment to ascertain whether there are signs of impairment. If any such signs can be recognised, the recoverable amount is estimated in order to ascertain the amount of the impairment.

If the recoverable amount for an individual asset cannot be estimated, the estimate is performed at the level of the cash-generating unit to which the asset belongs. Extraordinary amortisation / depreciation is performed if the benefits accruing from the asset are lower than its carrying amount. The benefit accruing from an asset is the higher of the net selling price less costs of sale and the capitalised earnings value. The present value is given by the cash value of the cash flows to be allocated to the asset in future. If the reason for previous impairment no longer applies, the asset is written-up.

Capital risk management

The Group manages its capital with the aim of maximizing income for its stakeholders by optimizing the equity/borrowing ratio. This also serves the purpose of reducing the costs of procuring capital. This ensures that all of the companies in the Group can operate as a going concern.

In order to maintain or optimise its capitalisation, the Group must adjust the amount of its dividend payments, make capital repayments to shareholders, issue new shares or sell assets to reduce liabilities.

Notes to the income statement

(1) Revenues

Other income is carried under other operating income.

for the period from 01.01.2010 to 31.12.2010:

in € thousand	EU Countries	USA and others	Total
E-Commerce	319,618	84,079	403,697
Wholesale	13,256	2,624	15,880
Total	**332,874**	**86,703**	**419,577**

for the period from 01.01.2011 to 31.12.2011:

in € thousand	EU Countries	USA and others	Total
E-Commerce	351,406	104,241	455,647
Wholesale	20,266	4,097	24,363
Total	**371,673**	**108,338**	**480,010**

(2) Other operating income

in € thousand	2011	2010
Income from exchange rate differences	6,289	4,073
Insurance compensation	31	78
Book gains from the disposal of assets	36	3
Other	1,962	1,597
Total	**8,319**	**5,751**

Currency gains include gains from exchange rate changes between the time the transaction occurs and the date of payment and valuation on the balance sheet date. Currency losses from these translations are carried under other operating expenses.

(3) Cost of sales

The cost of sales amounted to € 348.4 million (previous year: € 300.1 million) result exclusively from the sale of trading goods.

(4) Personnel expenses

in € thousand	2011	2010
Wages and salaries	6,238	6,001
Social security contributions	955	780
Expenses for pensions and other benefits	32	23
Total	**7,225**	**6,804**

Statutory pension insurance in Germany is a defined contribution plan. As a result of statutory requirements, Delticom makes contribution payments to the statutory pension insurance scheme. Delticom does not have any additional obligations other than payment of contributions. The contributions, € 455 thousand (previous year: € 404 thousand) are recognised under personnel expenses when due.

In 2011, Delticom had an average of 116 employees (previous year: 101 employees).

(5) Amortisation of intangible assets and depreciation of property, plant and equipment

in € thousand	2011	2010
Intangible assets	191	194
Property, plant and equipment	1,911	1,100
Total	**2,101**	**1,295**

No extraordinary amortisation or depreciation was required from applying impairment tests (IAS 36).

(6) Other operating expenses

in € thousand	2011	2010
Transportation costs	37,432	34,544
Warehousing costs	5,094	4,505
Credit card fees	3,583	3,122
Bad debt losses and one-off loan provisions	1,003	1,640
Marketing costs	9,961	8,955
Operations centre costs	4,933	3,838
Rents and overheads	4,893	3,491
Financial and legal costs	2,734	2,761
IT and telecommunications	761	690
Expenses from exchange rate differences	5,791	4,776
Other	1,485	1,188
Total	**77,671**	**69,510**

The rental payments carried stem from a rental agreement for office premises and parking spaces in Brühlstrasse 11, Hanover and warehouses locations. The rental agreements meet the definition of an operating lease.

Future lease payments are discussed under "Other information".

(7) Financial result

in € thousand	2011	2010
Financial expenses	127	32
Financial income	128	134
Total	**0**	**102**

The financial result only contains interest for those financial instruments that were not measured at their fair value on the balance sheet.

(8) Income taxes

The income taxes recognised in income result from:

	2011			2010		
in € thousand	Germany	Abroad	Total	Germany	Abroad	Total
Current income taxes	16,251	257	16,507	15,371	157	15,528
Deferred income taxes	474	–65	409	–448	12	–436
Total	**16,724**	**192**	**16,916**	**14,923**	**169**	**15,092**
thereof out-of-period	5	–5	0	–165	–28	–192

In the year under review, income taxes of € –5 thousand (previous year: € –6 thousand) were carried directly under equity.

Deferred tax assets and liabilities are formed in connection with the following items and issues:

in € thousand	2011 Deferred tax assets	2011 Deferred tax liabilities	2010 Deferred tax assets	2010 Deferred tax liabilities
Loss carryforwards	215	0	154	0
Intangible assets	33	0	23	0
Property, plant and equipment	24	95	25	76
Inventories	28	324	88	224
Receivables	0	12	5	12
Financial assets	0	0	0	5
Cash an cash equvialents	0	0	0	0
Other assets	0	154	0	60
Provisions	40	0	41	0
Liabilities	0	146	107	125
Other equity and liabilities	159	0	334	108
Total	**499**	**731**	**778**	**609**
Balancing	–284	–284	–609	–609
Value on the balance sheet	**215**	**447**	**169**	**0**

The following overview shows the reconciliation of the anticipated tax result with the actual income tax result:

in € thousand	2011	2010
Profit before income taxes	52,945	47,721
Delticom AG income tax rate	31.82%	31.93%
Expected tax expense	**16,847**	**15,237**
Differences from anticipated income tax expense		
Adjustment to different tax rate	–19	–9
Non-capitalised deferred taxes on tax loss carryforwards	3	3
Capitalised deferred taxes on loss carryforwards	0	0
Non-deductible operating expenses	89	52
Non-period ongoing taxation	0	–192
Other tax effects	–4	0
Total adjustments	**69**	**–145**
Actual tax expense	**16,916**	**15,092**

The adjustment to the different tax rate is based on lower income tax rates for foreign subsidiaries. No deferred tax assets were formed for non-recoverable foreign loss carriedforwards totalling € 22 thousand; these can be carried forward for 5 years.

