# A firm grip.

## ANNUAL REPORT 2008


DELTICOM
Aktiengesellschaft

## DELTICOM AG SELECTED KEY FIGURES

| | | | 2008 | 2007 | yoy |
|---|---|---|---|---|---|
| Revenues | | € million | 259.0 | 215.5 | +20.2 |
| New customers | | thousand | 695 | 625 | +11.2 |
| Customer base | | thousand | 2,626 | 1,930 | +36.0 |
| Total income | | € million | 262.2 | 217.2 | +20.7 |
| Gross profit | | € million | 68.5 | 53.6 | +27.6 |
| Gross profit margin | (1) | % | 26.1 | 24.7 | |
| EBIT | | € million | 16.4 | 12.3 | +34.0 |
| EBIT margin | (2) | % | 6.4 | 5.7 | |
| Net income | | € million | 11.7 | 8.3 | +40.5 |
| Earnings per share | (3) | € | 2.97 | 2.12 | |
| Employees | | | 86 | 78 | +10.3 |
| Revenues per employee | | € thousand | 3,011 | 2,763 | +9.0 |
| Total assets | | € million | 95.6 | 87.4 | +9.5 |
| Equity | | € million | 50.2 | 46.3 | +8.4 |
| Equity ratio | | % | 52.5 | 53.0 | |
| Return on equity | | % | 23.4 | 18.0 | |
| Liquidity position | (4) | € million | 42.9 | 34.5 | +24.3 |
| Dividend | (5) | € | 3.00 | 2.00 | +50.0 |
| Dividend yield | (6) | % | 7.7 | 4.0 | |
| Operating cash flow | | € million | 16.7 | 6.6 | +153.4 |
| Operating cash flow per share | | € | 4.22 | 1.67 | |
| Free cash flow | | € million | 15.4 | 4.6 | +230.7 |
| Free cash flow per share | (7) | € | 3.89 | 1.18 | |
| Free cash flow yield | (6) | % | 10.0 | 2.4 | |

(1) Gross profit to total income
(2) Consolidated earnings before interest and taxes (EBIT) to revenues
(3) undiluted
(4) Liquidity position = cash and cash equivalents + liquidity reserve
(5) Conditional on approval at the Annual General Meeting
(6) Based on official closing on 31 December
(7) Free cash flow = Operating cash flow - investments

# Highlights 2008

Revenues up **+20.2%**
to € 259.0 million
(previous year € 215.5 million)

EBIT increased from € 12.3 million
in the previous year to **€ 16.4 Mio.**
– an EBIT margin of 6.4%

Earnings per share up
**+40.5%** from € 2.12 to € 2.97

Planned dividend of **€ 3.00** per share
(previous year: € 2.00)

More than 695,000 new customers
in 2008, customer basis grown to more than **2.6 million**

**24,000**
service partners worldwide (previous year: 21,000),
more than 6,000 in Germany alone

# Profile

Delticom is Europe's leading online tyre retailer. Founded in 1999, the Hanover-based company has more than 100 online shops in 35 countries, among others the ReifenDirekt domains in Germany, Switzerland and Austria, www.mytyres.co.uk and www.123pneus.fr. Delticom offers a wide range of products for its private and business customers: more than 25,000 models from over 100 tyre brands for cars, motorcycles, commercial vehicles and buses, but also complete wheels, motor oil, replacement parts and accessories.

Delticom's customers enjoy all the advantages of modern eCommerce: convenience in order placing, quick, efficient delivery, clear cost information and, last but not least, low prices. The products are delivered in two business days to any address the customer chooses. Alternatively, Delticom delivers the tyres to one of more than 24,000 service partners (6,000 in Germany alone) for professional fitting directly on to the customer's vehicle at a reasonable price.

Due to its cost-efficient operations, Delticom is able to combine growth and profitability. In 2009 the company intends to build upon its position as the leading online tyre dealer – and demonstrate that Delticom has a firm grip on this dynamic market.

# Contents



# Letter to Shareholders

DEAR SHAREHOLDERS, COLLEAGUES AND FRIENDS,

In recent years fast-paced political, economic, ecological and technological upheavals have changed the world. In particular, our interconnectedness has increased to a notable degree. The Internet is no longer considered a trend, but has advanced to occupy a central place in our lives. But not everything changes. Yesterday, today, tomorrow: we want – and need – mobility. Not just that offered by the virtual world either, but the kind found on our roads and streets to. And for those wishing to stay safe and secure as they make their way through the world in their cars, replacing their old, worn out tyres on a regular basis is a must.

Since its founding in 1999, Delticom has made a decisive contribution to bringing together the worlds of the Internet and tyres. Today Delticom is by far Europe‘s largest online tyre retailer offering customers an unequalled assortment of excellently priced tyres and complete wheels for cars, motorcycles and trucks. Our online shops carry over 100 different brands, from top-of-the-line names to inexpensive budget brands. In addition to tyres, we offer customers motor oil, replacement parts and accessories – all in the same simple, cost-effective and secure way. To date 2.6 million Internet users in 35 countries have made a purchase in one of our shops and the trend continues to point upward.

Delticom has proven how well the Internet and tyres can go together. After ten years of increasing revenues and profits, 2008 has gone down as the most successful year in our firm‘s history. Revenues rose by 20.2% from € 215.5 million to € 259.0 million while profits increased by 40.5% from € 8.3 million to € 11.7 million. With these results, we were able to completely fulfil the revenue and result targets which we released in March 2008.

These results are all the more remarkable when one considers the less-than-ideal overall economic environment in which they were achieved. The collapse of a number of important banks led to an ongoing drop in confidence in both the market and the overall economic situation. By the end of the year, the crisis had jumped from the financial markets into the real economy, and our trade felt the effects of recessionary forces. For the tyre industry and tyre retailers, 2008 marked the second consecutive disappointing year. While it is not yet possible to forecast any clear trend for the current year, there are indications that that downturn may continue to gather strength. Indeed, things could get worse as 2009 will likely see fears of unemployment spread – a development which might have a negative impact on consumer confidence.

That said, the current economic situation does not only pose risks for Delticom, but presents us with significant opportunities as well. Particularly in difficult economic times, consumers turn to companies who offer a good selection at reasonable prices. Delticom does both – and not only in Germany, but all over Europe. In 2009, as in the past years, we want to achieve a higher rate of growth than the market which is only expected to stagnate at best.

In the present economic situation, there are few reliable indicators to support a well-founded forecast of how the market will develop. Only once the sharp downturn in the European economy is behind us will we be able to judge its effects on the tyre sector. While the first several months of the current year have gone reasonably well for us, ours is a business strongly-shaped by weather conditions. Experience tells us, that a good first quarter doesn‘t provide any indications as to how the rest of the year will go. Only as the year progresses, will we find ourselves in a position to determine how things are developing. That said, we are cautiously optimistic at this early point of the year and are aiming for a year-on-year increase in revenues of 10%.

We will continue on the path we have been on, but not without keeping the risks we face clearly in view. The discount-business model which Delticom uses is the right one for the current situation. Our processes are stable and resilient. The company is debt free and enjoys significant liquidity. As a result of this, we are in a position to



From left to right: Philip von Grolman, Rainer Binder and Frank Schuhardt, Managing Board, Delticom AG.

allow you, our esteemed shareholders, to partake of our firm‘s success as has been the case in past years. The Managing and Supervisory Boards will propose a dividend of € 3.00 per share, an increase of 50% over that distributed in 2008, at the General Meeting which will take place on 19 May 2009.

The Managing Board would like to take this opportunity to offer its sincere thanks to all our colleagues and business partners for their excellent work. We also wish to express our appreciation and thanks to the Supervisory Board for its many useful questions and suggestions. Finally, our thanks go out to you, our shareholders, for the trust you have placed in Delticom. We look forward to a successful future together.

