DELTICOM Aktiengesellschaft

# Annual Report 2006

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# Key group figures

| | | 2004 | 2005 | **2006** | 2004-05 | **2005-06** |
|---|---|---|---|---|---|---|
| Revenues | € million | 80,1 | 129,2 | 173,1 | +61,3 % | +34,0 % |
| Total operating revenue | € million | 80,5 | 129,8 | 174,1 | +61,2 % | +34,1 % |
| Gross profit margin 1) | % | 20,7 | 22,2 | 23,5 | +7,2 % | +5,9 % |
| Earnings before interest and taxes (EBIT) | € million | 3,3 | 5,7 | 10,2 | +72,7 % | +78,9 % |
| EBIT margin 2) | % | 4,2 | 4,4 | 5,9 | +4,8 % | +34,1 % |
| Earnings before taxes (EBT) | € million | 3,4 | 5,6 | 10,4 | +64,7 % | +85,7 % |
| Cash flow 3) | € million | 3,5 | 5,8 | 10,6 | +65,7 % | +82,8 % |
| Consolidated net income | € million | 2,1 | 3,3 | 6,3 | +57,1 % | +90,9 % |
| Earnings per share | € | 0,71 | 1,11 | 1,97 | +56,3 % | +77,5 % |
| Intended disbursement | € million | 1,7 | 3,1 | 4,7 | +82,4 % | +51,6 % |
| Customers 4) | thousand | 399 | 758 | 1.248 | +90,0 % | +64,6 % |
| Employees 5) | | 40 | 48 | 62 | +20,0 % | +29,2 % |
| Equity ratio | € million | 31,7 | 30,8 | 62,7 | -2,8 % | +103,6 % |

1) Gross profits as percentage of total operating revenue
2) EBIT as percentage of revenues
3) Result from ordinary activities plus amortization/depreciation
4) Registered, active customers
5) Average number in business

# Index

Andreas Prüfer and Rainer Binder (Managing Board members)

# To our shareholders

## Letter to shareholders

Dear Delticom AG shareholders,

Fiscal year 2006 was a great success for Delticom: we were able to continue the strong, profitable growth we have enjoyed over the past few years. Delticom improved its sales year-on-year by 34.0 % to € 173.1 million and EBIT to € 10.2 million (+78.9 %). As a result of the above-average increase in profits, our return on sales (based on EBIT) increased from 4.4 % to 5.9 %.

Q4 generally brings the strongest sales, and we recorded revenues of € 64.2 million in the fourth quarter of 2006. This corresponds to an increase of 45.4 % compared to Q4 2005 (€ 44.2 million). That makes the last quarter of fiscal year 2006 the most successful in Delticom's history. As forecast, this pleasing growth was primarily driven by our eCommerce division. Thanks to our more than 490,000 new customers and 109,500 repeat customers, we recorded revenues during the year as a whole in our eCommerce division totaling € 155.2 million, up 42.2 % on the previous year (2005: € 109.2 million) with this division accounting for 89.7 % of total sales compared to 84.5 % in the previous year. This positive trend is primarily due to Delticom's employees, and also to our partners in the logistics chain, at our Operation Centers and our suppliers – it was only possible to achieve these results thanks to the concerted efforts of everyone involved.

In addition to its excellent figures, Delticom also took a further, very pleasing, key step on the ladder to success. We became Germany's first listed tire sales company when we went public in the Prime Standard on October 26, 2006. Delticom's financial structure is healthy to the core, and forms a solid foundation for our continued, sustained and successful growth. We would like to thank our shareholders who have invested in our business model, in the many people involved and in Delticom's future prospects. We are happy to be able to pay back a little of the trust you have placed in us just a few months after our initial listing. Although the number of shares is up 27.5 % as a result of the capital increase, and Delticom had to bear extraordinary costs during the IPO, the Managing and Supervisory Boards will propose to the General Meeting on May 16, 2007, that a dividend of € 1.20 per share be paid (up 20.0 % year-on-year).

Business got off to a good start in the first few months of 2007, and the outlook for fiscal year 2007 is positive. One of the key reasons for this is our continued international expansion. Delticom already enjoyed strong growth in the rest of Europe in 2006, with revenues up 44.5 % year-on-year. The increasing international diversification reduces the risks associated with the seasonal cycle in the tire business. This makes Delticom more independent of extraordinary effects on the German market. As a result we were able to generate record Q4 results despite the unfavorably warm weather in Germany at the end of the year.

The tasks that we face are demanding. The international online tire market still offers a lot of potential. Delticom's Managing Board and employees will continue to work – with a great deal of commitment, passion and creativity – on the success of your company, Delticom AG.

Hanover, March 2007

The Managing Board

Rainer Binder

Andreas Prüfer

# Review and supervision report by the Supervisory Board of Delticom AG for fiscal year 2006

Dear shareholders,

Hanover-based Delticom AG has been listed in Frankfurt Stock Exchange's official market (Prime Standard) since October 26, 2006. This report is thus the first review and supervision report by the Supervisory Board since the company's IPO.

## Composition of the Supervisory Board

According to the company's articles of incorporation, the Supervisory Board comprises three members and has not formed any committees. The Supervisory Board was newly appointed via a resolution by Hanover Local Court on March 31, 2006 and then by the General Meeting on August 30, 2006. Since that date, the Supervisory Board has the following members:

- Mr. Peter Stappen, Chairman
- Mr. Bernhard Schmid, Deputy Chairman
- Mr. Alan Revie

## Number of meetings

During the past fiscal year 2006, the Supervisory Board held four ordinary meetings on July 14, August 23, September 19 and November 21, 2006, and discussed in detail the company's economic and financial position and its fundamental business policy based on verbal and written reports by the Managing Board. The Managing Board reported regularly between the meetings on the course of business. There were additional non-scheduled meetings in particular in connection with preparations for and the implementation of the IPO. In its meetings on April 7, May 19, June 20 and August 30, 2006 and resolutions passed on August 1 and 9, 2006, for example resolutions passed by the Supervisory Board were cured by being new resolutions being passed, and agreements on the adjustment of shareholdings were agreed. In telephone meetings the Supervisory Board approved, for example, a cancellation agreement on October 13, 2006, the necessary capitalization activities and acquisition agreements on October 24, on October 22, 2006 it approved the price range and on October 26, 2006 it approved the Managing Board's resolution on the issuing price.

### Review of transactions with approval requirements and viewing of documents

In order to ensure that the Managing Board informs the Supervisory Board at all times of such issues and company transactions that do or could materially impact the company's situation, profitability or liquidity, modified laws were issued for the Managing Board prior to the IPO that allow the Managing Board to only conduct certain types of transactions with the Supervisory Board's approval. The by-laws also stipulate in greater detail the Managing Board's information and reporting obligations. These by-laws were updated once again in the Supervisory Board's meeting on October 13, 2006 and modified to bring these into line with the situation after the IPO.

### The Supervisory Board's duties

During the past fiscal year, the Supervisory Board performed its tasks according to the law and articles of incorporation. It regularly advised and supervised the Managing Board, and was included in making decisions of fundamental importance to the company. In fiscal year 2005, the Managing Board regularly provided the Supervisory Board with prompt and comprehensive information on all issues of forecasting, business growth, the risk position, risk management, strategic activities and key business transactions that were of relevance to the company. In monitoring the company's management, the Supervisory Board used the annual budget passed for fiscal year 2006 for orientation, and had the Managing Board report, in particular, report on business policy and company forecasting, profitability, the course of business and key individual company activities. The Supervisory Board received information in all of its ordinary meetings during fiscal year 2006 on the status of the company's general developments as well as individual details of developments in the company's operating business. In addition, outside the meetings of the Supervisory Board the Managing Board provided the Supervisory Board with information which was also discussed and reviewed by the Supervisory Board.

### Corporate Governance

The Supervisory and Managing Boards are aware that excellent corporate governance is in the interests of our shareholders and that it forms key foundations for the company's success on the capital market. In April 2007, the Managing and Supervisory Boards issued the annual declaration of conformity according to Section 161 of the AktG. The Managing and Supervisory Boards have undertaken to implement the recommendations of the German Corporate Governance Code to the corresponding extent. There were no conflicts of interests for Supervisory Board members in 2006.

The information to be newly included in management reports according to Sections 289 (4) and 315 (4) of the HGB as a result of the Übernahmerichtlinie-Umsetzungsgesetz (Takeover Guidline Implementation Act) is to be discussed by the Supervisory Board according to Section 171 (2) sentence 2 of the AktG. After going public on October 26, 2006, Delticom's subscribed capital comprises 3,946,480 no-par value registered shares, each with a proportionate interest of € 1 in the company's share capital and full profit participation rights from January 1, 2006. The existing shareholders have undertaken not to directly or indirectly offer any shares of the company or to take any other measures which are the economic equivalent of a sale for six months or, for Binder GmbH and Prüfer GmbH, twelve months after the initial listing without the written consent of the syndicate banks. The shareholders Binder GmbH and Prüfer GmbH each hold a 26.05 % interest and are the only shareholders with an interest of more than 10 %. The appointment and dismissal of members of the Managing Board and changes to the articles of incorporation are based on the provisions of the Aktiengesetz and are stipulated in further detail in the articles of incorporation. The articles of incorporation also regulate the conditions under which the Managing Board is authorized to issue or buy back shares of the company.



### Audit of the 2006 annual financial statements

The annual financial statements of Delticom AG prepared by the Managing Board according to the regulations of the Handelsgesetzbuch (HGB – German Commercial Code) and the consolidated financial statements of the Delticom group and the respective management report for fiscal year 2006 including the accounting were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Fuhrberger Straße 5, 30625 Hanover, and were each issued an unqualified auditor's opinion. The Supervisory Board was aware of these auditors' reports and reviewed the annual financial statements prepared by the Managing Board, the consolidated financial statements, the dependent company report and the single-entity and group management reports, and the Managing Boards proposal for the appropriation of net retained profits.

In the Supervisory Board's financials meeting on April 3, 2007, the Supervisory Board had the Managing Board discuss the company's annual financial statements as of December 31, 2006 that were to be approved in connection with the discussion of the annual financial statements, and received a report on profitability, in particular the company's equity, as well as the course of business and the company's situation. All of the Supervisory Board members received the necessary documents prior to this meeting. The auditor attended this meeting and provided comprehensive information on the audit reports and in-depth answers to the questions by the Supervisory Board members. The Supervisory Board concurred with the auditor's report. There are no concerns regarding the auditor's independence. The Supervisory Board concurred in full with the auditor's findings. After an in-depth review, the Supervisory Board does not believe that there is any reason to raise objections to the management or the annual financial statements prepared by the Managing Board. As a result, the Supervisory Board thus approved the annual financial statements of Delticom AG and the consolidated financial statements of the Delticom Group in its meeting on April 3, 2007. The financial statements of Delticom AG are thus adopted. The Supervisory Board approved the Managing Board's proposal for the appropriation of net retained profits.

In addition, in line with Section 312 of the AktG, the Managing Board prepared a report on affiliated companies for the period from October 26 to December 31, 2006. The auditor audited this report and informed the Supervisory Board of the results of the audit both in writing and verbally in the Supervisory Board meeting on April 3, 2007. The Supervisory Board reviewed the report for completeness and correctness and dealt with the auditor's findings. The audit did not give any grounds for complaint. As a result, the Supervisory Board had no objections to the Managing Board's closing statement in its report within the meaning of Section 312 of the AktG, and thus concurred with the auditor's findings.

The Supervisory Board would like to thank the Managing Board and all of the company's employees for their work with the company and their dedication, and congratulates them on the success they have achieved – in particular the successful IPO.

Hanover, April 03, 2007

Peter Stappen
(Chairman of the Supervisory Board)

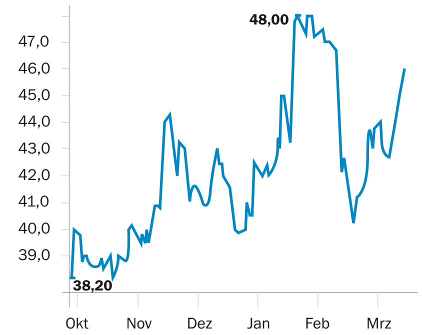
## Highlights of fiscal year 2006

- Revenues up 34 % to € 173.1 million (previous year: € 129.2 million)
- Revenues from eCommerce up 42.2 %
- EBIT up 78.9 % to € 10.2 million (previous year: € 5.7 million)
- EBIT margin up to 5.9 % (previous year: 4.4 %)
- 490,000 new eCommerce customers, more than 100,000 return customers
- End-to-end product range with more than 100 tire brands and 25,000 tire types
- In September 2006 the number of global service partners exceeded 10,000 fitting partners, now already more than 14,000 service partners, of which 2,000 in the USA
- Successful IPO on October 26 in Frankfurt Stock Exchange's Prime Standard
- 78 online shops, established domains with high awareness
- Opening of non-European online shops in Canada (July) and Russia (December)
- Delticom's presence grows to 30 countries for the first time at the end of the year

# Delticom's shares

### The share - overview

Delticom AG enjoyed a successful IPO on October 26, 2006 on the Frankfurt Stock Exchange. Since then, the company's shares have been traded in the Prime Standard of the official market. A total of € 30.6 million (less the costs of the IPO) accrued to Delticom AG from the IPO based on the issuing price of € 36.00 per share. This new capital is primarily to support the company's forecast further growth. On December 29, 2006, the last trading day in fiscal year 2006, Delticom AG's shares closed at € 41.00. After an interim high of € 48.00 in February 2007, the shares closed at € 46.00 on March 30, 2007.