(9) Earnings per share

Basic earnings per share totalled € 3.04 (previous year: € 2.76). The diluted earnings per share totalled € 3.02 (previous year: € 2.73).

Pursuant to IAS 33, undiluted (basic) earnings per share are calculated by dividing the consolidated net income of € 36,029,174.25 (previous year: € 32,629,337.15) by the 11,844,751 weighted average number of ordinary shares in circulation during the financial year (previous year: 11,839,440 shares).

During the year under review, there were 15,810 potential shares (financial instruments and other agreements which entitle their holders to subscribe to ordinary shares) from the tranche dated 22.11.2007, 37,500 potential shares from the tranche dated 08.05.2008, 29,500 potential shares from the tranche dated 25.11.2008 and 15,000 potential shares from the tranche dated 30.03.2009.

The exercise prices for the tranches 22.11.2007, 08.05.2008, 25.11.2008 and 30.03.2009 were below the average share prices since the options were issued on 22.11.2007, 08.05.2008, 25.11.2008 and 30.03.2009. As a result all tranches are included in the diluted earnings per share.

The calculation of the diluted earnings per share was based (in accordance with IAS 33) on net income after taxes totalling € 36,029,174.25 (previous year: € 32,629,337.15) and the weighted average number of shares outstanding during the fiscal year and the number of potential shares from options totalling 11,945,250 shares (previous year: 11,945,250 shares).

Notes to the balance sheet

Non-current assets

(10) Intangible assets

in € thousand	Domains	Software	Total
Acquisition costs			
as of 1 January 2010	1,229	414	1,643
Additions	28	87	115
Disposals	8	0	8
Reclassifications	0	–1	–1
as of 31 December 2010	1,249	500	1,749
Accumulated depreciation			
as of 1 January 2010	232	213	445
Additions	62	132	194
Disposals	–2	0	–2
Reclassifications	0	0	0
as of 31 December 2010	292	346	637
Residual carrying amounts as of 31 December 2010	**957**	**154**	**1,112**

in € thousand	Domains	Software	Total
Acquisition costs			
as of 1 January 2011	1,249	500	1,749
Additions	3	110	113
Disposals	4	0	4
Reclassifications	0	0	0
as of 31 December 2011	1,248	610	1,858
Accumulated depreciation			
as of 1 January 2011	292	346	637
Additions	62	129	191
Disposals	–1	0	–1
Reclassifications	0	0	0
as of 31 December 2011	352	474	826
Residual carrying amounts as of 31 December 2011	**896**	**136**	**1,032**

(11) Property, plant and equipment

in € thousand	Land, similar rights and buildings incl. buildings on third party land	Technical machinery and equipments	Other equipment, factory and office equipment	Payments made on account	Total
Acquisition costs					
as of 1 January 2010	257	1,739	5,207	107	7,311
Additions	0	207	1,454	1,760	3,422
Disposals	0	–7	11	0	5
Foreign currency translation	–17	0	0	0	–17
Reclassifications	0	210	1	–210	1
as of 31 December 2010	240	2,150	6,651	1,657	10,699
Accumulated depreciation					
as of 1 January 2010	85	157	1,645	0	1,887
Additions	0	165	935	0	1,100
Disposals	0	4	9	0	13
Reclassifications	0	0	0	0	0
as of 31 December 2010	85	318	2,571	0	2,974
Amortised cost as of 31 December 2010	**155**	**1,832**	**4,079**	**1,657**	**7,724**

in € thousand	Land, similar rights and buildings incl. buildings on third party land	Technical machinery and equipments	Other equipment, factory and office equipment	Payments made on account	Total
Acquisition costs					
as of 1 January 2011	240	2,150	6,651	1,657	10,699
Additions	0	1,478	4,781	2,170	8,429
Disposals	0	–13	–8	0	–21
Foreign currency translation	–2	0	6	0	4
Reclassifications	968	1,971	866	–3,805	0
as of 31 December 2011	1,206	5,587	12,295	22	19,110
Accumulated depreciation					
as of 1 January 2011	85	318	2,571	0	2,974
Additions	6	334	1,571	0	1,911
Disposals	0	–9	–7	0	–16
Reclassifications	0	0	0	0	0
as of 31 December 2011	91	643	4,135	0	4,869
Amortised cost as of 31 December 2011	**1,115**	**4,944**	**8,160**	**22**	**14,241**

Property, plant and equipment includes office equipment for the leased offices in Brühlstrasse 11 in Hanover as well as packaging machines and warehouse equipment.

(12) Deferred taxes

Deferred tax assets amounting to € 215 thousand (previous year: € 154 thousand) will be realised after more than 12 months.

(13) Other non-current receivables

Receivables are primarily to Oberzolldirektion Bern (Upper Excise Office Bern, Switzerland) and the Eidgenössische Steuerverwaltung Bern (Swiss Tax Administration, Bern). These are converted at the exchange rate on the balance sheet date. The receivables are non-current.