Hanover, March 26, 2009

Rainer Binder | Frank Schuhardt | Philip von Grolman

# Report of the Supervisory Board

DEAR SHAREHOLDERS,

during the past fiscal year, the Supervisory Board performed its duties in accordance with the law and Delticom's articles of incorporation. It regularly advised and supervised the Managing Board, and was involved in all decisions making of fundamental importance to the company. We regularly and intensively considered matters relating to the company's financial position, its net assets, the results of operations as well as its risk management. In this respect we took steps to satisfy ourselves that Delticom had, and has, in place formal policies and practices which ensure the efficient monitoring of our company and the effectiveness of our control possibilities. In its monitoring of firm management, the Supervisory Board oriented itself using the annual budget approved for the 2008 fiscal year. In order to faciliate the Supervisory Board's monitoring and oversight activities, it was provided with reports on all key factors relating to the business by the Managing Board. In addition, the members of the Supervisory Board were available to advise to the Managing Board outside of regular meetings.

The Chairman of the Supervisory Board discussed specific topics with the Managing Board as required. During our meetings with the Managing Board, the Supervisory Board contributed to the discussion of matters and made decisions on transactions which required its approval. In instances where decisions needed to be made quickly, these were reached after consultation of the two boards by telephone or in writing. All decisions made during the reporting period were unanimous.

## COMPOSITION OF THE SUPERVISORY BOARD

As per the company's articles of incorporation, the Supervisory Board consists of three members. There was a change in the membership of the Supervisory Board during the reporting period. Mr. Peter Stappen resigned from his office as a member of the Supervisory Board at his own request effective from the end of the General Meeting on May 6, 2008. Our thanks go out to him for his great contribution to the success of the company and for his work on the Supervisory Board.

In place of Mr. Stappen, the General Meeting appointed Mr. Andreas Prüfer, a former member of Delticom AG's Managing Board, to the Supervisory Board effective the end of the General Meeting on May 6, 2008. Upon assuming his place on the Supervisory Board, Mr. Prüfer was elected as Chairman by the other members of the Board. Since May 6, 2008, the Supervisory Board has been made up of the following members:

- Andreas Prüfer, Chairman
- Michael Thöne-Flöge, Deputy Chairman
- Alan Revie

Due to its limited size (three persons) the Supervisory Board has not established any committees in the sense of Section 171 (2) sentence 2 of the AktG (German Public Limited Companies Act).

## MEETINGS

There were four regular meetings of the Supervisory Board in fiscal year 2008 and all of the members of the Board participated in these. The first regular meeting occurred on March 25, 2008 and reviewed the company's accounts. At the meeting of May 6, 2008, which was held directly after the 2008 General Meeting, Mr. Prüfer was elected as chairman of the Supervisory Board with Mr. Thöne-Flöge voted to be his Deputy. Other items addressed at this meeting included the approval of changes to the variable remuneration components in the contracts of Managing Board members Mr. Schuhardt and Mr. Grolman. During its meeting of August 12, 2008, the Supervisory Board dealt with the six-month financial statements and performed an efficiency review. In its last regularly-scheduled meeting of the year, on November 25, 2008, we discussed and approved the medium-term budget and capital expenditure forecasts for Delticom AG and its subsidiary Delticom North America.

In addition to the four regularly scheduled meetings, there were several unscheduled meetings of the Supervisory Board during 2008. At the first of these on July 11, 2008, the Supervisory Board considered and approved preparations for and the implementation of the formation of a wholesale company. At the extraordinary meeting on February 14, 2008 the board approved a change of the employment agreement of Managing Board member Mr. Schuhardt. At another unscheduled meeting (September 8, 2008), the Supervisory Board approved the extension of Mr. Binder's appointment to the Managing Board through to the end of December 31, 2012 effective September 8, 2009. In the same meeting the change of the employment agreement of Mr. Binder were approved. In addition, an extraordinary meeting of the Supervisory Board on November 12, 2008 saw the Board approve both an investment to secure the company's liquidity as well as the purchase of a conveying system for tyres. Finally, during unscheduled meetings on December 4 and 19, 2008, the Supervisory Board addressed the increases in credit acceptance of the Delticom subsidiaries Pnebo and Delticom North America respectively.

Since the second half of 2008, the Supervisory Board has frequently had detailed consultations with the Managing Board on the impact of the financial crisis on the Delticom Group's business. These discussions took place during both regularly scheduled and extraordinary meetings of the Supervisory Board and included consideration of various options and scenarios.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, were appointed as the auditors by the Annual General Meeting held on May 6, 2008 and were commissioned by the Supervisory Board.

## CORPORATE GOVERNANCE

The Supervisory and Managing Boards are aware that good corporate governance is in the interests of our shareholders and the capital markets and an important basis of the company's success. In April 2008, together with the Managing Board, we issued a declaration stating that all Delticom's activities are in conformity with Section 161 of the German Corporate Governance Code. This declaration is permanently available on the Delticom AG web page and will be updated every year after the accounts review meeting of the Supervisory Board. There is a separate section in this annual report on the implementation of the German Corporate Governance Code.

## AUDIT OF THE 2008 FINANCIAL STATEMENTS

In its accounts review meeting on March 25, 2009, the Supervisory Board dealt extensively with the annual financial statements and the auditor's report. Particular attention was paid to the annual financial statements of Delticom AG (prepared according to the regulations of the HGB – German Commercial Code), and the consolidated financial statements of the Delticom Group (prepared according to the regulations of IFRS – International Financial Reporting Standards), both of which had a reporting date of December 31, 2008. In addition, close scrutiny was given to the management reports for both the company and the group for the 2008 fiscal year. The auditor's reports, the annual financial statements for the AG and the consolidated financial statements prepared by the Managing Board, the dependent company report and the management reports for Delticom AG and for the group as well as the Managing Board's proposal for the use of net retained profits were submitted to the Supervisory Board in due time, so that we had sufficient opportunity to properly examine these reports. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Fuhrberger Straße 5, 30625 Hanover, audited the annual financial statements, and there are no concerns regarding the auditor's independence.

The auditor is satisfied that the financial statements of the AG and the consolidated financial statements of the group prepared in line with the relevant accounting standards present a true and fair view of the net assets, financial position and result of operations of the company and the group. The auditors issued their unqualified audit certificate for the annual financial statements and the consolidated financial statements. In addition, in the context of assessing the risk management system, the auditor confirmed that the Managing Board had implemented the measures required in Section 91 (2) of the AktG for identifying risks which could jeopardise the company as a going concern in good time.

Representatives of the auditor were present at the March 25, 2009 meeting where they reported on the key results of their audit and were available to provide additional information to the Supervisory Board as requested. After their presentation and some discussion, the Supervisory Board approved the audit report as presented. The Supervisory Board approved the annual financial statements and the consolidated annual financial statements. The annual financial statements for 2008 are thereby adopted. The Supervisory Board agreed with the Managing Board's proposals for the use of net retained profits.

The Supervisory Board would like to thank the Managing Board and all employees for their work and commitment to the company and congratulates them on the success they have achieved. Finally, we would like to extend our special thanks to you, our shareholders, for the trust you have placed in our company.

Hanover, March 25, 2009

Andreas Prüfer

(Chairman of the Supervisory Board)



About us

# A firm grip.

# Full speed ahead.

SINCE 1999.

It‘s July 2, 1999, and on this day Delticom is founded in Hanover, Germany. A short time later, the first orders of tyres are on their way to customers, and soon after that the media comes knocking. What‘s this start-up from Hanover all about? Tyres on the Internet? An idea that seemed almost exotic on the eve of the year 2000 isn‘t anymore.

Since the beginning of the new millenium the Internet has grown at a remarkable rate. Driven by ever faster connections, more people have gotten online – to gather information, communicate for business and pleasure or to shop. Soon online sales, or eCommerce, are driving the economic engine. And Delticom has been part of this from the beginning. In 2003, we even received the German Technical Control Board‘s (TÜV) highly sought-after „s@fer-shopping“ certificate and in doing so, set a new standard for online tyre retailing in the country.