**Key figures**

| | |
|---|---|
| German Securities Code Number (WKN) | 514680 |
| ISIN | DE005146807 |
| Stock exchange symbol | DEX |
| Segment | Amtlicher Markt (official trading) with simultaneous admission to Frankfurt Stock Exchange's Prime Standard |
| Type of shares | No-par value bearer shares |
| Share capital | € 3,946,480 |
| Dividend entitlement | from January 1, 2006 |
| Initial listing | October 26, 2006 |
| Issue price | € 36 |

# Consolidated management report

## Business report

### 1. Underlying conditions

#### 1.1. Overall economic situation

Global value added grew by 5 % in 2006, making the year one of the periods of strongest growth in the past few decades. The global economy was driven for a long time by the booming US economy. However, over the past few years up-and-coming emerging economies – particularly in Asia, where the Chinese and Indian economies are enjoying dynamic growth – have grown to become a key pillar in the global economy. In addition, the substantial economic recovery in the eurozone also helped to revitalize the economy. What is more, recently oil-exporting countries have also played a significant role in the expansion of the global economy.

Growth in the eurozone totaled 2.7 % in 2006. Private consumption increased substantially year-on-year. This growth was also supported by the economic growth in the ten Southern and Eastern European countries that have been part of the European Union since May 1, 2004.

The German economy also grew in significantly in 2006. The price-adjusted gross domestic product (GDP) was up 2.5 % on the previous year according to initial calculations by the Federal Statistics Office. After adjustment for public holidays (there were two more public holidays in 2005 than in 2006) GDP even grew by 2.7 %. This is the strongest economic recovery in Germany since the boom in 2000.

#### 1.2. Industry growth

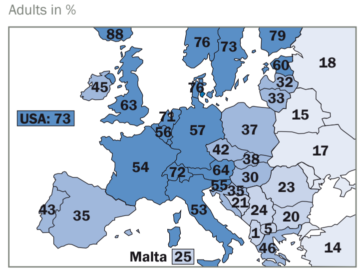
Internet tire sales are determined by two key factors: Internet users‘ basic buying behavior as well as developments on the tire market.

#### 1.2.1 The number of Internet users continues to rise

In 2006 for the first time one billion people used the World Wide Web; one in eight people on earth have access to the Internet – either at home or at work . The number of adult Internet users has also grown strongly in Europe. The Internet is also increasingly being used for shopping. In Germany, more than € 16.3 billion was turned over in online retail with end customers in 2006 . There is also a trend to buying tires via the Internet in all key European markets and in the USA. This is often because of the lower prices, and the comfort of ordering from home also plays a key role. This trend is also confirmed by a recent study by the Allgemeiner Deutscher Automobil-Club ADAC ("Reifenmonitor 2007"). Car drivers were asked: "Where did you last buy car tires?": 2.5 % of respondents said the "Internet",

**Internet users in Europe 2007**

Adults in %




Desk research GfK Austria, Austria, April 2007 compared with just 1.8 % last year. This figure even totaled 4.8 % among the younger target group of 18 to 39-year olds (previous year 3.3 %). This growth is to become even stronger in future: In the same study, 15.1 % of car drivers said that they wanted to by tires via the Internet in future (previous year: 13.7 %). Here too, the figure for the younger, more Internet-aware, target group was significantly higher at 26.4 % (previous year: 24.1 %).

### 1.2.2 The tire market

The global tire market can be broken down into initial sets of tires (pre-mounted on new cars) and replacement tires. The entire tire market for all vehicle types is estimated at around 1 billion tires, of this total, around three quarters are replacement tires for the replacement tire market on which the Delticom group's companies operate.

The market for winter tires in Germany was impacted by a change in legislation during fiscal year 2006. According to the new legal requirement for winter tires (Section 2 (3a) of the Strassenverkehrsordnung (StVO - German Traffic Act)), all vehicles now have to be modified to correspond to the winter weather. This Act stresses, in particular, the use of suitable tires. Anyone driving on roads covered with ice or snow must have winter or all-season tires fitted. Venturing onto snow or ice-covered roads with summer tires could cost the driver a penalty. As a result, additional demand is expected, and with it a significant increase in sales of winter tires. According to the Bundesverband Reifenhandel und Vulkaniseur-Handwerk e.V. (BRV - German Tire Retailer and Vulcanization Trade Association), 1.5 million more tires were produced for the 2006 winter tire season than for the previous year. However, according to BRV, as a result of the relatively warm weather it was clearly not quite possible to meet the high expectations placed in tire sales. As a result of the increased production volumes and the tentative demand among end-users, market observers believe that German tire dealers will currently have increased stocks of winter tires . However, Delticom was able to mostly break away from this negative trend as a result of its international orientation, and was able to lift both its sales and earnings significantly.

## 2. Company situation

### 2.1. Business development

Delticom is Europe's leading Internet tire retailer. The company operates in two divisions: eCommerce and Wholesale.

In its eCommerce division, Delticom operates in 30 countries with 78 online shops, and this division is set to continue to make a strong contribution to the company's growth in the coming years. The company offers an end-to-end range of tires, rims and fully pre-assembled tires on rims including advice and information about service partners. Delticom's customers receive information on product characteristics and alternatives; they benefit from a comprehensive range of goods with more than 100 tire brands and more than 25,000 tire types. The company can ship tires to more than 14,000 service partners worldwide, who then mount the tires on the customers' vehicles. Delticom has well-established Internet domains that already enjoy a high level of awareness among the target groups.

Delticom‘s Wholesale division sells tires to wholesalers and large retailers in Germany and abroad. The company is not forecasting major growth in this segment in the coming years, however it is pursuing key strategic objectives with its Wholesale business. On the one hand, this area provides Delticom with valuable information on the market and current prices, as well as inventory levels in the industry. On the other hand, its wholesale business allows the company to move larger volumes at short notice, and to gain a foothold quickly in new countries.

### 2.2. Strategy

Delticom intends to reinforce its existing leadership of the European online tire market. To this end, it will strengthen the attractiveness of its offering for customers and further increase awareness of the Delticom domain by advertising. These activities primarily aim to acquire new customers, but also to increase customer loyalty and boost the re-purchase rate. Over the short and medium term, Delticom intends to continue to successfully run its established shops, to open additional shops (in particular shops for motorbike tires and shops geared to business customers in various European countries) and to drive its geographic expansion and cooperation with service partners.

In order to strengthen its equity and to secure the planned strong growth in its eCommerce tire business, a total of 1,132,610 no-par value bearer shares (unit shares) of Delticom AG with a proportionate interest of € 1.00 per share in the share capital and with full profit participation rights from January 1, 2006 were successfully placed on Frankfurt Stock Exchange’s Prime Standard on October 26, 2006.

The management’s aims for 2007 will focus on increasing awareness among the target groups, penetrating existing markets and developing new markets in order to once again significantly boost revenues.

### 2.3. Success factors

Delticom’s competitive strengths are its lean business workflows and high competence for processing orders. In the eCommerce division, customers‘ orders are placed directly via the Internet with all of the information required on the product, the invoicing and delivery addresses and mode of payment. The company’s ERP system developed in-house determines the supplier via a mostly automated review of the order. The supplier then generally receives the order by electronic data interchange (EDI). The supplier delivers the ordered products and reports the delivery with the package number to this automated system. The customer is then automatically informed of the delivery and the invoice is sent.

This business model is highly scalable. This is mostly due to the fact that the sale of tires via the Internet only requires a comparatively low amount of staff input, and logistics and warehousing can be centrally organized. In addition, a single technical platform can be used to offer various goods in a range of countries.

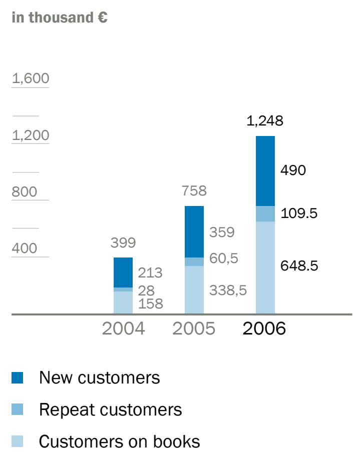
High sales and high-performance logistics allow large quantities to be sold, which in turn results in favorable purchasing conditions. This means that Delticom is highly cost-efficient and can offer its customers attractive prices and further expand its own profitability.

### 2.4. Major economic and legal influences

The company's earnings are primarily determined by the following factors:

#### 2.4.1. Number of registered customers

The number of registered customers, i.e., customers who have in the past (including the current fiscal year) already bought tires from Delticom at least once, increased in the eCommerce division from approx. 758,000 on December 31, 2005 to approx. 1,248,000 on December 31, 2006, however it is not possible to rule out multiple registrations. Delticom acquired approx. 490,000 new eCommerce customers in 2006, with 109,500 making a repeat purchase from Delticom. The company currently has approx. 648,500 customers on its books.

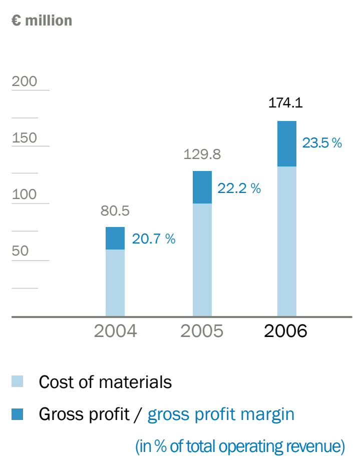



#### 2.4.2. Advertising expenses per new customer

The number of registered eCommerce customers is primarily determined by the level of awareness of the shop. As a result, crucial factors are the satisfaction of existing customers that recommend the shop to new customers and the advertising spend to increase the level of awareness. Advertising is primarily online, and is partially direct and partially via third-party Web sites. Acquisition costs depend, in particular, on price levels on the advertising market and the efficiency of the advertising activities selected. In fiscal year 2006, advertising costs totaled € 3.1 million or approx. 1.8 % of sales. Delticom tracks the efficiency of its advertising daily, and reacts quickly to changes in customer behavior.

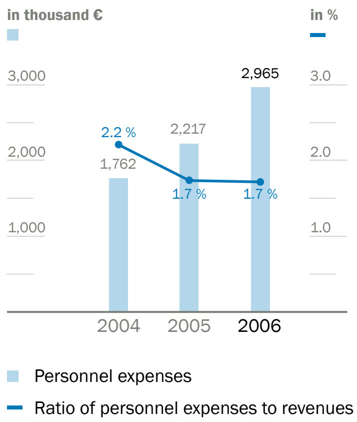
#### 2.4.3. Procurement conditions (material costs)

Delticom is able to negotiate favorable conditions for the purchase of tires, replacement parts and the other goods sold in the eCommerce division with manufacturers and wholesalers. This increases not only the offering's appeal for Delticom's customers, but also allows the company to be more profitable when selling the goods. Delticom's negotiating position with manufacturers and wholesalers depends on the extent to which Delticom's increased efficiency means that it can cut costs for manufacturers and wholesalers when they sell their products from their plants and stores to end consumers, how early the goods can be taken over and paid, and the amount of Delticom's purchasing volume with the respective manufacturers and wholesalers and the proportion of the purchasing volume Delticom can have delivered to its warehouses. The company's management expects the purchasing volume to increase as a result of the anticipated increase in the numbers of registered customers, and that it will thus be possible to keep its procurement conditions at a stable level, to the extent that the company can influence these.



### 2.4.4. Personnel expenses and automation

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 despite increasing transaction volumes. Delticom had an average of 62 employees in fiscal year 2006 (2005: 48) and had a total of 70 employees on the balance sheet date. In addition, the company has been able to cap its own personnel expenses at a low level by outsourcing to external service providers, some of whom are located in Eastern Europe. In fiscal year 2006, personnel expenses totaled € 3.0 million compared to € 2.2 million in the previous year. The ratio of personnel expenses to sales fell to 1.7 % in fiscal year 2005 (from 2.2 % in 2004), and the company was thus able to keep this ratio constant at the low level of 1.7 % in fiscal year 2006. Delticom believes that it will be able to reduce this ratio still further even given the continued growth in its business, thanks to its automated workflows and scalable business model.




### 2.4.5. Seasonal effects

Delticom AG's business is significantly impacted by the seasons as a result of greatly varying weather and road conditions in the north of Europe and above all on the German, Austrian and Swiss markets. As a result, the fiscal year in Germany is marked by two main periods: consumers buy summer tires in the spring and winter tires in the fall. The first quarter is traditionally weak, as the bulk of winter tires is already purchased and mounted in the fall, generally when the weather becomes colder and snow starts to fall. The second quarter is strong, as the weather is sometimes very warm in April, May and June, and car drivers buy their new summer tires. The third quarter is a transitional period between summer and winter tire business, sales volumes and revenue fall again significantly, and stocks of winter tires are bought in. The last three months of the year are traditionally the strongest quarter in Germany, as many consumers become aware of the need to have new tires when driving conditions become difficult. The industry had forecast high sales figures for business with winter tires in 2006 as a result of the additional impact of the new legal requirement for winter tires in Germany. However, when the winter arrived in the fourth quarter of 2006, temperatures were comparatively high and there was little snow in Germany and the Alpine countries. As a result, on the whole business with winter tires was not as positive as several market players had forecast. However, Delticom also enjoyed positive growth in the fourth quarter despite these effects as a result of its strong internationalization.

### 2.5. Management team

Delticom's Managing Board comprises two members: Rainer Binder is responsible for wholesale, procurement, logistics and pricing, and Andreas Prüfer is responsible for consumer business, finance / control, corporate organization and IT.

In addition, Delticom has a second tier of management comprising key employees who have all been with the company for many years. Timon Samusch is the company's Chief

Technical Officer and is responsible for developing hardware and software systems, programming and the Web presence provided by the Internet platforms. Philip von Grolmann organizes the company's procurement and logistics, and Christian Dorndorf is responsible for accounting at Delticom and its subsidiaries.

The Managing Board runs Delticom's activities in close cooperation with the operational management team. The company attaches great value to flat hierarchical structures, which results in promising ideas and activities being put in place directly and without delay.