Current assets

(14) Inventories

in € thousand	2011	2010
Tyres	92,762	42,220
Other accessories	707	493
Goods in Transit	13,023	9,514
Total	**106,492**	**52,227**

The goods in transit have partially already been resold on the key date. Stored goods totalling intended for sale via E-Commerce. Inventories are carried taking into account the agreed terms of delivery according to Incoterms 2000 and 2010.

During fiscal year 2011, € 253,712 thousand of inventories were carried as expenses (previous year: € 210,808 thousand). There were no write-downs and no write-ups during the assessment year. All inventories are free of pledges.

(15) Accounts receivable

in € thousand	2011	2010
Accounts receivable	10,146	10,928
thereof receivables with associated companies and related parties (category: persons in key positions)	2	424
thereof receivables with associated companies and related parties (category: not consolidated subsidiary companies)	350	0

in € thousand			Not written down and overdue since the following periods					
Trade receivables	Carrying amount	Overdue on balance sheet date and not written down	< 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Written down
as of 31.12.2011	10,146	2,878	2,408	263	86	92	29	418
as of 31.12.2010	10,928	2,940	2,710	146	39	35	9	283

The write-downs for trade receivables were as follows:

in € thousand	2011	2010
Write-downs – balance on January 1	**1,627**	**1,471**
Additions (expenses for write-downs)	999	1,532
Reversals	–177	–111
Expenses for writing off receivables	–1,499	–1,265
Write-downs – balance on December 31	**950**	**1,627**

in € thousand	2011	2010
Income from the receipt of written-off receivables	50	19

(16) Other current receivables

in € thousand	2011	2010
Refund claims from taxes	8,843	5,092
Credits with suppliers	653	582
Deferrals	349	288
Other cash an cash equivalents	505	1,009
Restricted cash	0	1,000
Other current receivables	510	218
Total	**10,860**	**8,189**

The other current receivables comprise € 483 thousand receivables from derivative financial instruments (previous year: € 187 thousand).

(17) Securities

Money market funds are carried under securities. They were sold in the year under review.

(18) Cash and cash equivalents

Bank balances which are exclusively current in nature, as well as cash in hand are reported as cash and cash equivalents.

Cash and cash equivalents are broken down as follows:

in € thousand	2011	2010
Cash	3	1
Bank balances	22,194	66,797
Total	**22,197**	**66,798**

Equity

(19) Subscribed capital

Following the IPO on 26.10.2006, the subscribed capital consisted of 3,946,480 ordinary no-par value registered shares (no-par shares), each with a proportionate interest of € 1.00 in the company's share capital. The subscribed capital tripled after the capital increase out of retained earnings and the resulting issuance of new shares, decided upon during the Annual General Meeting on 19.05.2009. The subscribed capital was increased by 8,000 shares on 06.05.2011 when Management Board member Frank Schuhardt exercised 8,000 option rights that entitled him to subscribe for 8,000 of the company's new no-par value registered shares. The share capital now amounts to € 11,847,440.00, and is split into 11,847,440 ordinary no-par value registered shares (no-par shares), each with a proportionate interest of € 1.00 in the company's share capital.

The regulations that authorize the Management Board to issue shares are set out in section 5 "Level and division of share capital" of the articles of incorporation of Delticom AG, and those concerning the repurchase of shares in Sections 71 ff. of the German Stock Corporation Act (AktG) and corresponding authorization resolutions passed by the Annual General Meeting.

The Ordinary Annual General Meeting of 03.05.2011 authorized the Management Board to increase the company's share capital, with Supervisory Board assent, until 02.05.2016 through issuing, once or on several occasions, a total of up to 5,919,722 new no-par registered shares against cash or non-cash capital contributions by total of up to € 5,919,720.00 *(Authorized Capital 2011)*. *Authorized Capital 2011* was entered in the commercial register on 10.06.2011. With the Supervisory Board's assent, the Management Board is authorized to exclude subscription rights for capital increases against non-cash capital contributions, and, in some instances, in the case of cash capital increases.

The Annual General Meeting of 30.08.2006 authorized the Management Board or the Supervisory Board in place of the Management Board to the extent that options are granted to members of the Management Board, to grant on one or several occasions up to 29.08.2011, options for the subscription of up to 100,000 new no-par value registered shares of the company to the members of the company‘s Management Board and its employees. By way of a resolution by the General Meeting on 30.08.2006, the company's share capital was conditionally increased by € 100,000.00 by issuing a total of up to 100,000 new no-par value registered shares *(Contingent Capital I/2006)*. *Contingent Capital I/2006* serves exclusively to grant shares to the holders of options issued by the company on the basis of the authorization granted by the General Meeting on 30.08.2006 for the granting of options. The *Contingent Capital I/2006* was entered in the commercial register on 01.09.2006.

On the occasion of the capital increase out of retained earnings, which had been decided on the the Annual General Meeting on 19.05.2009, the newly stock issues increased the *Contingent Capital I/2006* to € 300,000.00, proportionally with the share capital. The capital increase and the amendment of the articles of incorporation relating to the *Contingent Capital I/2006* was registered with the Hanover Local Court on 10.06.2009. *Contingent Capital I/2006* amounts to currently € 292,000.00 due to the exercise of 8,000 option rights that entitled Management Board member Frank Schuhardt to subscribe for 8,000 of the company's new no-par ordinary registered shares.