This certification testifies to the safe, reliable shopping experience which Delticom offers in each of our online shops. And as our customer numbers show, interest in us and our products continues to grow. In June 2006, we reached the 1 million customer milestone, and internationally the story is the same as new customers discover the Delticom advantage every day. The result? In 2008, we are Europe‘s leading online tyre retailer with over 100 online shops.

And there‘s more: since October 2006, Delticom has been traded on the Frankfurt Stock Exchange. Only three years later, we managed to make the jump into the SDAX on December 22, 2008.

# Products.

UNSURPASSED SELECTION.

Our unequaled product range continues to impress. In Delticom‘s online shops, we offer car, motorcycle, truck and bus tyres as well as rim-mounted complete wheels and an extensive line of replacement parts and accessories for cars. Not to forget our well-priced line of top end motor oils. Our product range covers more than 100 tyre brands and 25,000 different models, from premium brands to budget tyres, at prices which average 20 to 25% lower than those found at traditional tyre retailers.

Our customers expectations continue to evolve, but comfort and security still top their „wish lists“. In addition to growing interest in ultra-high-performance products, we‘ve seen rising demand for Run Flat and environmentally-friendly tyres. At Delticom, we‘re happy to take requests – and pass on savings.

# Customers.

FROM ZERO TO 2.6 MILLION.

At the heart of our success is the continuing growth of our customer base. Between February and June 2001, we saw this increase tenfold from 1,000 to 10,000. In the two years that followed, we managed the feat again and hit 100,000. And in June 2006, we crossed the magical one-million mark. Today we serve more than 2.6 million registered customers worldwide – and the trend continues upward. As a benefits partner of Germany‘s largest automobile club, ADAC, we offer their members an additional three-percent discount when they supply their membership number.

# Online-Marketing.

MANY ROADS LEAD TO DELTICOM.

Many car drivers aren‘t even aware of the clear advantages of purchasing their tyres from Delticom. The comfort of placing an order whenever, wherever? Late night, weekend, holiday? No problem. Great selection and excellent prices? We do that too. And most deliveries within two business days? Count on it. Using effective online advertising, our marketing team works to communicate these strengths to potential customers and drive them to our online shops. A regular newsletter helps strengthen ties with our customers while informing them about our latest special offers and developments from the world of tyres. Our shops serve as a great source of information for potential tyre purchasers, and our marketing department works every day to ensure that their content is informative and up-to-date. In addition, this team is responsible for coordinating our new shops as well.

# Online-Shops.

COMFORTABLE AND FULLY LOADED.

Navigating our sites is quick and easy. We‘ve kept things simple and efficient. Our shops provide customers with useful information and consumer opinions to help them find the right tyres for them.

It only takes a few simple steps:

**1. Choose the tyres:** The customer determines the size and speed index they need and proceeds to the next step. Or, if unsure, our sites help them find the information they need to make the right choice.

**2. Get informed:** www.reifentest.com offers shoppers independent test reports and reviews by car drivers who‘ve put tyres to the test in their daily lives.

**3. Compare prices:** Our price calculators are up front about the bottom line. All prices include taxes and shipping so everything is clear and there are no surprises.


**4. Provide a delivery address:** Orders are delivered to the address of the customer‘s choice or to any one of our more than 24,000 worldwide service partners.

**5. Proceed to checkout:** Here too, we‘re out to make our customers‘ lives easier and accept a variety of payment methods, including credit card, bank transfer, account payment or even Internet-payment systems like PayPal. At Delticom, it‘s about freedom of choice.

**6. Access our service support:** Order confirmation by email or fax, a tracking system to follow the order’s progress, a hotline to provide informed answers: this is the service after the sale.

# Business processes.

OUR TEAM KEEPS THINGS MOVING.

Our purchasing department has years of international experience. To ensure our customers get the products they want, we've established close working relationships with leading manufacturers in Europe, the United States and around the world. Our warehouse and transportation systems are lean and efficient: we buy large quantities of tyres before the start of the season and keep them stored at the ready. This way we're able to fill orders swiftly, even at times of peak demand. Reliable service providers run our warehouses for us while leading parcel services take on the delivery of our customers' orders. Thanks to largely automated handling procedures, orders are on their way quickly, with delivery usually taking place within several days. If the customer has a question, our service hotline is there to get them the information they want.

# Fitting partners.

WELL CONNECTED.

With more than 24,000 partners worldwide – 6,000 in Germany alone – our network of service professionals continues to grow. This is another convincing argument for ordering tyres from us: our customers can decide during the ordering process where they want their tyres to be shipped – the address of their choice or to one of service partners. Searching by postal or area code, customers identify service partners near them and get their hours of operation as well as the prices for installation or other services. Add to this the customer reviews available at our shops and shopping with Delticom is an informative, transparent experience.

Our service partners also benefit from their affiliation with Delticom. They get new customers, many of whom had not been previously familiar with them, and they can charge their regular prices as Delticom places no restrictions on this.

# International orientation.

A DRIVING FORCE.

More than 100 shops in 35 countries, Europe's number one online tyre retailer, systematic internationalization: Delticom has managed to achieve relative independence from national markets. Each of our shops is tailored for its specific context, from the language of presentation to the methods of payment accepted. For example, in France, we accept the national Carte Bleue, while in the USA, the Discover Card is honoured. Today Delticom provides mobility and security at great prices in 35 countries worldwide. Next to our product range, our convenience and quick, reliable delivery, it's the positive customer reviews of our products and service which leave new customers feeling secure in the knowledge that Delticom is the right choice.

Jubel A. from Forest Gate / London (England) on 15.10.2008

*„Very easy to use website. Excellent prices. I have used this company several times now and it is the only one I use and recommend to friends and family."*

Jacky G. de Sainte Honorine du Fay (France) le 08.03.2009:

*"Vous êtes les plus rapides et vous offrez en plus de la qualité, et un grand choix de pneus et de garagistes."*

Oliver H. aus Fröndenberg (Germany) am 10.03.2009:

*„Gute und sehr übersichtliche Seite! Toll finde ich die gleich mit angehängten Testberichte. Auch die Vorschläge über die Montagewerkstätten in der Nähe finde ich Klasse. Die Preise der Reifen überzeugen."*

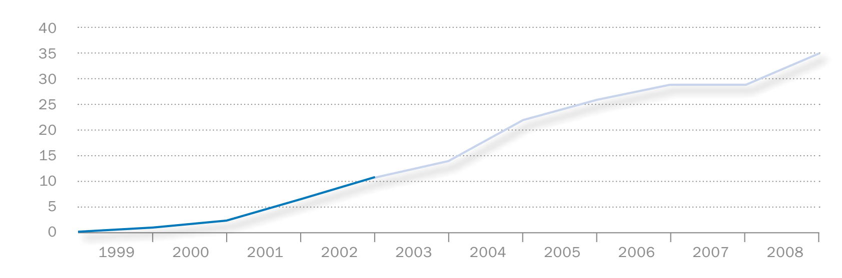
EUROPE
Austria
Belgium
Bulgaria
Croatia
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Ireland
Italy
Latvia
Liechtenstein
Lithuania
Luxembourg
Monaco
Netherlands
Norway
Poland
Portugal
Romania
Slovakian Republic
Slovenia
Spain
Sweden
Switzerland
United Kingdom

OTHER COUNTRIES
USA
Russia

# 1999-2002

## INTERNATIONAL FROM THE START

After establishing ourselves in Germany, Austria & Switzerland, we opened our first online shop in the United Kingdom and followed it with other around the world. Only four years after our founding, we were selling tyres in 11 countries. Today we have more than 100 online shops in 35 countries and are Europe's leading online tyre retailer.