### 2.6. Research and development

The highly specific software solutions that Delticom has developed in-house have played a key role in the company's success over the past few years. This software automates the order and delivery process at low costs and includes quality assurance. The company regularly optimizes and further develops its software solutions.

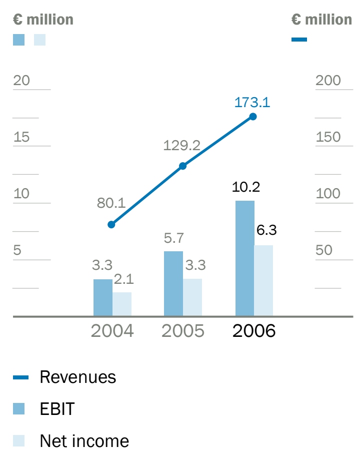
In addition, in the past Delticom has constantly increased the efficiency of its advertising activities. The company reviews its advertising activities end-to-end for their direct impact on sales figures. The impact of online advertising is permanently monitored according to the number of clicks and sales, and differences in the position in the search engine and the resulting cost differences are taken into account.

In addition, Delticom has conducted test phases to penetrate new markets in the respective countries, without this being associated with the actual country being penetrated in each case. This allows the company to optimally tailor its offering, order processes and customer communication to the respective regional requirements.

## 3. Financial position and results of operations

### 3.1. Earnings position

In total, the company has been able to significantly lift its revenues and earnings. Consolidated net profit in 2006 increased by 87.9 % year-on-year at € 6.3 million (€ 3.3 million). Delticom's revenues were also up substantially from € 129.2 million in 2005 to € 173.1 million in 2006 (up +34.0 %).




#### 3.1.1. Earnings growth

Consolidated earnings before interest and taxes (EBIT) increased from € 5.7 million (4.4 % of revenues) in fiscal year 2005 to € 10.2 million (5.9 % of revenues) in fiscal year 2006. This is mostly due to the 42.2 % increase in eCommerce revenues. Revenues in the Wholesale division fell by 10.9 % from € 20.1 million in fiscal year 2005 to € 17.9 million in fiscal year 2006. The Wholesale division makes it easier for Delticom to enter new regional markets.

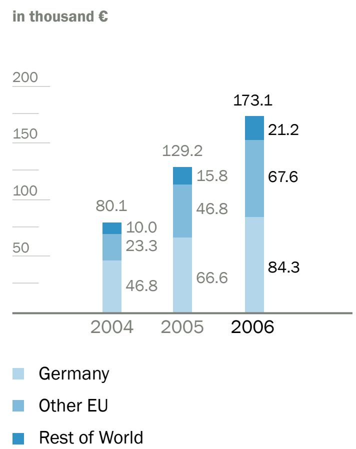
The company's financial result increased from € -0.05 million in 2005 to € 0.2 million in fiscal year 2005 – as a result of the higher amount of cash and cash equivalents and the resulting interest income, mostly due to the capital accruing to the company as a result of the IPO.

The return on equity (the ratio of the consolidated net profit to equity on December 31, 2006) fell year-on-year as a result of the extraordinary impact of the IPO to 14.7 % from 45.5 % in 2005.

Earnings per share (basic) increased correspondingly from € 1.11 to € 1.97. Corresponding adjustments to the number of shares were made for the periods prior to the capital increase on August 30, 2006 when calculating earnings per share (basic). The capital increase by 850,000 shares as a result of the IPO reduced the earnings per share.

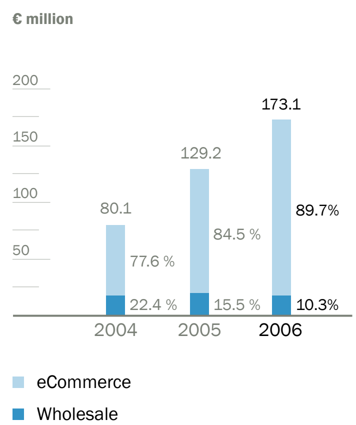
### 3.1.2. Sales growth

The eCommerce division recorded revenues in Germany totaling € 79.9 million (up 32.3 % year-on-year), in the EU totaling € 57.2 million (up 61.5 % year-on-year) and in other countries totaling € 18.1 million (up 35.6 % year-on-year).




In total, revenues in the eCommerce division were up almost 42.2 % year-on-year to € 155.2 million. The positive growth in this segment was primarily due to the significant increase in the customer base - around 490,000 new tire buyers were added during the current fiscal year, giving a current total of 1,248,000 registered, active customers. Revenues in the Wholesale division totaled € 17.9 million (down 10.9 % year-on-year).

The increase in the cost of goods sold from € 101.0 million in fiscal year 2005 by 31.8 % to € 133.2 million is mostly due – as was the case in the previous year – to the increased revenues as a result of the increased numbers of registered customers in the eCommerce division. The cost of goods sold in the eCommerce division increased by 40.9 % from € 83.3 million to € 117.3 million. This means that the ratio of the cost of goods sold to revenues last fiscal year totaled just 77.0 % compared to 78.2 % in fiscal year 2005. This is primarily due to the improved purchasing conditions, which were negotiated in particular as a result of larger purchasing volumes. In addition, Delticom has stored larger quantities of tires at low costs with external tire storage specialists. The cost of goods sold fell in the Wholesale division by 10.7 % from € 17.7 million in fiscal year 2005 to € 15.8 million in fiscal year 2006 as a result of the lower revenues.




### 3.1.3. Return on sales

The return on sales, based on EBIT, increased to 5.9 % compared to 4.4 % last year. This significant improvement is due in particular to the increases in efficiency for marketing and logistics. The lower cost of goods sold ratio of 77.0 % (compared to 78.2 % in the previous year) also shows that the company has been able to achieve lower prices on the market as a result of its increasing purchasing volumes.

### 3.1.4. Changes in key items of the income statement

In 2006, the expenses for developing new markets increased, in particular costs for customer acquisition (advertising), handling costs for warehouse stocks and transport costs to foreign countries, as well as expenses for the further expansion of the external operation centers in Poland and Rumania. Personnel expenses increased in 2006 by € 0.8 million to € 3.0 million; this increase was due to hiring new employees who were also needed to meet the requirements of listing on the Deutsche Börse's Prime Standard. In total, other operating expenses increased year-on-year by 32.9 % from € 20.7 million to € 27.5 million. As a result of the increased volume of business, transport costs increased by € 3.6 million, costs of purchasing external services for order processing increased by € 0.4 million, warehousing costs were up € 0.6 million, and fees for payment transactions were up € 0.7 million. The amortization of intangible assets and depreciation of property, plant and equipment totaled € 0.2 million compared to € 0.1 million last year.

### 3.1.5. Dividends

The Managing and Supervisory Boards of Delticom AG will request the General Meeting on May 16, 2007 to approve a dividend of € 1.20 per no-par value share for fiscal year 2006. A disbursement of approx. € 4.8 million is planned. This corresponds to a dividend return of 2.7 % in terms of the XETRA closing rate for the 2006 stock-market year of € 41.00.

### 3.2. Financial position

The company's non-current assets totaled € 1.9 million on December 31, 2006, or just 2.8 % (previous year: 7.6 %) of total assets. In the current assets, inventories account for € 20.8 million (30.5 %; previous year: € 11.9 million or 50.0 %) of total assets. The increase in inventories is due to an increase in stocks of goods and warehoused materials, in order to cover the winter business in January and February 2007 and the increased seasonal requirements in the spring.

The company's equity totaled € 7.3 million at the end of 2005, and climbed to € 42.8 million at the end of 2006 as a result of the capital increase during the IPO. This means that all of the company's assets, inventories and receivables were equity financed as of December 31, 2006.

Delticom invested a total of € 0.3 million in intangible assets and property, plant and equipment in 2006. The main investments related to the acquisition of domains and office and operating equipment.

### 4. Legal structure of the company

Delticom has a total of three wholly-owned subsidiaries. In addition to its subsidiary Delticom Tyres Ltd. in Oxford, Delticom also holds a 100 % interests in the Romanian company NETIX S.R.L. and Reifendirekt GmbH in Hanover. The Romanian company provides services, for example call center services, to third-party companies. Hanover-based Reifendirekt GmbH is an advertising agency and buys in advertising for Delticom, in part at agency prices.

### 5. Selected key figures

| | | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Total assets | | 18,125 | 23,846 | 68,211 |
| Share capital – December 31 | € thousand | 3,000 | 3,000 | 3,946 |
| Revenues | € thousand | 80,112 | 129,228 | 173,131 |
| Revenues - Germany | € thousand | 46,789 | 66,619 | 84,332 |
| Revenues – rest of EU | € thousand | 23,280 | 46,788 | 67,598 |
| Revenues – rest of world | € thousand | 10,043 | 15,821 | 21,201 |
| eCommerce – share of sales | % | 77.6 | 84.5 | 89.7 |
| Wholesale – share of sales | % | 22.4 | 15.5 | 10.3 |
| Total operating revenue (incl. other operating income) | € thousand | 80,466 | 129,799 | 174,114 |
| Cost of goods sold | € thousand | 63,776 | 101,040 | 133,203 |
| Gross profit margin 1) | % | 20.74 | 22.16 | 23.50 |
| Cash flow 2) | € thousand | 3,537 | 5,788 | 10,596 |
| Consolidated earnings before interest and taxes (EBIT) | € thousand | 3,333 | 5,680 | 10,217 |
| Result from ordinary activities (EBT) | € thousand | 3,399 | 5,633 | 10,383 |
| Net income | € thousand | 2,115 | 3,342 | 6,280 |
| Earnings per share | € | 0.71 | 1.11 | 1.97 |
| Intended disbursement | € thousand | 1,740 | 3,096 | 4,736 |
| Average annual number of employees | | 40 | 48 | 62 |
| Revenues per employee | € thousand | 2,003 | 2,692 | 2,792 |
| Personnel expenses | € thousand | 1,762 | 2,217 | 2,965 |
| Personnel expenses ratio 3) | % | 2.20 | 1.72 | 1.71 |
| Return on sales 4) | % | 4.16 | 4.39 | 5.90 |
| Receivables intensity 5) | % | 32.01 | 23.34 | 11.20 |
| Customer target 6) | Days | 24 | 16 | 14 |
| Cash and cash equivalents | € thousand | 4,017 | 2,105 | 34,661 |
| New customers | Thousand | 213 | 359 | 490 |
| Repeat customers | Thousand | 28 | 60.5 | 109.5 |
| Customers on books | Thousand | 158 | 338.5 | 648.5 |

1) Gross profit to total operating revenue in %
2) Result from ordinary activities plus amortization / depreciation
3) Personnel expenses to sales in %
4) Consolidated earnings before interest and taxes (EBIT) to revenues in %
5) Trade accounts receivable divided by total assets
6) Average receivables divided by revenues multiplied by 365

## Report on key events after the end of the fiscal year

There were no events of particular importance after the end of fiscal year 2006.

## Risk report

In 2006, Delticom installed a risk management system in line with the requirements of the Aktiengesetz (AktG – German Public Limited Companies Act). The departments are responsible for identifying and evaluating risks and for formulating and implementing activities to deal with the risks. All processes – both inside and outside the company – that could have a negative impact on achieving the company's targets or strategies constitute risks that are systematically identified and evaluated. For this purpose, systematic risk inventories are conducted at regular intervals, however at least once per year, and the risks at the organizational units are identified, evaluated and tracked between the risk inventories.

### 1. Individual risks

The following section discusses a selection of key risks for Delticom's business activities. However, this list does not claim to be complete.

Tire sales carry the risk of being regarded as the manufacturer if the products malfunction according to the Produkthaftungsgesetz (German Product Liability Act), however depending on the particular case this possibility can be precluded by Delticom naming the actual manufacturer within a statutory period. As a result of this opportunity for exculpation, Delticom has not previously been regarded as a manufacturer. As a precautionary measure, Delticom has a product liability insurance policy to safeguard the company from any product liability suits.

In its Wholesale division, Delticom supplies tires and rims to retail companies with highly varying creditworthiness. Advance payments are made in connection with the procurement of tires and rims – these constitute a credit risk from the company's perspective. Temporary concentrations of risk can result with regard to some suppliers and customers – these could impact the company's profitability and liquidity. As a result, from the outset of its business operations, the group has concluded credit insurance and commission transactions with some customers. These restrict the financial impact on the company so that there is no danger to its continued existence.

In the eCommerce division, a threat to the company's continued existence could result in that end-users and dealers / workshops could dramatically reduce their demand as a result of negative changes in the overall economic environment. For example, increasing energy prices could cause a major increase in the cost of producing vehicle tires, however these would be passed on directly to the dealers and final consumers.

In order to increase flexibility and to secure the availability of tires, the company has stored tires with various external logistics service providers. This has led to an excellent ability to deliver tires – for winter tires in particular – compared to the rest of the market. This leads to the normal warehousing risks such as waste, fluctuations and over-aging of the goods. Delticom ensures that the goods are sold in good time via its eCommerce or Wholesale activities, or that it remains possible to sell these for the next season. It is possible to sell excess stocks via the company's wholesale activities.

### 2. Total risk

With regard to the stated risks, from Delticom's perspective there have been no major changes since the securities offering prospectus was published on October 16, 2006. As a result of the positive business growth, the potential risks seem limited and manageable. At present and in the foreseeable future there are no individual risks which could endanger the company's continued existence. The total of all risks would also not endanger Delticom's continued existence.

### 3. Risk management system

The Managing Board ensures that there is suitable risk management and risk control within the company.

## Managing Board remuneration report

The Supervisory Board regularly discusses and reviews the structure of the Managing Board's remuneration system. Remuneration for the members of the Managing Board exclusively comprises fixed remuneration. Accordingly, Rainer Binder and Andreas Prüfer each received non-performance related remuneration totaling € 179,000 in fiscal year 2006. There are no performance-related components or long-term incentives. The members of the Managing Board were not granted any advances or loans in fiscal year 2006.