The Annual General Meeting of 03.05.2011 authorized the Management Board or the Supervisory Board in place of the Management Board to the extent that options are granted to members of the Management Board, to grant on one or several occasions up to 02.05.2016, options for the subscription of up to 300,000 new no-par value registered shares of the company to the members of the company‘s Management Board and its employees. The company's share capital is conditionally increased by up to € 300,000.00 through issuing up to 300,000 new no-par registered shares *(Contingent Capital I/2011)*. *Contingent Capital I/2011* serves exclusively to grant new shares to the holders of conversion or warrant rights that are issued pursuant to the aforementioned authorization resolution by Delticom AG. *Contingent Capital I/2011* was entered in the commercial register on 10.06.2011.

The Annual General Meeting on 03.05.2011 authorized the Management Board, with the approval of the Supervisory Board to issue on one or several occasions bearer or registered convertible bonds or bonds with warrants up to 02.05.2016 with a total nominal amount of up to € 200,000,000.00 with or without a limited duration and to grant the holders of these convertible bonds or bonds with warrants conversion rights or options to subscribe to a total of up to 5,300,000 no-par value registered shares of the company with a proportionate interest in the share capital totalling € 5,300,000.00 according to the details of the terms and conditions for the convertible bonds or bonds with warrants. This authorization may be exercised in whole or in part. In some instances, the Management Board is authorised, with the Supervisory Board's assent, to exclude shareholder subscription rights when issuing convertible or warrant bonds.

By way of a resolution by the General Meeting on 03.05.2011, the company's share capital was conditionally increased by up to € 5,300,000.00 by issuing up to 5,300,000 new no-par value registered shares *(Contingent Capital II/2011)*. *Contingent Capital II/2011* serves exclusively to grant new shares to the holders of conversion or warrant rights that are issued pursuant to the aforementioned authorization resolution by Delticom AG or by companies in which Delticom owns a direct or indirect majority interest. *Contingent Capital II/2011* was entered in the commercial register on 10.06.2011.

With an Annual General Meeting resolution of 11.05.2010, the company was authorised to acquire its own shares up to 10 % of the share capital existing when the resolution was passed. This authorisation is valid until 10.05.2015. The authorisation may be exercised in full or in part, on one or several occasions, for one or for several purposes by the company or by third parties for the company's account. The shares are acquired, at the Management Board's discretion, via the stock exchange or via a public purchase offer or via a public request to issue this type of offer.

The compensation per share paid for the acquisition of shares via the stock exchange (without incidental acquisition costs) may not be more than 10 % above or below the price identified in the XETRA trading system (or a comparable successor system) on the stock market day in the opening auction. If shares are acquire via a public purchase offer or a public request to issue a purchase offer, the offered purchase price or the thresholds for the offered purchase price range per share (without incidental acquisition costs) may not be more than 10 % higher or lower than the respective value of a share of the company. In the case of a public purchase offer, the relevant price is the price calculated by the closing auction in XETRA trading (or a comparable successor system) on the stock market trading day before the date when the offer is announced, and in the case of a public solicitation to issue a purchase offer, the price calculated by the closing auction in XETRA trading (or a comparable successor system) on the last stock market day before the date on which the company accepts the offers. If there are not insignificant differences between the relevant prices after the purchase offer is published, the offer can be adjusted.

The Management Board is authorised to utilise the acquired treasury shares for all statutorily permissible purposes. In particular, it may withdraw and cancel the shares, sell them in return for non-cash payments, dispose of them by means other than the stock market or through an offer to shareholders, or offer them to employees of the company or its Group companies for purchase, or offer them to holders of subscription rights to satisfy the company's obligation arising from the stock option plan that was set up pursuant to the Annual General Meeting resolution of 30.08.2006. Shareholders' subscription rights can be excluded under certain conditions.

(20) Share premium

The share premium contains the amounts generated in excess of the nominal value when issuing no-par value bearer shares and the expenses resulting from the stock options plan.

The share premium account was increased by € 89,840 shares on 06.05.2011, when Management Board member Frank Schuhardt exercised 8,000 option rights that entitled him to subscribe for 8,000 of the company's new no-par value registered shares.

In the context of a **stock option program** Delticom AG has granted a member of the Management Board equity-settled options. This commitment is based on the option conditions dated 09.08.2007. As a rule, the options can be exercised in a six-week period in each case after the announcement of the final quarterly results or the final results of the previous fiscal year. Exercising an option is conditional upon the unweighted average of the closing price of the company's shares on the five stock market days prior to the first day of the respective exercise period in which the option was exercised being at least 120 % of the exercise price.

	4th tranche	3rd tranche	2nd tranche	1st tranche
Date of issuance	30.03.2009	25.11.2008	08.05.2008	22.11.2007
Term	10 years	10 years	10 years	10 years
Blackout period	2 years	2 years	2 years	2 years
Exercise price	€ 12.88	€ 12.23	€ 13.19	€ 19.81
Number of options issued	15,000	37,500	37,500	15,810
Number of exercised options issued	0	8,000	0	0
Number of expired options issued	0	0	0	0
Outstanding on 31.12.2011	15,000	29,500	37,500	15,810
Excersisable on 31.12.2011	15,000	29,500	37,500	15,810

The options' fair values were calculated using a binomial model. In so doing, possible developments in Delticom AG's share price were modelled using a binomial decision tree. The expected volatility was calculated on the basis of historic stock prices of Delticom AG shares. The expected maturity relates to the remaining time to the expiration of the contract of the Board member. The risk-free interest rate was calculated on the basis of a (hypothetical) default-free zero coupon bond without for the appropriate times to maturity.