July 1999
Delticom AG is founded

January 2000
The first customer is served in German B2C shop www.reifendirekt.de

August 2000
Deutsche Venture Capital (DVC) acquires a 10% stake in Delticom

February 2001
Delticom's team has 17 employees

June 2001
Over 10,000 customers in Germany, Austria and Switzerland

December 2001
Delticom AG achieves revenues of € 21 million from eight online shops in five countries during fiscal year 2001

April 2002
Delticom is nominated among the top three in the „Newcomer" category at the Deutscher Gründerpreis ("German Entrepreneur Award")

July 2002
Motorbike tyres are now available online in Austria

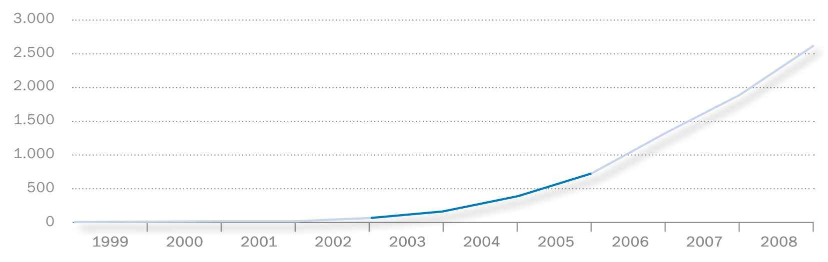
December 2002
More than 2,000 service partners

# 2003-2005

## ALWAYS ON

The number of Internet users is increasing and so are our customer numbers: In March 2003, 100,000 shoppers made purchases with Delticom. A year later that number had doubled, and the growth has continued. Currently, we have 2.6 million registered customers worldwide.

DEVELOPMENT OF CUSTOMERS in Tsd.




April 2003
Delticom becomes the first German online tyre retailer to received the German Technical Control Board's (TÜV) coveted „s@fer shopping" certification

November 2003
Delticom wins the 2003 Deutscher Internetpreis ("German Internet Award")

February 2004
Delticom starts to sell low-priced car replacement parts online

April 2004
The tyre review website www.tyretest.com breaks the 100 million test kilometer mark

August 2004
Delticom increases its choice of tyres to about 65 tyre brands and around 11,000 tyre models

October 2004
Delticom places third in the Deloitte Technology Fast 50 competition which identifies the fast-growing firms

March 2005
Over 40 online shops in 22 countries

August 2005
The number of European service partners surpasses 6,500

September 2005
Our service partners begin receiving customer review information

November 2005
Truck tyres now available in Austria, Sweden and Switzerland

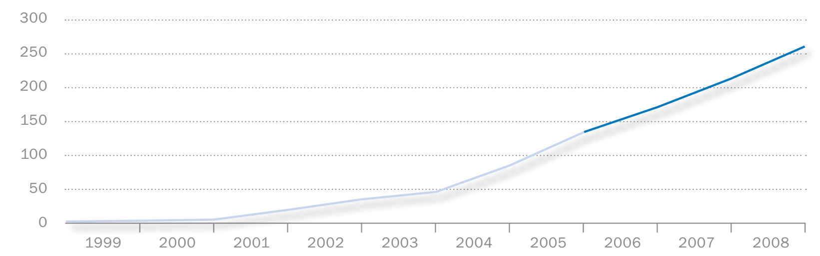
Dezember 2005
Approximately 800,000 customers

# 2006-2008

## PROFITABLE FOR 10 YEARS

Over the decade, Delticom has increased its revenues from € 6.9 million to € 259 million (2008). We are profitable, well-financed and have a strong balance sheet. In summary, Delticom is a reliable partner of its suppliers, customers and shareholders - even in difficult economic times.

TRADING VOLUME in € million




February 2006
The new season sees Spain, Italy, Denmark and Ireland get online shops specializing in motorcycle tyres

April 2006
More than 40,000 customers have taken the time to review our service partners

June 2006
Delticom supports the Germany's Federal Ministry for the Economy and Technology with its competition for new entrepreneurs

October 2006
On October 26, 2006, Delticom successfully becomes a publicly-traded company in the Prime Standard of the German Stock Exchange

December2006
Delticom records revenues of € 173.1 million in fiscal 2006

January 2007
The company opens its 16th B2B shop, this one in Finland

April 2007
Our network of service partners grows to more than 15,000

May 2007
The company's first General Meeting since becoming a publicly-traded company takes place in Hanover

September 2007
French customers can now pay using Carte Bleue. Delticom accepts a number of national and international payment options

November 2007
A German scholarly study shows that Delticom's tyres are on average 24% less expensive than in traditional tyre retailers

December 2007
Delticom North America Inc. is founded

January 2008
Customers in the USA can now buy motorcycle tyres from Delticom as well

March 2008
The number of registered customers surpasses the 2,000,000 mark

April 2008
Our B2C tyre shops are relaunched with attractive new designs incorporating even more user-friendly functions

August 2008
We open an online shop for Estonia bringing our total to 95 shops in 35 countries.

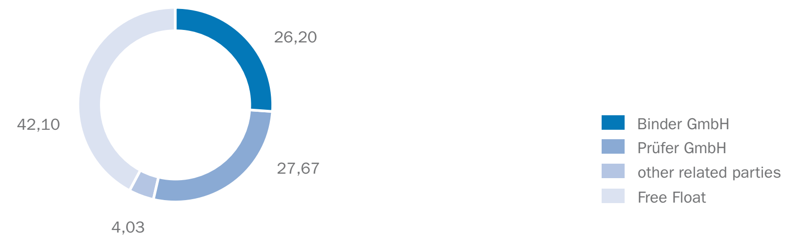
September 2008
Team Delticom has 82 employees

December 2008
Delticom joins the SDAX of the German Stock Exchange

# Delticom's Shares

## SHAREHOLDER STRUCTURE

Shareholder Structure in %




The free float according to the definition of Deutsche Börse AG is 46.1%.

## STOCK MARKETS IN 2008

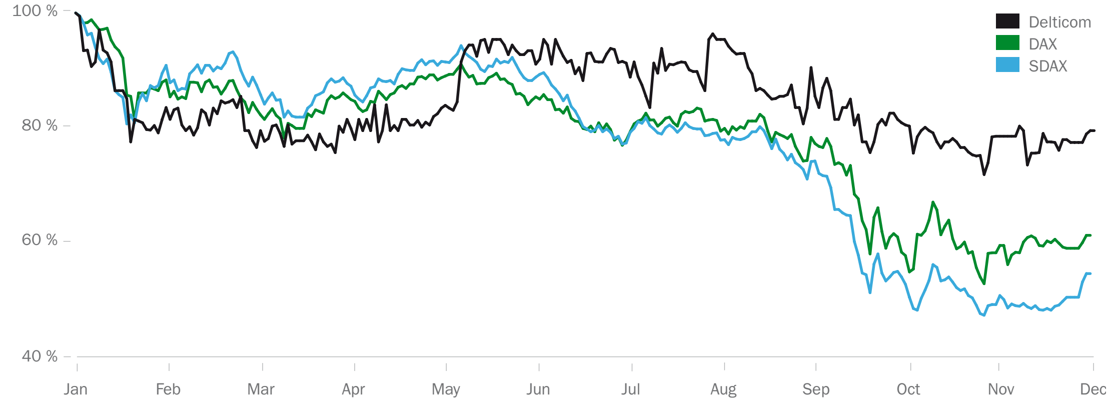
The first quarter saw several banks having to make massive write-downs in the wake of the credit crisis. During the months that followed, the high price of oil, rising inflation rates and the tightening of interest rates by central banks depressed overall economic prospects and caused the mood to darken. Trust in the markets received a large jolt in October when a major US investment bank collapsed. This led to a dramatic downturn in the liquidity of the financial system and caused the financial crisis to enter the real economy with its full force. Production cuts, profit warnings, and increasingly negative economic forecasts caused the international capital markets to plummet cruelly towards the end of the year. In order to prevent the global financial system from collapsing and to regain investors' trust, governments in many countries announced far-reaching stimulus packages. While these had a short-term positive effect on share prices, investors remain very nervous, as the consolidation in the banking sector and much-hoped-for economic upswing are now moving further and further into the future.