## Forecast

### 1. Future economic situation

Delticom's Managing Board believes that the economic situation in the coming year will continue to be favorable. For example, the German Chambers of Commerce Abroad are forecasting global economic growth of 4.5 % for 2007. That means that growth has flattened-off slightly after the 5.0 % forecast for 2006. Growth will fall slightly in all of the world's key regions – the European Union, North America and East Asia. However, the signals are not quite so clear with regard to the economic slowdown in the US.

The robust economic recovery in Germany is giving research institutes grounds for ever-increasing optimism. Key research institutes have lifted their forecasts for the coming year. Ifo and RWI are both forecasting growth of 1.9 % in 2007, with optimistic economic forecasts for the following years. The upswing could continue to the end of the decade.

On the whole, experts are also forecasting positive economic growth in 2007. For example, the EU commission has lifted its growth forecasts for the eurozone and the EU 27. According to the forecast, gross domestic product (GDP) in the eurozone will grow by 2.4 % in real terms in 2007. GDP growth of 2.7 % is forecast for the rest of the EU. The commission lifted its forecast for German GDP growth to 1.8 % (previously: up 1.2 %).

## 2. Tomorrow's tire market

### 2.1. Internet as a purchasing portal

The Internet as a sales channel for tire sales is enjoying constant growth. Experts are forecasting that European online retailing will grow four-fold from 2005 to 2008 to around € 162 billion. This growth is driven by the increasing popularity of the Internet. For example, according to "Europe's eCommerce Forecast: 2006 to 2011", the number of European Internet users over the age of 16 will increase from around 171 million in 2005 to around 217 million in 2008. In addition, the company believes that the proportion of Internet users who also make purchases online will increase constantly. Above-average growth in online retail is being forecast for Germany, "In 2007 more than € 80 billion will be turned over in online retailing with end-users"; that means that Germany will continue to be Western Europe's biggest market.

### 2.2. The replacement tire market

Delticom believes that the underlying data for the replacement car tire market – increased car numbers, stable driving performance, constant tire mileage – will continue to enjoy stable growth in 2007 as was the case last year, which means that the same level of sales can be forecast for car tires in 2007.

## 3. Future company situation

Delticom believes that there is potential in European and global online tire sales to further expand its sales and earnings. In 2007, the company will focus in particular on growing its sales and plans to increase its sales volume by a double-digit percentage in both of the coming two years. To this end, the company plans to significantly increase the awareness of Delticom's domains via advertising (in particular on Internet portals and search engines).

Delticom's management believes that the seasonal effects will lessen in line with further international expansion, as winter tires are not used in particular in Southern Europe and the UK. The company plans to continue its international growth by expanding in the US. The competitive situation in the US is more difficult as there are already established online tire dealers on this market. As a result, Delticom plans to follow the concept pursued in Europe – focusing on end customers. The aim is to use this concept to generate success on the US market over the medium to long term.

Delticom conducted a capital increase in October 2006 as part of its IPO with the aim of creating solid foundations for the company's expansion strategy and the available opportunities for growth. Around € 30 million accrued to the company as equity, the equity ratio increased correspondingly to approx. 63 %. Although no corporate acquisitions are planned for the near future, Delticom could quickly avail of opportunities.

## 4. Information according to Section 315 (4) of the HGB – German Commercial Code

After going public on October 26, 2006, Delticom's subscribed capital comprises 3,946,480 no-par value registered shares, each with a proportionate interest of € 1 in the company's share capital and full profit participation rights from January 1, 2006.

The existing shareholders have undertaken not to directly or indirectly offer any shares of the company or to take any other measures which are the economic equivalent of a sale for six months or, for Binder GmbH and Prüfer GmbH, twelve months after the initial listing without the written consent of the syndicate banks. The shareholders Binder GmbH and Prüfer GmbH each hold a 26.05 % interest and are the only shareholders with an interest of more than 10 %. 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.

Members of the Managing Board are appointed and dismissed according to Sections 4 et seq of the Aktiengesetz (AktG – German Public Limited Companies Act). Changes to the articles of incorporation are governed by Sections 179 ff of the AktG. The Managing Board's powers with regard to the issue of shares are set out in Article 5 "Amount and Constitution of the Share Capital" of Delticom's articles of incorporation and in Sections 71 ff of the AktG.

The Managing Board was also authorized by resolution of the shareholders' meeting on August 30, 2006, subject to the approval of the Supervisory Board, to increase the company's share capital by a maximum of € 698,240.00 (authorized capital II / 2006) by no later than August 29, 2011, through one or more issues of new no-par value registered shares against cash or non-cash contributions in full or in partial amounts. The authorized capital II / 2006 was entered in the commercial register on September 1, 2006.

The general meeting on August 30, 2006 authorized the Managing Board or the Supervisory Board in place of the Managing Board to the extent that options are granted to members of the Managing Board, to grant on one or several occasions up to August 29, 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 Managing Board and its employees. By way of a resolution by the general meeting on August 30, 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 August 30, 2006 for the granting of options. The contingent capital I / 2006 was entered in the commercial register on September 1, 2006.

The general meeting on August 30, 2006 authorized the Managing 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 August 29, 2011 with a total nominal amount of up to € 150,000,000.00 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 1,448,240 no-par value registered shares of the company with a proportionate interest in the share capital totaling € 1,448,240.00 ("new shares") 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. By way of a resolution by the general meeting on August 30, 2006, the company's share capital was conditionally increased by up to € 1,448,240.00 by issuing up to 1,448,240 new no-par value registered shares (contingent capital II / 2006). Conditional capital II serves exclusively to grant new shares to the holders of conversion rights or options that are issued according to the authorization of the general meeting on August 30, 2006 to issue convertible bonds or bonds with warrants by Delticom AG or by companies in which Delticom AG directly or indirectly holds a participating interest. Contingent capital II / 2006 was entered in the commercial register on September 1, 2006.

There are no material agreements which are subject to a change of control as a result of a takeover offer. The company does not have any compensation agreements with the members of the Managing Board or its employees for the event of a takeover offer.

### 5. Related parties report

According to Section 312 of the AktG, Delticom has prepared a related parties report and concluded this report with the following declaration by the Managing 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, and that it was at no disadvantage from the fact that these activities were performed or not performed.”

### 6. Overall statement by the Managing Board

Delticom’s Managing Board and all of its employees believe that business growth will continue to be favorable. Delticom has become a fixed part of Internet retailing. This sales channel will also become more attractive in future – in particular also as a result of the up-and-coming “Internet generations” – and will increasingly be viewed as being an obvious shopping channel. In addition, there will be additional potential for expansion from the planned internationalization and possible additions to the product range.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# I. Consolidated balance sheet

**as of December 31, 2006**

## Assets

| Notes | in € | 31.12.2006 | 31.12.2005 |
|---|---|---|---|
| | **Non-current assets** | | |
| 9 | Intangible assets | 463,337.00 | 469,805.00 |
| 10 | Property, plant and equipment | 438,999.41 | 347,388.21 |
| 11 | Financial assets | 1,000,000.00 | 1,000,000.00 |
| 12 | Other receivables | 90,011.06 | 124,433.67 |
| 13 | Deferred tax assets | 0.00 | 0.00 |
| | **Total non-current assets** | **1,992,347.47** | **1,941,626.88** |
| | **Current assets** | | |
| 14 | Inventories | 20,790,724.95 | 11,932,536.96 |
| 15 | Trade accounts receivable | 7,543,893.49 | 5,566,282.84 |
| 16 | Other receivables | 3,223,431.88 | 2,301,173.61 |
| 17 | Cash and cash equivalents | 34,660,936.37 | 2,104,823.60 |
| | **Total current assets** | **66,218,986.69** | **21,904,817.01** |
| | **Total assets** | **68,211,334.16** | **23,846,443.89** |

## Shareholders` equity and liabilities

| Notes | in € | 31.12.2006 | 31.12.2005 |
|---|---|---|---|
| | **Equity** | | |
| 18 | Subscribed capital | 3,946,480.00 | 2,999,700.00 |
| 19 | Share premium | 31,701,296.19 | 100,297.00 |
| 20 | Adjustment item for currency conversion | 5,122.59 | 1,690.18 |
| 21 | Retained earnings | 199,673.00 | 199,673.00 |
| 22 | Net retained profits | 6,904,932.41 | 4,051,083.88 |
| | **Total equity** | **42,757,504.19** | **7,352,444.06** |
| | **Non-current liabilities** | | |
| 23 | Non-current provisions | 18,681.62 | 17,393.36 |
| 13 | Deferred tax liabilities | 227,450.02 | 107,081.86 |
| | **Total non-current liabilities** | **246,131.64** | **124,475.22** |
| | **Current liabilities** | | |
| 23 | Provisions for taxes | 2,055,300.00 | 1,273,329.03 |
| 23 | Other provisions | 22,056.79 | 17,487.95 |
| 24 | Current interest-bearing liabilities | 0.00 | 3,054,516.60 |
| 25 | Trade accounts payable | 18,814,689.39 | 9,741,774.02 |
| 26 | Other current liabilities | 4,315,652.15 | 2,282,417.01 |
| | **Total current liabilities** | **25,207,698.33** | **16,369,524.61** |
| | **Total liabilities** | **68,211,334.16** | **23,846,443.89** |

# II. Consolidated income statement

**for the period from January 1, 2006 to December 31, 2006**

| Notes | in € | 2006 | 2005 |
|---|---|---|---|
| 1 | **Revenues** | 173,130,826.40 | 129,227,918.11 |
| 2 | Other operating income | 982,848.42 | 571,457.14 |
| | Cost of goods sold | -133,203,068.12 | -101,039,936.75 |
| 3 | Personnel expenses | -2,964,643.09 | -2,216,681.21 |
| 4 | Amortization of intangible assets and depreciation of property, plant and equipment | -213,336.58 | -155,365.71 |
| 5 | Other operating expenses | -27,515,984.06 | -20,707,869.69 |
| | **Earnings before interest and taxes (EBIT*)** | **10,216,642.97** | **5,679,521.89** |
| 6 | Financial expenses | -151,008.15 | -127,486.40 |
| 6 | Financial income | 317,333.38 | 80,937.36 |
| | **Net financial result** | **166,325.23** | **-46,549.04** |
| | **Pre-tax earnings (EBT**)** | **10,382,968.20** | **5,632,972.85** |
| 7 | Income taxes | -4,102,639.67 | -2,290,693.65 |
| | **Consolidated net income** | **6,280,328.53** | **3,342,279.20** |
| | thereof: | | |
| | Parent company shareholder | 6,280,328.53 | 3,342,279.20 |
| 8 | Basic earnings per share | 1.97 | 1.11 |
| 8 | Diluted earnings per share | 1.97 | 1.08 |

*EBIT = earnings before interest and taxes
EBIT is the result from ordinary activities prior to income taxes and interest

**EBT = earnings before taxes
EBT is the result from ordinary activities after interest and before income taxes

# III. Consolidated cash flow statement

## Delticom AG, Hanover, Consolidated cash flow statement for fiscal year 2006

| € thousand | 2006 | 2005 |
|---|---|---|
| Earnings before interest and taxes | 10,217 | 5,680 |
| Interest received | 127 | 74 |
| Interest paid | -151 | -52 |
| Income taxes paid | -3,200 | -1,760 |
| Amortization / depreciation of non-current assets | 212 | 155 |
| Losses from the disposal of non-current assets | 4 | 3 |
| Increase / decrease in provisions | 5 | -2 |
| Increase in inventories | -8,858 | -6,555 |
| Increase / decrease in receivables and other assets that are not to be allocated to investing or financing activities | -2,675 | 210 |
| Increase in trade accounts payable and other liabilities that are not to be allocated to investing or financing activities | 11,052 | 489 |
| **Net cash flow provided by operating activities** | **6,733** | **-1,758** |
| Investments in | | |
| Intangible assets | -22 | -282 |
| Property, plant and equipment | -279 | -196 |
| Financial assets | 0 | -1,000 |
| Proceeds from the disposal of property, plant and equipment | 0 | 13 |
| Proceeds from the disposal of financial assets | 0 | 17 |
| **Cash flow from investing activities** | **-301** | **-1,448** |
| Payments from issuing a convertible debenture | 0 | 3,000 |
| Dividends paid by Delticom AG | -3,426 | -1,739 |
| Receipts / payments from additions to capital | 29,547 | 0 |
| **Net cash provided by financing activities** | **26,121** | **1,261** |
| **Net change in cash and cash equivalents** | **32,553** | **-1,945** |
| Changes in cash and cash equivalents due to currency translation | 3 | 33 |
| Cash and cash equivalents - start of period | 2,105 | 4,017 |
| **Cash and cash equivalents - end of period** | **34,661** | **2,105** |

Comments on the the cash flow statement can be found in note (29)

## IV. Statement of changes in shareholders' equity

**Delticom AG, Hanover, Statement of changes in shareholders' equity for fiscal year 2006 in €**

| € thousand | Subscribed capital | Share premium | Adjustment item for currency conversion | Accumulated profits / losses: Revenue reserves | Accumulated profits / losses: Net retained profits | Accumulated profits / losses: Total | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at Jan. 1, 2005** | **3,000** | **100** | **0** | **200** | **2,449** | **2,648** | **5,748** |
| Dividends paid | 0 | 0 | 0 | 0 | -1,740 | -1,740 | -1,740 |
| Currency translation differences | 0 | 0 | 2 | 0 | 0 | 0 | 2 |
| Consolidated net income | 0 | 0 | 0 | 0 | 3,342 | 3,342 | 3,342 |
| **Balance at Dec. 31, 2005** | **3,000** | **100** | **2** | **200** | **4,051** | **4,251** | **7,352** |
| **Balance at Jan. 1, 2006** | **3,000** | **100** | **2** | **200** | **4,051** | **4,251** | **7,352** |
| Dividends paid | 0 | 0 | 0 | 0 | -3,097 | -3,097 | -3,097 |
| Offset interim dividend 2003 | 0 | 0 | 0 | 0 | -330 | -330 | -330 |
| Currency translation differences | 0 | 0 | 3 | 0 | 0 | 0 | 3 |
| Consolidated net income | 0 | 0 | 0 | 0 | 6,280 | 6,280 | 6,280 |
| Conversion of convertible bond | 97 | 2,903 | 0 | 0 | 0 | 0 | 3,000 |
| No-par value shares for capital increase | 850 | 0 | 0 | 0 | 0 | 0 | 850 |
| Capital increase 850,000 shares | 0 | 29,750 | 0 | 0 | 0 | 0 | 29,750 |
| Reduction in share premium from IPO costs | 0 | -1,052 | 0 | 0 | 0 | 0 | -1,052 |
| **Balance at Dec. 31, 2006** | **3,947** | **31,701** | **5** | **200** | **6,905** | **7,105** | **42,758** |

# Delticom AG, Hanover
# Consolidated notes for fiscal year 2006

## General notes

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

Delticom’s activities as an international tire retailer are mostly in its Wholesale and eCommerce divisions. In the Wholesale division, the company sells tires from manufacturers, including under its own brand, to wholesalers. In the eCommerce division, tires are sold to dealers, workshops and end users via 78 shops in 30 countries.