	4th tranche	3rd tranche	2nd tranche	1st tranche
Fair value per option on the date granted	€ 3.18	€ 3.27	€ 3.75	€ 6.47
Total fair value of the options totaled on the date granted	€ 47,700.00	€ 122,500.00	€ 140,750.00	€ 102,291.00
Expenses from the stock option program to be taken into account in fiscal year 2011	€ 5,952.00	€ 0.00	€ 0.00	€ 0.00
Expected time to maturity of issued stock options	3.36 years	3.70 years	4.25 years	4.71 years
Expected annual dividend yield	5.00%	5.00%	5.00%	3.00%
Risk-free interest rate	1.80%	2.57%	4.31%	3.90%
Stock price at issue date	€ 13.63	€ 12.83	€ 13.41	€ 19.65
Exercise price	€ 12.88	€ 12.23	€ 13.19	€ 19.81
Expected volatility	42.00%	44.00%	45.00%	45.00%

(21) Gains and losses recognised directly in equity

The accounting currency translation differences for the subsidiaries Delticom Tyres Ltd. and NETIX S.R.L. and Delticom North America Inc. were transferred to the adjustment item for currency translation.

The revaluation reserve from financial instruments totals € 0 thousand (previous year: € 10 thousand). The reduction has its reason in the realisation of the gains from disposal of the securities in income.

(22) Retained earnings

Retained earnings exclusively comprise the legal reserve, which Delticom AG must form according to Section 150 of the German Stock Corporation Act (AktG).

(23) Net retained profits

Profits carried forward are included in the consolidated net retained profits. The changes can be seen in the statement of changes in shareholders' equity.

Liabilities

(24) Finanical liabilities

The financial liabilities comprise a medium-term annuity loan and the utilization of short-term credit lines.

(25) Provisions

Provisions had the following breakdown:

in € thousand	01.01.2011	Taken up	Reversal	Additions	31.12.2011
Provisions for taxes	6,179	6,179	0	3,839	3,839
Other non-current provisions	45	15	0	0	30
Other provisions	2,200	543	3	1,068	2,721
Total	**8,424**	**6,737**	**3**	**4,906**	**6,590**

Among other items, other provisions include costs for anticipated cancellations of E-Commerce customer orders which will be returned within the right-of-return period, waste disposal fees that have yet to be paid, and litigation expenses. Other current receivables and provisions for taxes are due within less than one year. Non-current provisions are due in more than one year.

Non-current provisions are used to carry the costs of fulfilling the statutory archive requirements for business documents. The discount rate is 5.5 % (previous year: 5.5 %).

Provisions for taxes mostly relate to income taxes for the year under review and are not discounted.

(26) Deferred tax liabilities

Deferred tax liabilities are realized after more than 12 months in the amount of € 39 thousand (previous year: € 0 thousand)

(27) Trade accounts payable

in € thousand	2011	2010
Accounts payable	68,250	53,615
thereof liabilities with associated companies and related parties (category: persons in key positions)	125	51
thereof liabilities with associated companies and related parties (category: not consolidated subsidiary companies)	97	0

All trade accounts payable have a remaining term of up to one year.

(28) Additional notes concerning financial instruments

Book values, carrying amounts and fair values by measurement category:

in € thousand	Valuation categories acc. to IAS 39	**Book Value 31.12.10**	Balance sheet valuation according to IAS 39: amortized cost	Balance sheet valuation according to IAS 39: Fair value not affecting income	Balance sheet valuation according to IAS 39: Fair value – affecting income	**Fair Value 31.12.10**
Assets						
Cash and cash equivalents	LaR	66,798	66,798			66,798
Accounts receivable	LaR	10,928	10,928			10,928
Other receivables	LaR	1,509	1,509			1,509
Other original financial assets						
Loans and receivables	LaR	1,000	1,000			1,000
Available for Sale Financial Assets	AfS	1,854		1,854		1,854
Derivative financial assets						
Derivates not used for hedging (Held for Trading)	FAHfT	187			187	187
Liabilities						
Accounts payable	FLAC	54,496	54,496			54,496
Other current liabilities	FLAC	3,045	3,045			3,045
Derivative financial liabilities						
Derivates not used for hedging (Held for Trading)	FLHfT	629			629	629
Thereof cumulated according valuation categories IAS 39						
Loans and receivables (LaR)		80,235	80,235			80,235
Available for Sale Financial Assets (AfS)		1,854		1,854		1,854
Financial Assets Held for Trading (FAHfT)		187			187	187
Financial liabilities measured at amortised cost (FLAC)		57,546	57,546			57,546
Financial Liabilities Held for Trading (FLHfT)		629			629	629

in € thousand		**Book Value 31.12.11**				**Fair Value 31.12.11**
Assets						
Cash and cash equivalents	LaR	22,197	22,197			22,197
Accounts receivable	LaR	10,146	10,146			10,146
Other receivables	LaR	1,024	1,024			1,024
Other original financial assets						
Available for Sale Financial Assets	AfS	825		825		825
Derivative financial assets						
Derivates not used for hedging (Held for Trading)	FAHfT	483			483	483
Liabilities						
Accounts payable	FLAC	68,250	68,250			68,250
Other current liabilities	FLAC	1,829	1,829			1,829
Other original financial liabilities	FLAC	4,394	4,394			4,394
Derivative financial liabilities						
Derivates not used for hedging (Held for Trading)	FLHfT	87			87	87
Thereof cumulated according valuation categories IAS 39						
Loans and receivables (LaR)		33,367	33,367			33,367
Available for Sale Financial Assets (AfS)		825		825		825
Financial Assets Held for Trading (FAHfT)		483			483	483
Financial liabilities measured at amortised cost (FLAC)		74,473	74,473			74,473
Financial Liabilities Held for Trading (FLHfT)		87			87	87