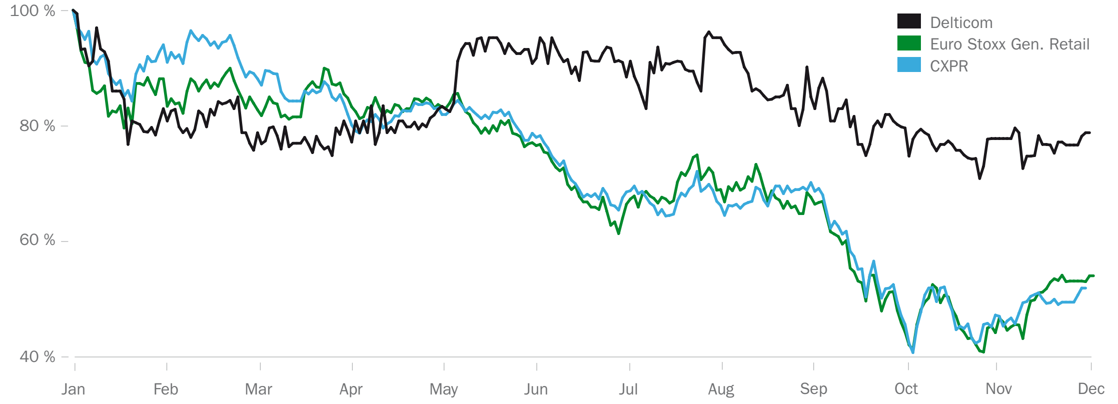
The leading German share index DAX started the year at 7,949 points, falling to 4,810 points by the end of the year – down 39%. Retailers were also not able to escape this downturn: Deutsche Börse's CXPR segment index ended the year with a performance of -47%. The „General Retail" segment index of the DJ Euro STOXX fell (-45%). The poor underlying conditions had a particularly devastating impact on shares with low market capitalizations. This can be seen in the performance of the SDAX, the German small-cap index. It came down from 5,219 points to 2,801 points during the course of the year – down 46%.





## DELTICOM SHARE PRICE




Delticom AG's share price started 2008 at € 49.30 and closed on 31 December 2008 at € 39.00. The lowest price in the corresponding period was € 35.16 (on 20 November 2008), the highest prices was € 49.30 (on 02 January 2008). Although the performance in 2008 was negative (-21%), Delticom AG nevertheless outperformed its relevant benchmarks significantly, the SDAX by +25% and the CXPR by +27%.

Delticom AG paid out a dividend of € 2.00 per share for the fiscal year 2007. In 2008, the company was again able to grow its revenues, market share and earnings significantly. The company carries a large liquidity position which increased again in 2008, due to strong cash flow. Delticom is thus securely financed for future growth. The shareholders will be asked at the Annual General Meeting on 19 May 2009 to approve a dividend of € 3.00 per share for the fiscal year 2008. Based on the closing price on 31 December 2008 this corresponds to a dividend yield of 7.7%. In this way, Delticom AG carries forward its attractive dividend policy and allows shareholders to benefit from its success.

Delticom AG was included by Deutsche Börse in the small cap Index SDAX on 22 December 2008.

## ANALYST COVERAGE

The following analysts publish regular updates on Delticom's performance (in the order of initiation of coverage):

| Analyst | | | | Estimates for 2009 | | | | |
|---|---|---|---|---|---|---|---|---|
| Broker | Name | Focus | Recommen-dation | Target price | Revenu-es (€m) | EBIT (€m) | EBIT (%) | EPS (€) |
| NordLB | Frank Schwope | Automotive | Sell | 33.00 | 275.0 | 15.3 | 5.6 | 2.64 |
| Bankhaus Metzler | Jürgen Pieper | Automotive | Buy | 47.00 | 304.0 | 19.8 | 6.5 | 3.57 |
| Sal. Oppenheim | Marcus Sander | Internet | Neutral | 47.00 | 282.6 | 14.4 | 5.1 | 2.62 |
| Exane BNP Paribas | Andreas Inderst | Retail | Outperform | 53.00 | 277.4 | 16.3 | 5.9 | 2.92 |
| Berenberg Bank | Lars Dannenberg | Small-/Midcaps | Buy | 48.50 | 278.0 | 15.0 | 5.4 | 2.72 |
| Nomura | Paul Diamond | Retail | Buy | 48.00 | 286.7 | 16.7 | 5.8 | 3.59 |
| Average | | | | 46.08 | 284.0 | 16.2 | 5.7 | 3.01 |

(Estimates and target prices as of 27 March 2009)

## INVESTOR RELATIONS

Delticom AG aims to hold regular and intensive contact to private shareholders, institutional investors and analysts. The goal of Investor Relations is to clearly communicate the strategy of the company. Investor Relations in 2008 were mainly focused on talks with institutional investors on roadshows in Germany and abroad. In addition, Board members had one-on-one meetings with many shareholders and potential investors, as well as the financial press.

Delticom AG publishes any insider information that directly affects the company without delay, including ad hoc publicity outside the recurring financial reporting. In addition, the management presents important developments in hosted investor conferences. Publications and presentations are made available in the download section of www.delti.com/InvestorRelations. Also available is the financial diary which is updated as soon as the dates of events (e.g., annual report, interim reports and the General Meeting) become available.

The IR team will continue to provide timely information to the shareholders, investors, the capital markets and the public.

### Delticom stock - key information

| | |
|---|---|
| German Securities Code Number (WKN) | 514680 |
| ISIN | DE0005146807 |
| Reuters / Bloomberg | DEXGn.DE / DEX GR |
| Designated Sponsors | Equinet, HSBC Trinkaus |
| Index membership | SDAX, GEX, CXPR, NISAX |
| Type of shares | No-par value registered shares |
| Transparency level | Prime Standard |

| | | | 2008 | 2007 | yoy |
|---|---|---|---|---|---|
| Share capital | | € | 3,946,480 | 3,946,480 | |
| Number of shares | | | 3,946,480 | 3,946,480 | |
| Market capitalisation | (1) | € million | 153.9 | 196.1 | |
| Average trading volume per day (XETRA) | | shares | 2,364 | 6,386 | |
| Share price at beginning of year | (2) | € | 49.30 | 43.04 | |
| Share price at end of year | (2) | € | 39.00 | 49.70 | |
| Share price high/low | (2) | € | 49.30 / 35.16 | 70.30 / 39.80 | |
| Performance for the year | (2) | % | -20.9 | 15.5 | |
| EPS (undiluted) | | € | 2.97 | 2.12 | +40.5 |
| EPS (diluted) | | € | 2.97 | 2.12 | +40.2 |
| P/E ratio | (1) | | 13.1 | 23.5 | |
| Equity per share | | € | 12.73 | 11.74 | +8.4 |
| Dividend | (3) | € | 3.00 | 2.00 | +50.0 |
| Dividend amount | (4) | € million | 11.8 | 7.9 | |
| Payout ratio (IFRS) | | % | 100.9 | 94.5 | |
| Payout ratio (HGB) | | % | 100.2 | 100.9 | |
| Dividend yield | (1) | % | 7.7 | 4.0 | |
| Operating cash flow per share | | € | 4.22 | 1.67 | +153.4 |
| Free cash flow per share | (5) | € | 3.89 | 1.18 | +230.7 |
| Free cash flow yield | (1) | % | 10.0 | 2.4 | |

(1) Based on official closing price on 31 December
(2) Based on closing prices
(3) Conditional on approval at the Annual General Meeting
(4) Based on number of shares outstanding at end of the year
(5) Free cash flow = Operating cash flow - investments

# Management Report

## 1 COURSE OF BUSINESS

2008 was a successful year for Delticom: Revenues were up 20.2% to € 259.0 million, with profits rising 40.5% to € 11.7 million.