Delticom supplies its own tires from external warehouses and also supplies tires directly from suppliers to customers or to one of its around 12,000 service partners.

The Managing Board has authorized these consolidated financial statements for publication on March 28, 2007. The consolidated financial statements will be published and submitted to the operators of the electronic federal gazette.

## 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 fiscal year 2006 were prepared according to the accounting standards 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 recognized 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. As a rule, the information on the amounts in the consolidated notes are in thousands of euros (€ thousand) to the extent that nothing is stated to the contrary.

### Impact of new or changed standards

| Standard / Interpretation | | Mandatory application | EU commission use* | Impact |
|---|---|---|---|---|
| IFRS 6 | Exploration and Evaluation of Mineral Resources | 01.01.2006 | Yes | None |
| IAS 21 | The Effects of Changes in Foreign Exchange Rates - net investments in foreign operations | 01.01.2006 | Yes | No major |
| IAS 39 | Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantees | 01.01.2006 | Yes | No major |
| IAS 39 | Financial Instruments: Application and Measurement Cash Flow Hedge Accounting and Fair Value Option | 01.01.2006 | Yes | No major |
| IFRIC 4 | Determining whether an arrangement contains a lease | 01.01.2006 | Yes | None, as already applied in 2005 ahead of time |
| IFRIC 5 | Rights to Interests arising from Decommissioning, Restoration and Enviromental Funds | 01.01.2006 | Yes | None |
| IFRIC 6 | Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment | 01.12.2005 | Yes | None |

### New or amended standards not applied

| Standard / Interpretation | | Mandatory application | EU commission use* | Impact |
|---|---|---|---|---|
| IFRS 7 | Financial Instruments: Disclosures | 01.01.2007 | Yes | Disclosures in the notes |
| IFRS 8 | Operating segments | 01.01.2009 | No | Segment reporting |
| IAS 1 | Presentation of Financial Statements - Information on Capital | 01.01.2007 | Yes | Disclosures in the notes |
| IFRIC 7 | the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies | 01.03.2006 | Yes | No major |
| IFRIC 8 | Scope of application of IFRS 2 | 01.05.2006 | Yes | No major |
| IFRIC 9 | Reassessment of Embedded Derivatives | 01.06.2006 | Yes | No major |
| IFRIC 10 | Financial Reporting and Impairment | 01.11.2006 | No | Unforeseeable |
| IFRIC 11 | IFRS 2 – Group and Treasury Share Transactions | 01.03.2007 | No | No major |
| IFRIC 12 | Service Concession Arrangements | 01.01.2008 | No | No major |

## 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 (Delticom AG holds a 100 % interest) and the foreign subsidiaries Delticom Ltd., Oxford (United Kingdom, Delticom AG holds a 100 % interest) and NETIX S.R.L., Timisoara (Romania, Delticom AG holds a 100 % interest). The group of consolidated companies is unchanged year-on-year.

### Consolidation methods

Subsidiaries are all companies for which the company has control of the financial and business policy, as a rule accompanied by voting rights of more than 50%. They are included from the date on which they can be controlled; they are deconsolidated when this is no longer possible.

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). 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. A geographic segment provides products or services in a specific economic environment for which the risks and opportunities differ from other economic environments.

### 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 recognized in income.

The items included in the financial statements of each group company 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 | Mean rate of exchange on the balance sheet date 1 € = | Weighted annual average rate of exchange 1 € |
|---|---|---|
| United Kingdom | GBP 0.6743 | GBP 0.6821 |
| Romania | RON 3.3825 | RON 3.5112 |

## 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 realizing 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 recognized in income when they come to light.

## Accounting and valuation principles

**Intangible assets** acquired for a fee are capitalized 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 development or maintenance of software are recognized as expenses when these are incurred. During the current fiscal year, the development costs for internally generated assets were recognized in income, as the production costs of the internally generated assets cannot be reliably determined. As a result, the conditions for capitalizing these as assets were not fulfilled.

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

| | Useful life in years 2006 |
|---|---|
| Similar rights and assets (domains) | 20 |
| Software | 3 |

**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 recognized 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 recognized in income.

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

| | Useful life in years 2006 |
|---|---|
| Office equipment | 3 to 15 |
| Office fittings | 3 to 15 |

Delticom is both a **lessee** and also a **lessor**. 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 capitalized at the lower of the fair value of the leased asset and the cash value of the minimum lease payments. The lease installments 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 recognized over the term of the lease using the annuity method. In 2006 Delticom did not enter into any such leases.

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 recognized. 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 and reviews the classification on each balance sheet date.

### Financial assets at fair value through profit or loss

This 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. A financial asset is allocated to this category 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 under this category, to the extent that these are not hedges.

### Loans and receivables

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 investments

Financial assets held to maturity 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

Assets in this category 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.

Available-for-sale financial assets and assets in the category "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 amortized cost using the effective interest method.

Realized and non-realized gains and losses from changes to the fair value of assets in the category „fair value through profit or loss" are recognized in income in the period in which they arise. Non-realized 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.

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 (weighted average). In the average cost method, acquisition or production costs for comparable assets are ascertained in that a weighted average is formed of the costs of the inventories present at the start of the period and the acquisitions at measured at cost during the period. The market price is the selling price during the course of normal business less selling costs. Borrowing costs are not capitalized as costs.

**Trade accounts receivable** and **other receivables** are initially carried at their fair value and then at amortized cost using the effective interest rate method and less impairment. Impairment is recognized 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 cash value of the estimated future cash flow from this receivable, discounted using the effective interest rate. The impairment is recognized 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 tax assets and liabilities** are carried according to IAS 12. When calculating these deferred taxes, the tax rates are used that are expected to apply in future given the current legal situation. The impact of changes in the tax rate on deferred tax assets or liabilities is generally recognized in income in the period in which the corresponding regulations are passed. Deferred taxes are formed for differences between the application of different accounting standards under IFRS and local tax law based on a domestic tax rate of 40.15 % and a foreign tax rate of 30 %.

Deferred tax receivables and deferred tax liabilities are carried under non-current assets or non-current liabilities. Deferred tax liabilities are not discounted.

**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 fulfillment 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 recognizable risks at the expected fulfillment 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 fulfillment 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** and **other liabilities** are initially carried at their fair values including transaction costs and measured in subsequent periods at amortized 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 recognized 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. Revenues are carried less VAT and any price reductions and bulk rebates when delivery has been made and the opportunities and risks associated with ownership have been transferred. As a rule, income from services is recognized on a pro rata basis over the period in which the service is performed.

**Expenses** are recognized 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 capitalized as a cost component.

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

**Scheduled amortization / depreciation** is performed in line with the useful lives of intangible assets and property, plant and equipment. Value adjustments for assets (impairment test) at amortized cost are carried under extraordinary amortization / 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 recognized, 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 amortization / 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 capitalized 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.

## Notes to the income statement

### (1) Revenues

Other income is carried under other operating incomet.

| € thousand | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | Germany | Rest of World | Total | Germany | Rest of World | Total |
| Wholesale | 4,392 | 13,502 | 17,894 | 6,217 | 13,856 | 20,073 |
| eCommerce | 79,940 | 75,297 | 155,237 | 60,401 | 48,754 | 109,155 |
| **Total** | **84,332** | **88,799** | **173,131** | **66,618** | **62,610** | **129,228** |

### (2) Other operating income

| € thousand | 2006 | 2005 |
|---|---|---|
| Income from currency exchange rate differences | 198 | 93 |
| Insurance compensation | 78 | 85 |
| Book gains from the disposal of assets | 0 | 1 |
| Other | 707 | 392 |
| **Total** | **983** | **571** |

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

### (3) Personnel expenses

| € thousand | 2006 | 2005 |
|---|---|---|
| Wages and salaries | 2,531 | 1,880 |
| Social security contributions | 409 | 292 |
| Pension costs | 25 | 45 |
| **Total** | **2,965** | **2,217** |

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 are recognized under personnel expenses when due.

In 2006, Delticom had an average of 62 employees (previous year: 48 employees).

### (4) Amortization of intangible assets and depreciation of property, plant and equipment

| € thousand | 2006 | 2005 |
|---|---|---|
| Amortization / depreciation of: | | |
| - Intangible assets | 29 | 19 |
| - Property, plant and equipment | 184 | 136 |
| **Total** | **213** | **155** |

No extraordinary amortization / depreciation was required as a result of impairment testing (IAS 36).

### (5) Other operating expenses

| € thousand | 2006 | 2005 |
|---|---|---|
| Outgoing freight | 12,708 | 9,124 |
| Operation Center | 2,103 | 1,660 |
| Warehouse handling costs | 1,740 | 1,134 |
| Receivable losses and individual write-downs | 915 | 1,094 |
| External advertising costs | 3,066 | 3,378 |
| Expenses from exchange rate differences | 338 | 126 |
| Credit card fees | 1,333 | 861 |
| Telephone and Internet | 211 | 186 |
| Rent | 236 | 174 |
| Cure costs | 514 | 0 |
| IPO costs | 585 | 0 |
| Other | 3,767 | 2,971 |
| **Total** | **27,516** | **20,708** |

The rental payments carried stem from a rental agreement for office premises and parking spaces in Brühlstrasse 11, Hanover. The rental agreement meets the definition of an operating lease. The agreement runs until December 31, 2008. The existing option has to be exercised by March 30, 2008 to extend the agreement. The total of the future rent payments up to one year totals € 276 thousand (previous year: € 212 thousand), the future rent payments for a period of one to five years total € 276 thousand (previous year: € 796 thousand).

In addition, there are operating leases for cars. The car leases end in June 2007 and June 2008 after a 24-month term in each case.

### (6) Financial result

| € thousand | 2006 | 2005 |
|---|---|---|
| Interest and similar income | 317 | 81 |
| Interest and similar expenses | -151 | -127 |
| **Total** | **166** | **-46** |

## (7) Income taxes

The income taxes recognized in income result from:

| € thousand | 2006 Germany | 2006 Rest of World | 2006 Total | 2005 Germany | 2005 Rest of World | 2005 Total |
|---|---|---|---|---|---|---|
| Ongoing income taxes | 3,888 | 95 | 3,983 | 2,252 | 65 | 2,317 |
| thereof non-period | 0 | 0 | 0 | 45 | -2 | 43 |
| Deferred income taxes | 120 | 0 | 120 | -26 | 0 | -26 |
| **Total** | **4,008** | **95** | **4,103** | **2,226** | **65** | **2,291** |

Income taxes totaling € 706 thousand are taken directly to equity. These were connected with capital procurement costs from the equity increase.

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

| € thousand | 31.12.2006 Deferred tax assets | 31.12.2006 Deferred tax liabilities | 31.12.2005 Deferred tax assets | 31.12.2005 Deferred tax liabilities |
|---|---|---|---|---|
| Intangible assets | 0 | 40 | 0 | 43 |
| Property, plant and equipment | 0 | 38 | 0 | 31 |
| Inventories | 0 | 66 | 0 | 44 |
| Receivables | 1 | 16 | 56 | 19 |
| Provisions | 2 | 10 | 1 | 10 |
| Liabilities | 0 | 77 | 1 | 18 |
| Other equity and liabilities | 17 | 0 | 0 | 0 |
| **Total** | **20** | **247** | **58** | **165** |
| Netting | -20 | -20 | -58 | -58 |
| **Carrying amount** | **0** | **227** | **0** | **107** |

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.

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

| € thousand | 2006 | 2005 |
|---|---|---|
| Profit before income taxes | 10,383 | 5,633 |
| Delticom AG income tax rate | 40.15 % | 40.15 % |
| Expected tax expense | 4,169 | 2,262 |
| Differences from anticipated income tax expense | | |
| Adjustment to different tax rate | -67 | -36 |
| non-deductible operating expenses | 11 | 7 |
| Minimum taxation of foreign dividends | 5 | 4 |
| Creditable foreign withholding tax | -29 | 0 |
| Non-period ongoing taxation | 0 | 43 |
| Other tax effects | 14 | 11 |
| Total adjustments | -66 | 29 |
| **Actual tax expense** | **4,103** | **2,291** |

Delticom AG's income tax rate comprises corporation tax at 25.0 % (previous year: 25.0 %), the solidarity surcharge of 5.5 % (previous year: 5.5 %) on corporation tax and trade tax of 18.70 % (previous year: 18.70 %), which is deducted from the corporation tax. The adjustment to the different tax rate is based on lower income tax rates for foreign subsidiaries.

### (8) Earnings per share

Basic earnings per share totaled € 1.97 (previous year: € 1.11). The diluted earnings per share totaled € 1.97 (previous year: € 1.08).