Net profits and losses from financial instruments are as follows:

in € thousand	2011	2010
Loans and receivables (LaR)	–1,537	–234
Available for Sale Financial Assets (AfS)	27	26
Financial Assets and Liabilities Held for Trading (FAHfT + FLHfT)	368	–926
Financial liabilities measured at amortised cost (FLAC)	233	–810
thereof interests	–40	0
Sum	–909	–1,943

The fair value of cash and cash equivalents, short-term receivables, trade payables as well as other short-term assets and liabilities approximately corresponds to the book value, due to the short time to maturity. The fair value of the subsidiary Tyrepac Pte. Ltd., Singapore, corresponds at the balance sheet date to acquisition costs. The book value of the derivative financial instruments equals the fair value.

The maximum default risk can be seen from the carrying amount of each financial asset in the balance sheet, including derivative financial instruments, excluding the impairments on these assets on the balance sheet date. As the counterparties for the derivatives are well-known banks, the Group's management believes that those will be able to fulfil their obligations.

The financial instruments in category *available for sale* total € 825 thousand, in category *assets held for trading* total € 483 thousand and those designated to the category *liabilities held for trading* total € 87 thousand. We have classified this three times in the fair value hierarchy level 2.

A classification of level 2 has the necessary condition that there is a comparable financial instrument which is priced on the stock exchange. If not, at least if must be possible to objectively derive the parameters needed to calculated the value from other regulated markets. Financial instruments where significant input parameters into the valuation method cannot be based on observable markets (level 3 of the fair value hierarchy) were not held.

Net profits and losses from *loans and receivables* comprise changes in the write-downs, effects on net income due to disposals, reversals of impairment losses recognised in profit or loss of the loands and receivables, as well as effects from currency translation.

Net profits from *assets available-for-sale* comprise the changes in value amounting to € 12 thousand (previous year: € 4 thousand), accounted for in the other operating income. In addition, the net profits from assets in that category contain changes in the revaluation reserve of € –27 thousand (previous year: € –22 thousand) which are recognised in the income statement on the occasion of selling those securities.

Net profits and losses from financial assets and liabilities *held-for-trading* contain changes in market value of those derivative financial instruments where we do not employ hedge accounting, as well as profits and losses at maturity in the course of the year.

Net profits and losses from *financial liabilities carried at amortised cost* arise from gains or losses from the disposal, from currency translation or financial liabilities.

(29) Other current liabilities

These mostly relate to advance payments received, customer credit balances, VAT, social insurance contributions, and payroll and church taxes. In addition, liabilities were recognised using best possible estimates.

This balance sheet item also contains € 87 thousand of liabilities arising from derivative financial instruments (previous year: € 629 thousand).

All current liabilities are due within one year.

in € thousand	2011	2010
Sales tax (VAT)	5,089	5,582
Payments received on account of orders	2,768	5,268
Customer credits	1,826	3,045
Social security contributions	7	7
Income and church tax	105	92
Current accounts	0	4
Other current liabilities	1,408	1,968
Total	**11,202**	**15,967**

Other notes

Contingent liabilities and other financial commitments

There were no contingent liabilities from issuing or transferring checks and bills of exchange and the issue of guarantees, warranties or other securities for third parties.

The key financial liabilities comprise:

in € thousand	2011	2010
Order commitments for goods	18,441	9,118
Other financial commitments	51,371	54,623
Total	**69,813**	**63,741**

Delticom rents office premises and parking spaces in Brühlstrasse 11, Hanover, as well as warehouses for trading goods in 4 locations. The rental agreement meet the definition of an operating lease according IAS 17.3. The agreement for the office premises in Brühlstr. 11 runs until 31.12.2017. The agreements for the warehouses run until 31.01.2012, 31.12.2015, 31.03.2019 and 31.07.2023.

In addition, there are operating leases for four cars. The car leases end in June, July and September 2014 after a 36-month term.

The future accumulated minimum lease payments from these operating leases total:

in € thousand	2011	2010
up to one year	5,726	4,557
2 years to 5 years	22,034	22,013
more than 5 years	20,529	26,150
Total	**48,289**	**52,720**

Accounting for derivative financial instruments

Delticom uses derivative financial instruments for operational hedging purposes only. The derivatives do not fulfil the conditions for hedge accounting within the meaning of IAS 39.71 ff. All derivatives are carried at their fair values. The valuation is performed taking into account current ECB reference rates and forward premiums and discounts.

The remaining maturities of the forward exchange transactions were all less than 4 months on the balance sheet date (previous year: 12 months).

Risk Management

For the principles of risk management we refer to section *Risk Report* in the Management Report.

Currency risk

Delticom has international operations, which means that the company is exposed to market risks as a result of changes in foreign exchange rates. Currency risks result primarily from holdings of cash and cash equivalents and trade payables and receivables. To reduce theses risks Delticom uses derivative financial instruments. The company hedges purchase agreements in foreign exchange (mostly USD). These contracts are either used to stock up the company's own warehouses or to match a corresponding sale transaction in EUR. If needed, the Wholesale division hedges sales contracts in foreign currencies. Purchase contracts denominated in foreign exchange which match sales contracts in the same currency are not hedged. Sales contracts in foreign exchange from operations in the E-Commerce division are not hedged.