### 1.1 OVERALL ECONOMIC SITUATION

For the global economy, 2008 was a tough year. During the first half of the year, commodity prices soared to record-breaking highs. In the second half of the year, the collapse of a number of key American and European banks set off a self-accelerating decline of confidence which proceeded to drag much of the rest of the real economy down with it.

As a result of this situation, many central banks have dropped their base lending rates to practically zero, hinting that further monetary easing may be in the works. In recent months, governments worldwide have responded to the situation by putting into place economic stimulus packages with some planning even larger expenditures of this nature for this year.

Increasingly pessimistic forecasts and general uncertainty over future developments had an impact on consumption patterns over the course of the past year. This was particularly the case in countries such as Spain, Italy and Sweden. In contrast, purchasing power actually increased in Germany, France and the United Kingdom at the end of 2008 – a result of the fall in oil prices caused by the recession. In 2009, however, it can be expected that the crisis will spread to affect consumers across Europe as fears of unemployment grow.

### 1.2 SECTOR SITUATION

For the tyre manufacturers, 2008 was the second consecutive disappointing year – unsurprisingly in view of the economic slump of the auto industry in the second half of the year. With the collapse of new car sales, tyre manufacturers were forced to cut production, in some cases substantially.

**Tyre retailing** failed to show any significant growth in preceding fiscal year after a difficult 2007. As recessionary fears grew at the end of 2008, experts were forced to revise downwards their original, cautiously optimistic forecasts for European tyre sales.

In Germany, according to the National Association of Tyre Dealers (BRV), a total of 43.7 million car tyres were sold in 2008, a drop of 4.0% year-on-year. Sales of winter tyres were relatively strong, with a year-on-year decline of only 3.3% to 20.4 million. In contrast, the downturn in summer tyres for cars was stronger with BRV estimates suggesting that total unit sales hit just 23.3 million tyres, 4.5% below figures from 2007. Sales of truck tyres are more cyclical, and thus fell at a significantly higher rate (light trucks: -10.1% to 2.7 million; trucks: -14.0% to 3.0 million).

## 1.3 DELTICOM

Business with replacement car tyres is highly **seasonal**.


The first quarter of 2008 was characterised by mild temperatures in January, which brought an early end to winter tyre sales, and relatively cool temperatures in March, which delayed the start of the summer tyre business. In contrast, revenues in Q1 07 had been relatively high as a result of January snowfall and a warm March (+52.3% compared to Q1 06). Revenue growth in Q1 08 was thus rather modest at +9.4% (from € 38.9 million in the previous year to € 42.6 million). It should be noted that these **base effects** do not necessarily demonstrate a structural downturn in growth patterns, but rather reflect weather-related demand. Indeed, if the weather had been different, it would have been reasonable to expect that many customers would have bought their summer tyres in the first quarter of 2008. Thanks to the company‘s consequent strategy of **internationalization**, Delticom was able to compensate for weaker sales in some individual markets with good growth in other markets.

Although conditions for the **second quarter** were also relatively poor due to the late start of the summer season (in places this began only at the end of April), Delticom was still able to increase its revenues by 25.2% to € 78.9 million (Q2 07: € 63.1 million). This growth in revenues was the outcome of an active market development strategy which combined increased marketing presence with regional price discounts, in order to use the unfavourable weather conditions to boost market share. Weather conditions in the **third quarter** were also slightly disappointing, as September was mild, getting the winter season off to a correspondingly late start. In spite of this, however, quarterly revenues were up 21.9% from € 44.0 million to € 53.7 million. Compared to the first two quarters, Q3 08 was less affected by shifts in revenues and base effects.

As usual, the **fourth quarter** enjoyed the highest revenues. These increased by 20.9% to € 84.0 million (previous year: € 69.5 million). Strong snowfall at the year‘s end, in Germany and elsewhere in Europe, extended the sales cycle beyond its usual peak. In hindsight, concerns that surplus stocks from the winter season 2007/2008 might have depressed profit margins appear to us to have been unfounded, with little evidence that retail prices came under pressure during 2008. Our own stocks were sold at good margins. We believe that, even without the significant snowfall experienced during the last quarter, we would have been able to clear our inventories to the usual extent.

Customers are always on the lookout for low-priced alternatives, in particular during economically challenging times. Delticom was left comparatively unscathed by last year‘s economic downturn. Evidence of this is found in the development of our customer numbers: In 2008, Delticom acquired a total of 695 thousand **new customers**, while 214 thousand repeat customers made a purchase with us. Overall, our **customer base** (customers who have made at least one purchase in 2008 or in previous years) increased from approximately 1,930 thousand to 2,626 thousand in 2008.





# 2 BUSINESS OPERATIONS

Delticom was formed in Hanover in 1999. Since then, the company has grown its revenues and profits in both Germany and abroad significantly, and is now Europe‘s leading online tyre retailer.

## 2.1 PRODUCTS

Delticom generates the bulk of its revenues with sales of **replacement tyres for cars**. We offer a broad product range: More than 100 tyre brands and 25,000 models, all of which can generally be shipped with short lead times, as well as rims and complete wheels. In addition, we sell tyres for other types of vehicles like motorcycles, and trucks. Each of our online shops offers customers 24/7 access to test reports and manufacturer‘s specs on every one of the products, so our customers are well-informed when placing an order.

In Germany, and also in the Europe‘s northern and Alpine regions, tyre retailing is characterised by **seasonal changes in the weather**. With our seasonal product ranges, we supply whatever our customers need to drive safely on Europe‘s roads.

Over the past years, our customers have increasingly been demanding ultra-high-performance and **innovative products** such as run-flat tyres. We do not only sell well-known premium brands, but also keep a wide variety of budget tyre models on offer. The growing interest in environmentally sustainable products also shows in our product range: We market tyres which help to lower fuel consumption.

Thanks to the extensive selection of car accessories, including engine oil, snow chains, batteries and select replacement car parts, Delticom is increasingly able to tap **cross selling potential**, thus increasing per customer revenues.

## 2.2 BUSINESS MODEL AND STRATEGY

**Online only.** Delticom only sells its products online, does not operate any bricks-and-mortar outlets, has few fixed assets and low personnel costs. Using cost-effective online advertising, Delticom is able to reach its large, geographically widespread target markets efficiently and effectively.

**Optimised sourcing.** A significant part of Delticom‘s revenues is achieved through the sale of goods warehoused in the company‘s own logistics centres (**stock-and-ship fulfilment**). Buying in bulk and out of season guarantees good purchasing conditions and puts us in a position to be able to deliver tyres at times of peak demand. When our customers order goods not directly stocked by Delticom, these are shipped directly from the supplier to the customer (**drop-ship fulfilment**). Using these two sourcing models, Delticom is able to react quickly to regional differences in supply and demand, and has the flexibility necessary to sell the products our customers want, when they want them.

**Reliable partners.** Over the past ten years, Delticom has established stable business relationships with manufacturers and wholesalers in Germany and abroad. Our order deliveries are handled by reliable, long-standing parcel services in a timely and cost effective manner. Delticom‘s customers can access a network of thousands of service partners in Germany, Europe and the USA to have their newly-purchased tyres fitted to their vehicles. Hotline services and parts of order processing have been outsourced to operations centres.