Earnings per share are calculated according to IAS 33. As there were no potential shares in fiscal year 2006 (financial instruments and other agreements that authorize the bearer to subscribe to ordinary shares), the diluted earnings per share correspond to the basic earnings per share.

The calculation of the earnings per share was based on net income after taxes totaling € 6,280,328.53 (previous year: € 3,342,279.20) and the weighted average number of shares issued during the fiscal year totaling 3,194,117 shares (previous year: 2,999,700 shares).

## Notes to the balance sheet

### Non-current assets

#### (9) Intangible assets

| € thousand | Domains | Software | Total |
|---|---|---|---|
| Acquisition costs | | | |
| As of January 1, 2005 | 235 | 33 | 268 |
| Additions | 280 | 2 | 282 |
| As of December 31, 2005 | 514 | 35 | 549 |
| Accumulated depreciation | | | |
| As of January 1, 2005 | 31 | 31 | 62 |
| Additions | 17 | 2 | 19 |
| As of December 31, 2005 | 47 | 32 | 79 |
| **Residual carrying amounts on 31.12.05** | **467** | **3** | **470** |
| Acquisition costs | | | |
| As of January 1, 2006 | 514 | 35 | 549 |
| Additions | 13 | 9 | 22 |
| As of December 31, 2006 | 527 | 44 | 571 |
| Accumulated depreciation | | | |
| As of January 1, 2006 | 47 | 32 | 79 |
| Additions | 26 | 3 | 29 |
| As of December 31, 2006 | 73 | 35 | 108 |
| **Residual carrying amounts on Dec. 31, 2006** | **454** | **9** | **463** |

### (10) Property, plant and equipment

| € thousand | Office and operating equipment | Total |
|---|---|---|
| Acquisition costs | | |
| As of January 1, 2005 | 531 | 531 |
| Additions | 196 | 196 |
| Disposals | -62 | -62 |
| As of December 31, 2005 | 665 | 665 |
| Accumulated depreciation | | |
| As of January 1, 2005 | 227 | 227 |
| Additions | 136 | 136 |
| Disposals | -45 | -45 |
| As of December 31, 2005 | 318 | 318 |
| **Residual carrying amounts on 31.12.05** | **347** | **347** |
| Acquisition costs | | |
| As of January 1, 2006 | 665 | 665 |
| Additions | 279 | 279 |
| Disposals | -26 | -26 |
| As of December 31, 2006 | 918 | 918 |
| Accumulated depreciation | | |
| As of January 1, 2006 | 318 | 318 |
| Additions | 183 | 183 |
| Disposals | -22 | -22 |
| As of December 31, 2006 | 479 | 479 |
| **Residual carrying amounts on Dec. 31, 2006** | **439** | **439** |

Property, plant and equipment includes, almost exclusively, office equipment for the leased offices in Brühlstrasse 11 in Hanover.

### (11) Financial assets

Delticom made a loan in the amount of € 1,000 thousand via Deutsche Bank Portugal. This loan has a term of three years and ends on June 10, 2008. It bears fixed interest of 2.14 % p.a (previous year: 2.14 %). Interest is due with the repayment upon expiration in 2008. Amortized costs correspond to the fair value.

## (12) Other non-current receivables

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

In addition, receivables include a lease with Nankang Rubber Tire Corp. Ltd., Taipei, Taiwan, in which Delticom acts as the lessor. This receivable has been discounted, as the term of the lease can be reliably estimated. Lease receivables are as follows:

| € thousand | 2006 | 2005 |
|---|---|---|
| **Non-current receivables** | | |
| Gross receivables finance leases: | | |
| More than 1 year and up to 5 years | 42 | 90 |
| Unearned finance income | -2 | -4 |
| **Net investments finance leases** | **40** | **85** |
| **Current receivables** | | |
| Gross receivables finance leases: | | |
| up to one year | 0 | 100 |
| Unearned finance income | 0 | -9 |
| **Net investments finance leases** | **0** | **91** |
| Gross receivables finance leases: | | |
| up to one year | 0 | 100 |
| More than 1 year and up to 5 years | 42 | 90 |
| **Subtotal** | **42** | **190** |
| Unearned finance income | -2 | -14 |
| **Net investments finance leases** | **40** | **176** |

The subject of this lease is the lease of stone plates which are used to produce the “STARPERFORMER” tires (registered name).

## (13) Deferred taxes

These are netted with the liabilities formed for deferred taxes in the amount of the disclosed deferred taxes within the meaning of IAS 12, to the extent that the deferred tax receivables and liabilities are with the same tax office. Future benefits for the German group companies have been identified with a tax rate of 40.15 % (previous year: 40.15 %).

Deferred tax liabilities are realized after more than 12 months in the amount of € 78 thousand.

## Current assets

### (14) Inventories

| € thousand | 2006 | 2005 |
|---|---|---|
| Tires | 20,677 | 11,933 |
| Steel rims | 114 | 0 |
| **Total** | **20,791** | **11,933** |

Inventories comprise merchandise which is underway for which sales transactions had been concluded in part on the balance sheet date totaling € 4,619 thousand (previous year € 2,342 thousand) as well as stored goods (€ 16,172 thousand; previous year: € 9,591 thousand) intended for sale via eCommerce. Inventories are carried taking into account the agreed terms of delivery according to Incoterms 2000. During fiscal year 2006, € 64,062 thousand of inventories were carried as expenses (previous year: € 35,111 thousand). There were no write-ups during the assessment year. All inventories are free of pledges.

### (15) Trade accounts receivable

Receivables in the amount of € 8,459 thousand (previous year: € 6,660 thousand) were reduced by individual write-downs based on concrete risks of default by € 915 thousand (previous year: € 1,094 thousand) to € 7,544 thousand (previous year: € 5,566 thousand).

| € thousand | 2006 | 2005 |
|---|---|---|
| Trade accounts receivable | 7,544 | 5,566 |
| Thereof: receivables from related parties | 0 | 9 |
| **Total trade accounts receivable** | **7,544** | **5,566** |

### (16) Other current receivables

| € thousand | 2006 | 2005 |
|---|---|---|
| Remuneration and refund claims from taxes | 1,832 | 459 |
| Credits with suppliers | 373 | 922 |
| Deferral | 88 | 104 |
| Other current receivables | 930 | 816 |
| **Total** | **3,223** | **2,301** |

In addition, this item does not include any receivables from currency hedge contracts (currency forwards) (previous year: € 8 thousand).

### (17) Cash and cash equivalents

This item is used to disclose bank balances which are exclusively current in nature, as well as cash in hand.

Cash and cash equivalents are broken down as follows:

| € thousand | 2006 | 2005 |
|---|---|---|
| Cash and cash equivalents | 9 | 2 |
| Bank balances | 34,652 | 2,103 |
| **Total** | **34,661** | **2,105** |

Bank balances do not include any overdrafts (previous year: € 68 thousand). The increase in cash and cash equivalents is due to a surplus of deposits from operating activities as well as, in particular, net cash received from the IPO this year.

## Equity

### (18) Subscribed capital

#### Convertible bond

As a result of the complete conversion of the issued convertible bonds for € 3,000,180.00 via declarations by the bond creditors on August 8, 2006 and the issue on August 9, 2006 of the respective shares, the company's subscribed capital increased from € 2,999,700.00 to € 3,096,480.00. The increased capital was entered in the commercial register on August 10, 2006.

#### Initial public offering

The General Meeting on August 30, 2006 authorized the Managing Board to increase the company's share capital, with the authorization of the Supervisory Board, up to December 31, 2007 against cash contributions in full or in partial amounts, on one or several occasions, by issuing up to 850,000 new no-par value registered shares by a total of up to € 850,000.00 (authorized capital I / 2006). The authorized capital I / 2006 was entered in the commercial register on October 4, 2006. Correspondingly, 850,000 new shares were publicly offered together with 282,610 old no-par value shares from existing shareholders for the intended capital increase. On October 24, 2006, the Managing Board, with the approval of the Supervisory Board, resolved to implement the capital increase in the amount of € 850,000.00. The capital increase took effect when it was entered in the commercial register on October 25, 2006.

#### Contingent and authorized capital

The Managing Board was also authorized by resolution of the shareholders' meeting on August 30, 2006, subject to the approval of the Supervisory Board, to increase the company's share capital by a maximum of € 698,240.00 (authorized capital II / 2006) by no later than August 29, 2011, through one or more issues of new no-par value registered shares against cash or non-cash contributions in full or in partial amounts. The authorized capital II / 2006 was entered in the commercial register on September 1, 2006.

The General Meeting on August 30, 2006 authorized the Managing Board or the Supervisory Board in place of the Managing Board to the extent that options are granted to members of the Managing Board, to grant on one or several occasions up to August 29, 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

Managing Board and its employees. By way of a resolution by the General Meeting on August 30, 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 August 30, 2006 for the granting of options. The contingent capital I / 2006 was entered in the commercial register on September 1, 2006.

The General Meeting on August 30, 2006 authorized the Managing 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 August 29, 2011 with a total nominal amount of up to € 150,000,000.00 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 1,448,240 no-par value registered shares of the company with a proportionate interest in the share capital totaling € 1,448,240.00 ("new shares") 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. By way of a resolution by the General Meeting on August 30, 2006, the company's share capital was conditionally increased by up to € 1,448,240.00 by issuing up to 1,448,240 new no-par value registered shares (contingent capital II / 2006). Contingent capital II serves exclusively to grant new shares to the holders of conversion rights or options that are issued according to the authorization of the General Meeting on August 30, 2006 to issue convertible bonds or bonds with warrants by Delticom AG or by companies in which Delticom AG directly or indirectly holds a participating interest. Contingent capital II / 2006 was entered in the commercial register on September 1, 2006.

### (19) Share premium

The share premium contains the amounts generated in excess of the nominal value when issuing no-par value bearer shares.

The issue of the subscription shares as part of the convertible bond caused the share premium to increase by € 2,903,400.00.

The issuing price of the 850,000 new shares during Delticom AG's IPO on October 26, 2006 was € 36.00. The share premium increased in this context by € 28,697,599.00 to the amount of € 31,701,296.19 carried on the balance sheet, taking into account the costs of the IPO.

### (20) Currency translation adjustment

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

### (21) Retained earnings

Retained earnings exclusively comprise the legal reserve, which Delticom AG must form according to Section 150 of the Aktiengesetz (AktG – German Public Limited Companies Act).

### (22) Net retained profits

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

The extraordinary General Meeting on September 9, 2003 resolved the payment of an interim dividend for fiscal year 2003 in the amount of € 330,000.00 without a legal basis. In the ordinary General Meeting on May 25, 2004, the appropriation of profits for fiscal year 2003 in the amount of € 1,119,917.56 was resolved, while the payment to shareholders was reduced by the amount of the interim dividend already paid (netting). However, the resolutions passed by the General Meeting of May 25, 2004 were also void.

As the payment of the interim dividend was unlawful and as all of the (supposed) shareholders were aware of this unlawfulness when the resolution was passed, the company already capitalized repayment claims in the same amount on December 31, 2003. As a result of the resolution on the appropriation of net retained profits for fiscal year 2003 being void, the netting performed in 2004 by the company was not effective. Curing the void resolution on the appropriation of net retained profits for fiscal year 2003 in the General Meeting dated June 20, 2006 is effective for the future. As a result, the company should not have been allowed to book out the repayment claim in the amount of € 330,000.00 in fiscal year 2004. As a result, in application of IAS 8, the company has adjusted the comparable prior-year figures and the statement of changes in shareholders' equity accordingly. This correction has not impacted the earnings per share.

As a result of the resolution by the General Meeting on June 20, 2006 to cure the resolution on the appropriation of net retained profits for fiscal year 2003, with effect from this date claims against the company for the payment of the remaining amount of the dividend for fiscal year 2003 in the amount of € 330,000 have resulted for the (supposed) shareholders. On August 1, 2006, the company netted the company's claims for repayment of the interim dividend against these claims by the (supposed) shareholders.

## Liabilities

### (23) Provisions

Provisions had the following breakdown:

| € thousand | 01.01.2006 | Taken up | Reversal | Additions | 31.12.2006 |
|---|---|---|---|---|---|
| Provisions for taxes | 1,274 | 778 | 1 | 1,560 | 2,055 |
| Other non-current provisions | 17 | 0 | 0 | 2 | 19 |
| Other provisions | 17 | 4 | 6 | 14 | 22 |
| **Total** | **1,308** | **782** | **7** | **1,576** | **2,096** |

Other provisions include, for example, costs for fiscal representation and anticipated fines. Other 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.

### (24) Current interest-bearing liabilities

The convertible bond issued by the company on September 8, 2004 for € 3,000,180.00 was temporarily ineffective, as the Managing Board had not been validly appointed on the date it was issued. The General Meeting on August 1, 2006 committed the newly appointed Managing Board to again issue the convertible bond, which had been returned to the company by the bond creditors in the meantime. The Managing Board fulfilled this obligation.

The contingent capital increase in the amount of € 96,780.00 resolved in connection with the issue of the convertible bond by the General Meeting in 2005 was also void due to errors in calling the meeting. As a result, the General Meeting on August 1, 2006 resolved a new contingent capital increase in the same amount which was entered in the commercial register on August 3, 2006.

As a result of the issue of the conversion declarations by the bond creditors on August 8, 2006, and the resulting subsequent issue of the shares, the bond has been fully converted to equity.

### (25) Trade accounts payable

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

| € thousand | 2006 | 2005 |
|---|---|---|
| Trade accounts payable | 18,815 | 9,742 |
| thereof liabilities to related parties | 41 | 51 |
| **Total trade accounts payable** | **18,815** | **9,742** |

### (26) Other current liabilities

These mostly relate to customer credits, VAT, social insurance contributions and payroll and church tax. In addition, liabilities are deferred using best possible estimates.