In order to illustrate market risks, IFRS 7 calls for sensitivity analyses which show the impact of hypothetical changes in relevant risk factors on the results and the equity position. Currency risks within the meaning of IFRS 7 arise from holding assets and liabilities denominated in foreign exchange.

The following table shows the positive and negative impact of changes of 10 % up or down in the value of the various currencies compared to the Euro. The information provided is to be understood as results before tax.

Currency	1 Euro = unit FX (as of 31.12.2011)	Result +10% in thousand €	Result -10% in thousand €
CHF	1.2162	–326	348
DKK	7.4342	–9	10
GBP	0.8372	–216	97
RON	4.3326	–6	7
SEK	8.9189	–78	69
USD	1.2938	274	–1,430
Others	N/A	–27	26

Interest rate risk

For cash and cash equivalents there exists a cash flow risk from the interest earned on the holdings. Due to the low level of interest rates the sensitivities were calculated by a parallel movement of the yield curve by 50 basis points. For the scenario of an increase of the interest rates by 50 basis points the holdings would earn € 75 thousand, for a downward move of 50 basis points they would lose € 75 thousand. In relation to the amount of cash and cash equivalent held, the interest-rate sensitivity is low. The reason for that is that most of the cash is carried in accounts which do not bear interest.

Liquidity risk

Delticom defines liquidity risk as the risk to fail on existing or future payment obligations as a result of a lack of availability of cash and cash equivalents. Liquidity risk is managed centrally within the Delticom Group. A sufficient amount of cash and cash equivalents are always kept available in order to be able to meet all planned payment obligations throughout the Group on their respective due dates. In addition, a liquidity reserve is maintained for unplanned lower receipts or additional expenditure.

Liquidity is mostly held in the form of call money and fixed-term deposits as well as money-market funds. In addition, bank credit lines are also available.

Credit risk

In its Wholesale division, Delticom supplies tyres and rims to retail companies with varying creditworthiness. There can be temporary concentrations of risk for some customers, which could depress the Group's earnings position and liquidity situation. Delticom has therefore negotiated credit insurances and uses commission business for certain customers. These instruments restrict the financial impact on the company and eliminate any dangers to its going concern. The total credit-insured gross receivables in the Wholesale division amounted to € 2,042 thousand (previous year: € 2,348 thousand). For the E-Commerce division they totalled € 170 thousand (previous year: € 224 thousand). The deductibles for credit-insured receivables lie between 20 % and 25 %.

Related party disclosures

For information on persons in key positions please see the information provided in "Executive bodies of the company".

A list of all the subsidiaries included in the consolidated financial statements can be found in the sections on the *Group of consolidated companies*. Transactions between the company and its full cosolidation subsidiaries were eliminated during consolidation and are not discussed in these notes.

The following are shareholders with a significant influence on the Group within the meaning of IAS 24:

- Binder GmbH (number of shares 3,137,058, 26.48 % interest)
- Prüfer GmbH (number of shares 3,429,769, 28.95 % interest)

The interest in Delticom AG in terms of Section 22 I S. 1 Nr. 1 WpHG (Securities Act) for Binder GmbH can be attributed to Rainer Binder (CEO), Hanover, and for Prüfer GmbH to Andreas Prüfer (Chairman of the Supervisory Board), Hanover. In addition, Binder GmbH and Prüfer GmbH have entered in a pool contract in terms of Section 22 II S. 1 WpHG.

Sale of goods

in € thousand	2011	2010
to associated companies and related parties (category: persons in key positions)	623	2,381
to associated companies and related parties (category: not consolidated subsidiary companies)	817	0

Purchase of goods

in € thousand	2011	2010
from associated companies and related parties (category: persons in key positions)	1,279	1,027
from associated companies and related parties (category: not consolidated subsidiary companies)	203	0

All transactions with related parties are conducted at arms-length.

Executive bodies

The company's executive bodies are the General Meeting, the Supervisory Board and the Management Board.

2011 the **Management Board** had the following members:

- Rainer Binder, Hanover: CEO, Wholesale, procurement, pricing and marketing
- Philip von Grolman, Hemmingen: logistics, North America, IT/software development
- Frank Schuhardt, Hannover: finance, controlling, investor relations and operations center

The Management Board's remuneration comprises a non-performance related component, a performance-related component, and a component which acts as a long-term incentive.

	Non-performance related compensation		Performance-related compensation		Long-term incentive	
in € thousand	2011	2010	2011	2010	2011	2010
Rainer Binder	300	350	275	239	0	0
Philip von Grolman	127	128	137	119	0	0
Frank Schuhardt	210	210	137	362	0	0

During fiscal year 2011, the **Supervisory Board** was composed as follows:

- Andreas Prüfer, entrepreneur, Hanover: Member of the Supervisory Board and Chairman.
- Alan Revie, entrepreneur, Hamilton / UK: Member of the Supervisory Board
- Michael Thöne-Flöge, entrepreneur, Peine: Deputy Chairman of the Supervisory Board

In fiscal year 2011, remuneration totalled € 35 thousand (previous year: € 35 thousand) for Andreas Prüfer, € 10 thousand (previous year: € 10 thousand) for Michael Thöne-Flöge and € 5 thousand (previous year: € 5 thousand) for Alan Revie.