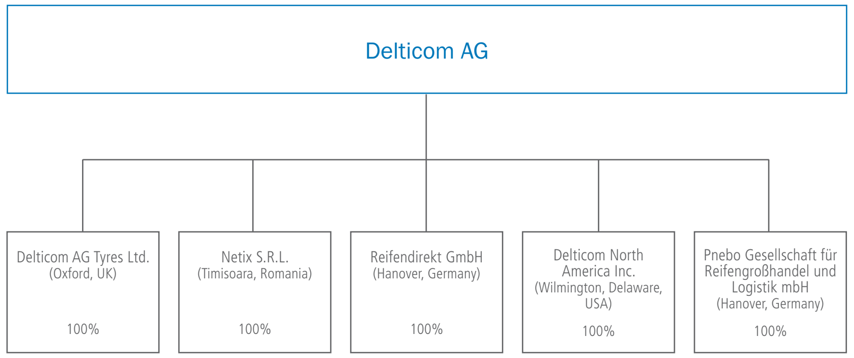
**Focus.** We focus on selling car tyres in Europe and will continue to organically increase our reach, into other regions and product groups. All of our employees constantly aim to improve our value added in regard to costs, quality, throughput and scalability.

Delticom is a **discount retailer**, offering its customers a product range of unparalleled breath and depth, at low prices.

## 2.3 CORPORATE STRUCTURE AND ORGANISATION

### Legal Structure

The Delticom group of companies consists of five wholly-owned subsidiaries, which are consolidated in the financial statements.




### 2.3.2 Organisation

The following members serve on the Managing Board of Delticom AG:

- Rainer Binder (CEO; Purchasing/Pricing, Wholesale, Marketing)
- Philip von Grolman (Logistics, North America, IT)
- Frank Schuhardt (Finance, Controlling, Operation Centres)

The Managing Board is advised and controlled by the Supervisory Board. At the end of 2008, the Supervisory Board had the following members:

- Andreas Prüfer (Chairman)
- Michael Thöne-Flöge (Vice Chairman)
- Alan Revie

### 2.3.3 Divisions

Delticom operates in two divisions: eCommerce and Wholesale.

- Delticom records the bulk of its revenues in its **eCommerce division**. Delticom sells products via 100 online shops to private and business end-customers in almost all of the countries in the EU, other European countries such as Switzerland, and in the USA. It operates in a total of 35 countries.
- Delticom's **Wholesale** division sells tyres to wholesalers in Germany and abroad. The Wholesale division serves strategic objectives: It acquires additional information on market conditions, can move large volumes in the tyre market in short timeframes, and enables the company to quickly gain a foothold in new countries. We are not forecasting any major growth for this division in the coming years.

### 2.3.4 Corporate Management

In order to direct company activities effectively, we use a variety of financial and non-financial objectives. **Key financial indicators**:

- Revenues and revenue growth are recorded by segments. The primary segments are eCommerce and Wholesale, the secondary segments are regions. Within the year, current sales and revenues are compared against the short-term and medium-term targets.
- The Purchasing department directs the pricing policy and, as a result, the gross profit margins of the individual products, online shops and countries.
- For Delticom as a whole, the key financial figure is EBIT. In addition, we closely monitor other performance indicators on a daily basis, including the liquidity position of the company and the changes in credit risks.

Our own inventories play an important role in the context of profit margins and delivery capability. Therefore key **non-financial indicators** relate to the flow of goods and to warehouse management metrics.

## 3 BUSINESS ENVIRONMENT

### 3.1 TYRE MARKET

The world tyre market is made up of two parts: the first supplies tyres to newly manufactured vehicles, the second is for **replacement tyres**. Relevant for Delticom it is the replacement market which accounts for about three-quarters of world tyre sales. More than 60% of all tyres sold are car tyres, while around 20% are truck tyres.

Europe, where the bulk of Delticom's activity takes place, accounts for roughly one-third of global tyre demand. A further third is sold in North America, while Asian markets provide another 20% of total world sales. Demand for replacement tyres in Europe is concentrated in **five main markets**: Germany, France, Great Britain, Italy and Spain. The European market volume relevant to Delticom amounts to approximately € 10 billion.

### 3.2 MARKET GROWTH

Currently there are more than 250 million cars on Europe's roads and highways. The average age of this vehicle stock is around 8 years. Approximately 70% of these cars are less than 10 years old. Today, vehicles are ever more durable and lasting longer. As a result, despite recent declines in new registrations, the number of vehicles being driven will continue to increase in years to come.

In Europe, the average car (and, of course, the tyres mounted on it) travels 15,000 kilometres annually. Thanks to similar road conditions throughout Europe, tyres typically require replacement after 60,000 kilometres of travel. As a result, the **replacement cycle** lasts roughly four years. With high gasoline costs and the uncertain economic future, it is safe to assume that some car drivers will reduce their vehicle use or switch to smaller cars. In our view, these actions will lead to a continued reduction of the average annual car mileage with a corresponding decline in tyre usage, thereby lengthening the replacement cycle.

Because car drivers wish to sacrifice neither mobility nor security, the demand for replacement tyres will remain comparatively stable. Most experts, however, are predicting that the sale of replacement tyres in both Europe and the USA will experience lower rates of growth in coming years than has been the case to date. In the long term, stronger rates of growth can only be expected in Eastern Europe, where levels of vehicle density remain low.

## 3.3 DISTRIBUTION CHANNELS

The largest **tyre manufacturers** command a significant share of the world tyre market. In addition, a number of medium-sized players have established themselves globally. As has been the case in other product groups, other smaller manufacturers based in low-wage regions have been gaining a foothold in the markets.

**Wholesalers** traditionally carry out a logistics function for the industry, usually for a number of brands. At the same time, they operate as „brokers“ on the world market and serve to help balance out regional differences in supply and demand.

The **tyre retail** space is very fragmented with a number of distribution channels standing in direct competition with one another: car dealerships, independent garages as well as national and international fast-fit chains and online retailers. According to BRV figures from 2007, 55% of tyres were purchased from specialized tyre dealers, 30% from vehicle manufacturers, 10% in general retail or DIY-markets with the remaining 5% bought through other distribution channels (including the Internet).

## 3.4 ECOMMERCE IN THE TYRE TRADE: CONSIDERABLE POTENTIAL

For more and more consumers, shopping online has become a regular part of their consumption patterns. This clear trend runs across practically all age and product groups. The reasons for the Internet‘s attractiveness are many: better prices, greater selection and convenience and the relative ease with which one can comparison shop.

In contrast to a number of other product groups, however, the share of tyre sales made online is relatively low. We estimate that online tyre sales accounted for only 3% of European sales in 2008. In Germany, the country‘s largest automobile association, ADAC, produced a report at the end of 2008 which revealed that 4.9% of its membership purchased their tyres over the Internet during the previous year (2007: 3.1%). In the 18 to 39 age group, the number rose to 8.9% (2007: 6.1%). There is reason to believe that these figures will accelerate in years to come: 15.0% of those polled in this study stated that they wanted to make future tyre purchases online. Of the younger, more Internet-savvy 18 to 39 year olds, this number jumps to a remarkable 27.8%.

In the past, it was often difficult for car drivers to get any sort of overview of the range and price of tyres on the market. In the current economic situation, consumers are increasingly seeking out cost-effective alternatives, often online. Delticom is well-positioned to take advantage of this sustained change in consumer behaviour.

## 3.5 COMPETITION

As a result of its position in the marketplace, Delticom competes with a number of different types of companies.

In Germany and a number of other countries, some **tyre retailers and manufacturers‘ chains as well as fast-fit chains** have taken to offering their products for sale online – primarily as a distribution channel intended to complement their main, bricks-and-mortar sales outlets.

Based on Internet revenues, Delticom is significantly larger than its European **online competitors** and, unlike these, it is active in all of Europe. Thanks to both the economies of scale and the significant competitive advantage which Delticom currently enjoys, we expect that we will continue to be one of Europe‘s leading online tyre retailers in the future.

# 4 RESULTS OF OPERATIONS

## 4.1 REVENUES

Delticom was able to buck the industry trend in fiscal year 2008 and substantially increase its unit sales. The company‘s revenues grew by 20.2% from € 215.5 million to € 259.0 million.