In addition, this item does not include any liabilities from currency hedge contracts (currency forwards) (previous year: € 0 thousand).

| € thousand | 2006 | 2005 |
|---|---|---|
| Sales tax (VAT) | 1,788 | 1,318 |
| Payments received on account of orders | 1,286 | 250 |
| Customer credits | 775 | 290 |
| Social security contributions | 1 | 51 |
| Income and church tax | 57 | 37 |
| Other liabilities | 409 | 336 |
| **Total other current liabilities** | **4,316** | **2,282** |

### (27) Segment reporting

The company's activities that result in revenues and other income fall under the divisions of Wholesale and eCommerce. As a result, Delticom is a two-segment company. In the Wholesale division, the company sells tires from manufacturers, including under its own brand, to wholesalers. In its eCommerce division, it sells tires to retailers, workshops and end users in 78 shops (previous year: 50) in 30 European countries as well as the USA and Japan. 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 eCommerce divisions. Primary segment reporting is also in line with this breakdown.

**Primary segment reporting**

Segment results for fiscal year 2005 are as follows:

| € thousand | eCommerce (B2B) | Wholesale (B2C) | Not allocated | Group |
|---|---|---|---|---|
| Revenues | 109,155 | 20,073 | 0 | 129,228 |
| Other operating income | 178 | 92 | 302 | 572 |
| Cost of goods sold | -83,322 | -17,718 | 0 | -101,040 |
| **Gross profit** | **26,011** | **2,447** | **302** | **28,760** |
| Personnel expenses | -949 | -342 | -926 | -2,217 |
| Depreciation and amortisation | -67 | -44 | -44 | -155 |
| Property, plant and equipment | -50 | -43 | -43 | -136 |
| Intangible assets | -17 | -1 | -1 | -19 |
| Other operating expenses | -18,339 | -1,137 | -1,232 | -20,708 |
| Thereof receivable losses and individual write-downs | -914 | -180 | 0 | -1,094 |
| **Segment result** | **6,656** | **924** | **-1,900** | **5,680** |
| Financial result | | | | -47 |
| Income tax expense | | | | -2,291 |
| **Consolidated earnings** | | | | **3,342** |

Segment results for fiscal year 2006 are as follows

| € thousand | eCommerce (B2B) | Wholesale (B2C) | Not allocated | Group |
|---|---|---|---|---|
| Revenues | 155,237 | 17,894 | 0 | 173,131 |
| Other operating income | 584 | 78 | 321 | 983 |
| Cost of goods sold | -117,383 | -15,820 | 0 | -133,203 |
| **Gross profit** | **38,438** | **2,152** | **321** | **40,911** |
| Personnel expenses | -1,321 | -399 | -1,245 | -2,965 |
| Depreciation and amortization | -89 | -62 | -62 | -213 |
| Property, plant and equipment | -62 | -61 | -61 | -184 |
| Intangible assets | -27 | -1 | -1 | -29 |
| Other operating expenses | -23,728 | -792 | -2,996 | -27,516 |
| Thereof receivable losses and individual write-downs | -820 | -95 | 0 | -915 |
| **Earnings before interest and taxes** | **13,300** | **899** | **-3,982** | **10,217** |
| Financial result | | | | 166 |
| Income tax expense | | | | -4,103 |
| **Consolidated earnings** | | | | **6,280** |

The segment assets, segment liabilities and segment investments were as follows on December 31, 2005

| € thousand | eCommerce (B2B) | Wholesale (B2B) | Not allocated | Group |
|---|---|---|---|---|
| **Segment assets** | | | | |
| Intangible assets, property, plant and equipment and financial assets | 569 | 124 | 1,124 | 1,817 |
| Other non-current assets | 124 | 0 | 0 | 124 |
| **Total non-current assets** | **693** | **124** | **1,124** | **1,941** |
| Inventories | 9,782 | 2,151 | 0 | 11,933 |
| Trade accounts receivable | 2,499 | 3,067 | 0 | 5,566 |
| Cash and cash equivalents | 520 | 1.007 | 578 | 2,105 |
| Other assets | 375 | 983 | 943 | 2,301 |
| **Total current assets** | **13,176** | **7,208** | **1,521** | **21,905** |
| **Total segment assets** | **13,869** | **7,332** | **2,645** | **23,846** |
| plus deferred taxes | | | | 0 |
| plus securities | | | | 0 |
| **Total assets** | | | | **23,846** |
| **Segment liabilities** | | | | |
| Non-current segment liabilities | 0 | 0 | 17 | 17 |
| Other provisions | 0 | 0 | 17 | 17 |
| Trade accounts payable | 8,015 | 1,607 | 120 | 9,742 |
| Other current borrowing | 1,836 | 30 | 3,471 | 5,337 |
| **Current segment liabilities** | **9,851** | **1,637** | **3,608** | **15,096** |
| **Total segment liabilities** | **9,851** | **1,637** | **3,625** | **15,113** |
| Plus deferred taxes and tax liabilities | | | | 1,380 |
| **Total liabilities** | | | | **16,493** |
| **Segment investments** | | | | |
| Intangible assets | 280 | 1 | 1 | 282 |
| Property, plant and equipment | 65 | 65 | 66 | 196 |
| **Total investments** | **345** | **66** | **67** | **478** |

The segment assets, segment liabilities and segment investments were as follows on December 31, 2006:

| € thousand | eCommerce (B2B) | Wholesale (B2B) | Not allocated | Group |
|---|---|---|---|---|
| **Segment assets** | | | | |
| Intangible assets, property, plant and equipment and financial assets | 604 | 149 | 1,149 | 1,902 |
| Other non-current assets | 90 | 0 | 0 | 90 |
| **Total non-current assets** | **694** | **149** | **1,149** | **1,992** |
| Inventories | 16,928 | 3,698 | 165 | 20,791 |
| Trade accounts receivable | 3,382 | 4,162 | 0 | 7,544 |
| Cash and cash equivalents | 1,993 | 2,070 | 30,598 | 34,661 |
| Other assets | 1,077 | 0 | 2,146 | 3,223 |
| **Total current assets** | **23,380** | **9,930** | **32,909** | **66,219** |
| **Total segment assets** | **24,074** | **10,079** | **34,058** | **68,211** |
| plus deferred taxes | | | | 0 |
| plus securities | | | | 0 |
| **Total assets** | | | | **68,211** |
| **Segment liabilities** | | | | |
| **Non-current segment liabilities** | **0** | **0** | **18** | **18** |
| Other provisions | 0 | 0 | 22 | 22 |
| Trade accounts payable | 16,455 | 1,574 | 786 | 18,815 |
| Other current borrowing | 3,044 | 89 | 1,183 | 4,316 |
| **Current segment liabilities** | **19,499** | **1,663** | **1,991** | **23,153** |
| **Total segment liabilities** | **19,499** | **1,663** | **2,009** | **23,171** |
| Plus deferred taxes and tax liabilities | | | | 2,283 |
| **Total liabilities** | | | | **25,454** |
| **Segment investments** | | | | |
| Intangible assets | 16 | 3 | 3 | 22 |
| Property, plant and equipment | 93 | 93 | 93 | 279 |
| **Total investments** | **109** | **96** | **96** | **301** |

**Secondary segment reporting**

Delticom's two divisions operate in three main geographic regions. In Germany, the group serves both the B2B and B2C segments. The group companies in the United Kingdom and Romania exclusively serve customers in the B2C sector with their products and services.

The following table shows the group's sales in the geographic regions in which its customers are located:

**Revenues**

| € thousand | 2006 | 2005 |
|---|---|---|
| Germany | 84,332 | 66,619 |
| Other EU countries | 67,598 | 46,788 |
| USA and other | 21,201 | 15,821 |
| **Total** | **173,131** | **129,228** |

The following tables show the carrying amounts of segment assets and additions to property, plant, equipment, and intangible assets by geographic area in which the assets are located:

**Assets and additions**

| | Carrying amount of Segment assets | | Additions to property plant and equipment and intangible assets | |
|---|---|---|---|---|
| € thousand | 2006 | 2005 | 2006 | 2005 |
| Germany | 67,321 | 23,570 | 301 | 478 |
| United Kingdom | 825 | 260 | 0 | 0 |
| Romania | 65 | 16 | 0 | 0 |
| **Total** | **68,211** | **23,846** | **301** | **478** |

## (28) 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:

| € thousand | 2006 | 2005 |
|---|---|---|
| Order commitments for goods | 2,286 | 3,363 |
| Financial commitments | 2,666 | 212 |
| **Total** | **4,952** | **3,575** |

Delticom rents office premises and parking spaces in Brühlstrasse 11 in Hanover. The rental agreement meets the definition of an operating lease according to IAS 17.3. The agreement runs until December 31, 2008. The existing option has to be exercised by March 30, 2008 to extend the agreement.

In addition, there are operating leases for cars. The car leases end in June 2007 and June 2008 after a 24-month term in each case.

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

| € thousand | 2006 | 2005 |
|---|---|---|
| up to one year | 284 | 212 |
| 1 year to 5 years | 279 | 796 |
| more than 5 years | 0 | 0 |
| **Total** | **563** | **1,008** |

**Accounting for derivative financial instruments**

Delticom only uses derivative financial instruments for hedging. Only forward exchange transactions are carried in the consolidated financial statements.

All derivatives are carried at their market values. The derivatives do not fulfill the conditions for hedge accounting within the meaning of IAS 39.142. The changes to the fair values of the derivatives are carried in the income statement.

The remaining maturities of the forward exchange transactions were all less than six months on the balance sheet date.

**Currency risk**

Delticom has international operations, which means that it is subject to market risks as a result of changes to exchange rates. Delticom uses derivative financial instruments to reduce these risks. Derivative financial instruments are carried at fair value. The valuation is performed by banks taking into account current ECB reference rates and forward premiums and discounts.

**Liquidity risk**

In its Wholesale division, Delticom supplies tires and rims to retail companies with highly varying creditworthiness. There can be temporary concentrations of risk for some customers, which could depress the group's income and liquidity position. As a result, Delticom has concluded credit insurance and commission transactions with some customers. These restrict the financial impact on the company so that there is no danger to its continued existence.

**Related party disclosures**

The group had the following relationships with related parties in 2006:

| Related persons | Function | Legal relationship |
|---|---|---|
| Rainer Binder | Managing Board | Via Binder GmbH |
| Andreas Prüfer | Managing Board | Via Prüfer GmbH |
| Peter Stappen | Chairman of the Supervisory Board | - |
| Bernhard Schmid | Deputy Chairman of the Supervisory Board | - |
| Alan Revie | Supervisory Board | - |

| Affiliated companies | Legal relationship |
|---|---|
| Delticom Tyres Ltd. | Wholly-owned subsidiary |
| Reifendirekt GmbH | Wholly-owned subsidiary |
| NETIX S.R.L. | Wholly-owned subsidiary |

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

- Binder GmbH (Number of shares: 1,028,716; 26.05 % interest)
- Prüfer GmbH (Number of shares: 1,028,716; 26.05 % interest)

**Sale of goods / services**

| € thousand | 2006 | 2005 |
|---|---|---|
| To related parties | 0 | 1,593 |

**Purchase of goods / services / assets**

| € thousand | 2006 | 2005 |
|---|---|---|
| From related parties | 810 | 249 |

### Executive Bodies

The company's executive bodies are the General Meeting, the Supervisory Board and the Managing Board. It was ascertained in the spring of 2006 that the Supervisory Board of Delticom AG had not been validly appointed since April 17, 2000 as the relevant resolutions of the General Meeting were void within the meaning of Section 241 no. 1 of the AktG and Section 241 no. 2 of the AktG in connection with Section 130 (2) of the AktG. As a result, it was not possible for the non-appointed Supervisory Board to appoint the Managing Board. In order to rectify the erroneous appointment, by way of its resolution dated March 31, 2006, Hanover Local Court appointed Peter Stappen, Alan Revie and Bernhard Schmid as members of Delticom AG's Supervisory Board for an indefinite period within the meaning of Section 104 of the AktG. At the same time, the court appointed Mr. Stappen as the provisional Chairman of the Supervisory Board. The defective resolutions by the Supervisory Board dated April 7, June 20, July 14 and August 1, 2006 were rectified by re-passing these resolutions to the extent that this was necessary or seemed pertinent. Andreas Prüfer and Rainer Binder were then appointed as members of the Managing Board on April 7, 2006. As a result, the composition of the Managing and Supervisory Boards is as follows:

### Managing Board

- Rainer Binder, Hanover
  Managing Board member for Wholesale, procurement, logistics and pricing
- Andreas Prüfer, Hanover
  Managing Board member for B2C business, finance / financial control, company organization and IT

In fiscal year 2006, the non-performance related remuneration for the Managing Board member Rainer Binder (effectively appointed as of April 7, 2006) totaled € 179 thousand (previous year: € 162 thousand), and € 179 thousand (previous year: € 162 thousand) for Andreas Prüfer (effectively appointed as of April 7, 2006). No performance-related remuneration has been agreed.

**Supervisory Board**

During fiscal year 2006, the Supervisory Board was composed as follows:
Peter Stappen (business administration graduate) (effectively appointed from March 31, 2006)
Chairman of the Supervisory Board from April 7, 2006, bank merchant Hofheim / Taunus

Bernhard Schmid (business administration graduate) (effectively appointed from March 31, 2006)
Deputy Chairman of the Supervisory Board from April 7, 2006, investment manager, Munich

Alan Revie (effectively appointed from March 31, 2006)
Member of the Supervisory Board, entrepreneur, Hamilton / United Kingdom

During fiscal year 2006, remuneration for the members of the Supervisory Board was as follows: Peter Stappen € 15 thousand (previous year: € 8 thousand; Bernhard Schmid € 10 thousand (previous year: € 0 thousand); Alan Revie € 5 thousand (previous year: € 0 thousand).