Dividend

The General Meeting on 03.05.2011 resolved to pay a dividend in the amount of € 32,203,276.80 from Delticom AG's 2010 net retained profits (€ 2.72 per share, previous year € 1.70 per share) and to carry forward the remaining amount of € 785,992.10 to new account.

Proposal for the appropriation of profits

The Management Board proposes to distribute an amount of € 34,949,948.00 or € 2.95 per share from Delticom AG's net retained profits of € 35,632,279.62, carrying € 682,331.62 forward to new account.

Shareholdings

Name, registered office, country	Fixed capital interest % 2011	2010
Delticom Tyres Ltd., Oxford, United Kingdom	100	100
NETIX S.R.L., Timisoara, Romania	100	100
Reifendirekt GmbH, Hanover, Germany	100	100
Delticom North America Inc., Wilmington, Delaware, USA	100	100
Pnebo Gesellschaft für Reifengroßhandel und Logistik mbH, Hanover, Germany	100	100
Tyrepac Pte. Ltd., Singapur	50.9	50.9
Hongkong Tyrepac Ltd., Hongkong	50.9	0

Auditor's fees

In fiscal years 2011 and 2010, the following fees were recorded for the auditor Pricewaterhouse Coopers AG Wirtschaftsprüfungsgesellschaft, Hannover:

in € thousand	2011	2010
Audits of the financial statements	76	73
Other confirmation and valuation services	24	24
Tax consultancy services	11	11
Other services	5	20
Total	**116**	**128**

Declaration of conformity on the application of the recommendations of the German Corporate Governance Code Government Commission

The Managing and Supervisory Boards issued the declaration required by Section 161 of the German Stock Corporation Act (AktG) on 18.03.2011, and made accessible to shareholders on our Web site: www.delti.com.

Notes to the cash flow statement

The consolidated cash flow statement was prepared according to IAS 7. The cash flow statement allows an assessment of the Group’s ability to generate cash and cash equivalents. The cash flows are broken down into cash flows from operating activities, investing activities and financing activities. The cash flows from operating activities are presented using the so-called indirect method, in which the net income is adjusted by non-cash items. Cash and cash equivalents comprises cash and bank balances. In addition to these, the liquidity position also includes securities.

Responsibility Statement

To the best of our knowledge, we declare that, according to the principles of proper interim consolidated reporting applied, the interim consolidated financial statements provide a true and fair view of the company‘s net assets, financial position and results of operations, that the interim consolidated management report presents the company‘s business including the results and the company‘s position such as to provide a true and fair view and that the major opportunities and risks of the company‘s anticipated growth for the remaining financial year are described.

Hanover, 08 March 2012

(The Management Board)

Auditors' Report

Translation of the auditor's report issued in German language on the consolidated financial statements prepared in German language by the management of Delticom AG, Hanover.

We have audited the consolidated financial statements prepared by the Delticom AG, Hanover, comprising the income statement, the statement of recognised income and expenses, the balance sheet, cash flow statement, statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the business year from 01 January 2011 to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hanover, 08 March 2012

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Helmuth Schäfer	ppa. Thomas Monecke
German Public Auditor	German Public Auditor

Abridged Financial Statements of Delticom AG (HGB)

Balance Sheet

Assets

in € thousand	31.12.2011	31.12.2010
Fixed assets	**18,732**	**10,669**
Intangible assets	998	1,059
Property, plant and equipment	12,678	6,493
Financial assets	5,056	3,117
Current assets	**143,594**	**133,945**
Inventories	102,850	50,578
Accounts receivable	9,495	10,070
Receivables from affiliated companies	349	3,093
Other receivables and other assets	10,135	7,790
Securities	0	1,022
Cash and cash equivalents	20,765	61,393
Deferred item	**335**	**271**
Deferred taxes	**146**	**287**
Assets	**162,807**	**145,171**

Shareholders' Equity and Liabilities

€ thousand	31.12.2011	31.12.2010
Equity	**72,630**	**69,914**
Subscribed capital	11,847	11,839
Share premium	24,951	24,861
Retained earnings	200	224
Balance sheet profit	35,632	32,989
Provisions	**9,118**	**10,947**
Provisions for taxes	3,571	5,975
Other Provisions	5,547	4,972
Liabilities	**81,012**	**64,288**
Liabilities to banks	4,394	4
Payments received on account of orders	2,617	4,619
Accounts payable	65,698	51,350
Payables to affiliated companies	2,335	711
Other liabilities	5,967	7,603
Deferred item	**47**	**23**
Shareholders' Equity and Liabilities	**162,807**	**145,171**

Income Statement

in € thousand	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Revenues	**465,197**	**407,774**
Other operating income	10,481	8,256
Cost of goods sold	–340,588	–293,516
Personnel expenses	–7,155	–6,635
Depreciation	–2,127	–1,301
Other operating expenses	–74,769	–67,207
Income from participating interests	174	125
Other interest received and similar income	128	134
Paid interest and similar expenses	–127	–25
Result from ordinary business activities	**51,213**	**47,606**
Taxes on income and profit	–16,391	–15,109
Annual surplus	34,822	32,498
Profit carried forward	786	492
31.12.1899	24	0
Balance sheet profit	**35,632**	**32,989**

Financial Calendar

19.04.2012	Publication of provisional Q1 figures
30.04.2012	Annual General Meeting 2012
10.05.2012	3-monthly report 2012
19.07.2012	Publication of provisional H1 figures
09.08.2012	6-monthly report 2012
18.10.2012	Publication of provisional 9M figures
08.11.2012	9-monthly report 2012
12.–14.11.2012	German Equity Forum Frankfurt

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