**Dividends**

The General Meeting on August 30, 2006 resolved to pay a dividend in the amount of € 3,096,480.00 from Delticom AG's 2005 net retained profits (€ 1.10 per share) and to carry forward the remaining amount of € 176,385.88 to new account.

**Shareholdings**

| | Fixed capital Interest (%) | |
|---|---|---|
| Name / registered office / country | **2006** | 2005 |
| | | |
| Delticom Tyres Ltd., Oxford, United Kingdom | 100 | 100 |
| NETIX S.R.L., Timisoara, Romania | 100 | 100 |
| Reifendirekt GmbH, Hanover, Germany | 100 | 100 |

**Auditor's fees**

In fiscal year 2006, the following fees were recorded for the auditor Pricewaterhouse Coopers AG Wirtschaftsprüfungsgesellschaft:

| | **€ thousand** |
|---|---|
| Audits of the financial statements | 112 |
| Other confirmation and valuation services | 754 |
| Tax consultancy services | 7 |
| Other services | 5 |
| | **878** |

Other confirmation and valuation services include insurance premiums totaling € 400 thousand for the liability risk resulting from the IPO for the auditor of the financial statements, which were passed on by the auditor to an insurance company.

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

Companies listed for the first time on the stock exchange must issue a declaration of conformity within the meaning of Section 161 of the AktG at the latest before the end of one year after the company is initially listed (see Item 20 of IDW AuS 345).

The company was listed on October 26, 2006; the declaration must thus be made available to shareholders at the latest on October 25, 2007. The Managing and Supervisory Boards will issue the declaration on the corporate governance code required by Section 161 of the AktG in good time and will make this available to shareholders on a permanent basis on Delticom AG's Web site.

### (29) 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.

Hanover, March 27, 2007.

The Managing Board

Rainer Binder | Andreas Prüfer

# Corporate Governance Report of Delticom AG

The German Corporate Governance Code (the Code) aims to create transparency for national and international investors regarding the rules that apply in Germany for company management and supervision, in order to thus bolster confidence in the management of German companies. In this regard, the Code constitutes key statutory requirements and includes nationally and internationally recognized standards as well as recommendations and suggestions.

The Code has legal foundations via the declaration of conformity within the meaning of Section 161 of the AktG (added via the Transparenz- und Publizitätsgesetz (Transparency and Publicity Act) which came into effect on July 26, 2002). Legislators require the Managing and Supervisory Boards of listed companies to make an annual declaration on the extent to which they have complied with and will comply with the Code’s recommendations.

The Supervisory and Managing Boards attached great importance to corporate governance even before the company was formed. With just a few exceptions, it has been possible to apply the Code’s criteria to Delticom and to implement these. Finally, application of the Code as part of the company’s management has helped Delticom to be able to successfully manage its rapid growth over the past few years.

## Shareholders and General Meeting

Delticom’s relationship with its shareholders goes hand in hand with the company’s history. The founding members Rainer Binder (49) and Andreas Prüfer (43) are the company’s main shareholders; they have always been behind the company’s positive growth.

Shareholders are able to exercise their rights and vote at the General Meeting. Each share grants the holder one vote. There are no shares with multiple voting rights or preferred voting rights or maximum voting rights. Shareholders can either exercise their voting rights at the General Meetings in person, or have themselves represented by a proxy of their choice or a proxy appointed by the company and subject to instructions.

According to the articles of incorporation, the General Meeting is chaired by the Chairman of the Supervisory Board, or, if the Chairman is prevented from attending, another Supervisory Board member to be determined by the Supervisory Board. If no member of the Supervisory Board chairs the meeting, the notary attending to document the proceedings opens the General Meeting and has the Meeting appoint the chair. In order to make it easier for shareholders to exercise their rights and to prepare shareholders for the General Meeting, the documents to be provided for viewing at the company’s offices from the date that the General Meeting is called are made available via Delticom’s Web site (www.delti.com), including the invitation to the General Meeting published in the electronic federal gazette, and a copy is sent to the shareholders.

In addition, the company‘s articles of incorporation allow the Chairman of the General Meeting to allow the General Meeting to be followed via electronic media in a form to be more closely determined by the Chairman in favor of the shareholders and the General Public, to the extent that this was announced in the invitation to the relevant General Meeting.

### Cooperation between the Managing and Supervisory Boards

As a result of the company's historical growth, the Managing Board cooperates intensively with the Supervisory Board. The Managing Board takes a positive view of the Supervisory Board's controlling function, as this constitutes an additional, desired regulatory instance that benefits the company. In order to avoid conflicts of interest, the General Meeting appoints the Chairman of the Supervisory Board, in whose person there is no potential conflict with the Managing Board and the other shareholders. As part of its supervisory and advisory capacity, the Supervisory Board also cooperates closely with the Managing Board to benefit the company. Their common goal is a sustained increase in enterprise value.

According to the statutory regulations and in line with the Code, the Managing Board reports to the Supervisory Board and at any time it can provide a comparison of forecast to actual figures to assess any deviations from forecast. To date, in terms of sales growth, forecasts have only ever been exceeded. However, if this situation should change, it goes without saying that the Managing Board and second-tier management would report on this and present an analysis of the causes together with their reasons. If there are substantial differences, these are discussed in the next scheduled Supervisory Board Meeting. Critically assessing the course of business is one of the Supervisory Board's core tasks. Here too, the principle described above applies that this is also valid if there are figures are lower than forecast.

The Managing Board's concrete duties and obligations to the Supervisory Board are set out in by-laws for the Managing Board. The by-laws specify, in particular, the Managing Board's information and reporting obligations and specifies approval requirements by the Supervisory Board for fundamentally important transactions.

During the past fiscal year, the company did not issue any loans to members of the Supervisory Board or the Managing Board.

The current D&O insurance policy does not have an excess. This is stated in the declaration of conformity within the meaning of Section 161 of the AktG.

### Managing Board

The company's founders and members of the Managing Board, Rainer Binder and Andreas Prüfer, are the main shareholders and have a key position in the organization, as they both had and have a great interest in the business model being successfully implemented and increasing the enterprise value. As a result, there has always been strict implementation of the company's objectives focusing on adequate risk management and risk control. Increasing efficiency has always been one of the Managing Board's key tasks and efficiency has been successfully increased.

As a result of the fact that the company was formed by both members of the Managing Board with equal rights there is currently no Chairman of the Managing Board and this is also not planned for the future. In this regard the company consciously deviates from the Code. At the same time, both members of the Managing Board have clearly defined responsibilities. In line with the by-laws for the Managing Board and the resolutions by the Managing Board, each member of the Managing Board is solely responsible for their own specific areas as set out in the respective applicable business allocation plan. The Managing Board members are jointly responsible for the entire management of the company. The Managing Board members' remuneration will include a variable component from 2007.

There were no conflicts of interest at any time with other business activities of the Managing Board members, and there will also not be any in future as they will dedicate all of their efforts and concentration to the company.

The articles of incorporation stipulate that Managing Board members must exit the company at age 65.

### Supervisory Board

The Supervisory Board advises the Managing Board on managing the company and supervises its activities. In supervising the company's management, the Supervisory Board used the annual budget agreed for fiscal year 2006 as a basis. The Supervisory Board fulfilled all of the advisory and supervisory functions. The Chairman of the Supervisory Board represents the Supervisory Board externally.

As part of the strategic evaluation of the company, its risk management and reporting, the Managing Board communicates with the entire Supervisory Board. In order to work efficiently this is not only restricted to the Chairman of the Supervisory Board.

The Supervisory Board has issued a set of by-laws for it to work by. These define the Supervisory Board's tasks, obligations and internal organization, and also include further details on non-disclosure requirements, dealing with conflicts of interests and the Managing Board's reporting duties. The Supervisory Board consciously elected not to form any committees, as this was not deemed necessary in the past as a result of the company's size. Even though this leads to a difference to the Code, neither the Managing Board nor the Supervisory Board believe that it is necessary to change this.

Remuneration for the entire Supervisory Board totals €30,000 and does not include a performance-oriented component. Supervisory Board members were selected based on a requirements profile. During this selection, as a preventative measure, attention was paid to ensure that there were no conflicts of interest and no clustering of Supervisory Board positions.

The Supervisory Board does not include any former members of the Managing Board of the company or any of its legal predecessor companies. The Supervisory Board has not set an age limit for its members.

### Transparency

The Managing Board and public relations employees aim to ensure that shareholders, financial analysts, the media and the interested general public receive open, up-to-the-minute information on the company's situation and any major changes to its business. Investor Relations and Public Relations are key elements of the company's organizational structure and report directly to the company's Managing Board.

Delticom publishes any insider information that directly affects the company without delay, including outside regular reporting according to statutory provisions (ad hoc publicity). Delticom also uses the Internet to ensure end-to-end, up-to-the-minute information to its shareholders, thus placing them on an equal footing. The Web site has a transparent structure. All of the company's key dates are published in the financial diary at an early stage (e.g., annual report, interim reports and the General Meeting).

Delticom discloses securities transactions according to the provisions of Section 15a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) immediately upon receipt of the corresponding information (directors' dealings). Information on securities transactions by members of the Managing and Supervisory Boards that carry a reporting requirement for fiscal year 2006 are included in the so-called “annual document” prepared in line with Section 10 of the Wertpapierprospektgesetz (German Securities Prospectus Act). This document also includes all of the publications prescribed by capital markets laws (including ad hoc disclosures) that Delticom published during the fiscal year.

As of December 31, 2006, Supervisory Board members held 59,885 shares.

## Accounting and auditing

The company has used International Financial Reporting Standards (IFRS) at a group level since 2004 and national standards (HGB) for its single-entity statements. Reporting is in line with statutory requirements and stock market law, and comprises annual financial statements and quarterly financial statements. The annual report and the Internet site are also published in English – in line with international standards; the annual report is also available on the Internet.

The audit of the financial statements and the appointed auditor issue written confirmation of their neutrality. The company has separate mandates for the preparation and audit of the annual financial statements and interim reports. After the audit, the auditor prepares a Management Letter to ensure a constant improvement process, including as part of the audit of the financial statements, and to provide direct information to the Supervisory Board on any obstacles to the audit that may have arisen or any weaknesses.

The auditor attended the Supervisory Board‘s consultations on the annual financial statements and consolidated financial statements on April 3, 2007 and reported to the Supervisory Board on the results of the audit of the annual financial statements and management report of Delticom as of December 31, 2006 (HGB) and the consolidated financial statements and group management report of the Delticom group as of December 31, 2006 (IFRS). Delticom has agreed with the auditor that the Chairman of the Supervisory Board is to be informed without delay of any possible grounds for exclusion and impartiality that may arise during the audit to the extent that these are not rectified immediately. The auditors must inform the Supervisory Board or include a note in the audit report if they ascertain any facts during their audit that result in the declaration issued by the Managing and Supervisory Boards on the German Corporate Governance Code being incorrect.

## Delticom’s declaration of conformity within the meaning of Section 161 of the AktG

The Managing and Supervisory Boards of Delticom declare that they have corresponded to the recommendations of the “German Corporate Governance Code Government Commission” (in the version dated June 2, 2005) announced by the Federal Ministry of Justice in the official section of the electronic federal Gazette on July 4, 2003, with the following exceptions:

- The company did not correspond to the recommendation in Item 3.8 of the Code to agree an excess in the D&O insurance.
- The company did not correspond to the recommendation in Item 4.2.1 of the Code to have a Chairman of the Managing Board.
- The company did not correspond to the recommendation in Item 4.2.3 of the Code to include a variable component in the Managing Board’s remuneration.
- The company did not correspond to the recommendation in Item 5.3 of the Code to form Supervisory Board committees.
- The company did not correspond to the recommendation in Item 5.4.7 of the Code to include a variable component in the Supervisory Board’s remuneration.

| | | |
|---|---|---|
| Peter Stappen<br>Chairman of the Supervisory Board | Andreas Prüfer<br>Managing Board | Rainer Binder<br>Managing Board |

## Auditor's Report[1]

We have audited the consolidated financial statements prepared by the Delticom AG, Hanover, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements including the segment reporting, together with the group management report for the business year from January 1, 2006 to December 31, 2006. 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 Board of Managing Directors. 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 Board of Managing Directors, 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, March 28, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

sign. (Benz)
Wirtschaftsprüfer
(German Public Auditor)

sign. (ppa. Friedel)
Wirtschaftsprüfer
(German Public Auditor)

[1] 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.

# Financial calendar

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|---|---|
| April 4, 2007 | Publication of 2006 annual financial statements<br>Analysts’ conference in Frankfurt / Main |
| May 16, 2007 | 2007 Ordinary General Meeting in Hanover |
| May 23, 2007 | Publication of the 1st quarter report 2007 |
| August 22, 2007 | Publication of the 2nd quarter report 2007 |
| November 21, 2007 | Publication of the 3rd quarter report 2007 |

# Profile

- Delticom is Europe’s leading Internet tire sales company with 78 online shops in 30 countries
- Business model: Sale of car tires, motorcycle tires, truck and bus tires, corresponding rims, complete wheels, select replacement car parts and accessories, engine oils and batteries via the Internet
- End-to-end product range with more than 100 tire brands and 25,000 tire types
- Global network with more than 14,000 service partners (fitting stations), of which more than 2,000 in the US
- Shipped free of charge to any desired address or to one of the service partners
- Customer benefits: Top quality tires at low prices can be ordered 24 / 7, high transparency thanks to comprehensive offering, short lead times (2-5 working days), not location-dependent, free test results, service and advice from call center.
- Delticom also operates as a tire wholesaler in the B2B segment in Germany and abroad

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This annual report is also available in German.

A digital version of this Delticom AG annual report and the interim reports can be downloaded from the Investor Relations section of www.delti.com.

A corporate film of Delticom AG is also available on the Internet at www.delticom.info in German, English, French, Italian and Spanish, both as a stream and for download.

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