Revenues in the **eCommerce division** increased year-on-year by 21.7% from € 195.3 million to € 237.6 million. The **Wholesale division** reported revenues of € 21.4 million (+5.9% on previous-year divisional revenues of € 20.2 million). The proportion of eCommerce revenues to total group revenues has grown in the past years: in the reporting period, the share of eCommerce was 91.7%, against 90.6% over the corresponding previous-year period.

## 4.2 KEY EXPENSE POSITIONS

### 4.2.1 Cost of Sales

The cost of sales is the largest expense item. It increased by 18.4% from € 163.6 million in 2007 to € 193.7 million in 2008 (74.8% of revenues), primarily due to higher revenues. The cost of sales in the eCommerce division increased by 19.9% from € 145.7 million to € 174.7 million (73.5% of divisional revenues). In the Wholesale division, the cost of sales increased by 6.7% to € 19.1 million (previous year: € 17.8 million), corresponding to 89.0% of this division‘s revenues (previous year: 88.3%).

### 4.2.2 Personnel Expenses

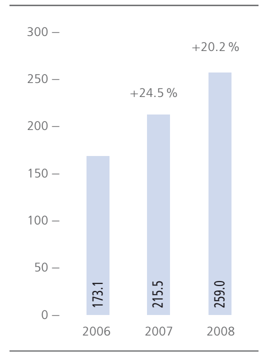
Despite increased transaction volumes in 2008, Delticom was able to keep staff levels low, thanks to efficient business processes. Across the reporting period, the company employed an average of 81 persons and as of 31 December 2008 86 staff (31 December 2007: 78). The personnel expenses ratio (staff expenditures as percentage of revenues) decreased in the reporting period from 2.0% to 1.9%.

### 4.2.3 Other Operating Expenses

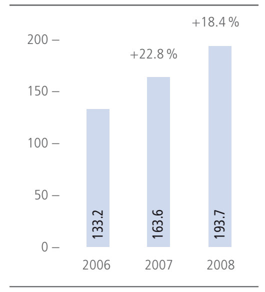
In total, **other operating expenses** increased year-on-year by € 9.8 million from € 36.7 million to € 46.6 million. Key positions:

- Tyres sold online are picked up at the delivery points by parcel services which then transport the tyres to the customers and service partners. As business volumes increase, so too do these **transportation costs** (+22.5%). The share of transportation costs against revenues rose from 7.9% in 2007 to 8.1% in 2008, mainly due to more shipments to customers in non-domestic destinations.
- **Stocking costs** declined by € 0.4 million (-14.1%) to 1.0% of revenues (previous year: 1.4%). Since the beginning of 2008, Delticom no longer reports rents for warehouses under „stocking costs“ but rather as part of the „rents and overheads“ line item of the other operation expenses, the latter of which have risen correspondingly with the decline noted above. In addition, the introduction of several new systems and procedures helped to streamline processes in warehouse management and drive down costs.

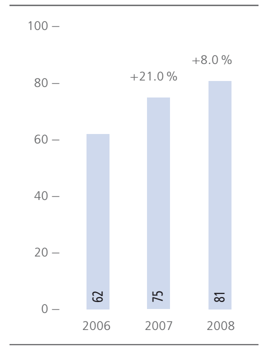
Revenues in € million



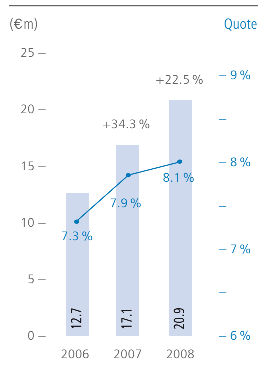

Cost of Sales in € million



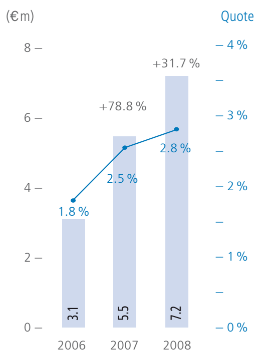

Employees



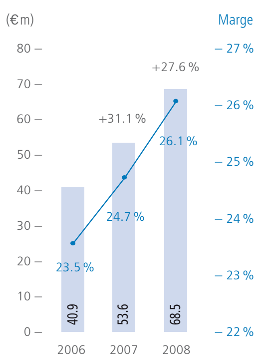

Transportation Costs



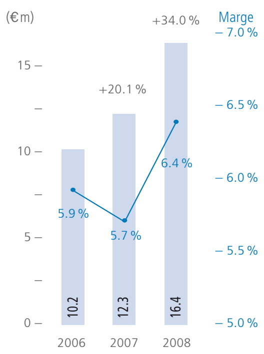
Marketing Costs




Gross Profit




EBIT




- In the reporting period, costs for **advertising** totalled € 7.2 million (previous year: € 5.5 million). This represents a marketing expense ratio (marketing expenses as a percentage of revenues) of 2.8%, after 2.5% in the corresponding period of the previous year.
- Delticom's hotline and selected parts of the customer and delivery processes are outsourced to external service providers. In 2008 the costs for these **operations centres** increased by 28.3% from € 2.9 million to € 3.8 million. The driving factor of this increase is rising wage costs in the countries where the Operations Centres are located. The share of these cost related to revenue rose accordingly, to 1.5% (2007: 1.1%).

## 4.3 EARNINGS POSITION

### 4.3.1 Gross Profit

In the past fiscal year, gross profit increased year-on-year by 27.6%, from € 53.6 million to € 68.5 million. The gross profit margin (gross profit in relation to total income) improved from 24.7% to 26.1%, as a result of further improvements in purchasing conditions and optimised end-customer prices.

On a quarterly basis, the gross margin in Q2 08 of 24.7% was lower than in Q1 08 (25.7%), as the selling prices in certain regions were adjusted slightly downwards. In Q3 08 the gross profit margin was up as planned to 27.0% (Q3 07: 24.9%). As a result of sustained demand, the gross profit margin in Q4 08 remained favourable at 28.2% (25.9%: Q4 07).

The two divisions – eCommerce and Wholesale – operate at different gross profit margins. In 2008, eCommerce was able to achieve a higher margin (26.7%) than Wholesale (11.6%), a result similar to that of the preceding year (25.7% vs. 11.9%). Should the revenues of the eCommerce division continue to grow, as is planned, at a faster rate than those of Wholesale, with time, Delticom's overall gross profit margin will continue to converge with that achieved by eCommerce.

### 4.3.2 Earnings Before Interest and Taxes (EBIT)

The EBIT improved during the reporting period to € 16.4 million (2007: € 12.3 million). The return on sales based on EBIT (EBIT margin) was 6.4% (2007: 5.7%).

With this result, the EBIT margin developed more positively than expected. This occurred for the following reasons:

- Improved contribution margin after direct costs (such as transportation and warehouse costs)
- Relatively lower fixed costs in relation to the increase in revenues
- A higher Q4 08 EBIT margin of 9.0% (previous year: 7.8%), thanks in part to a good winter sales season in European markets.

Because of the low capital intensity of Delticom's business model, depreciations were relatively low (2008: € 486 thousand, 2007: € 326 thousand). As a function of this, the result of ordinary activities before amortization and depreciation (EBITDA) of € 16.9 million hardly differs from the EBIT (EBITDA margin 6.5%).

### 4.3.3 Financial Result

Although Euro interest rates declined over the course of the past year, the company was able to achieve a financial result of € 1,148 thousand, basically unchanged from previous year (€ 1,116 thousand). Overdraft facilities were scarcely used and always settled quickly. The financial expenses of € 11 thousand (2007: € 109 thousand) resulted mainly from provisions and expenses related to Delticom's import/export business.

### 4.3.4 Consolidated Net Income and Dividend

**Pre-tax earnings (EBT)** amounted to € 17.6 million, a rise of +31.4% over the previous year (€ 13.4 million).

As a result of the change in German tax law, the effective **tax rate** declined from 37.7% to 33.3%.

**Consolidated net income** was up 40.5% from € 8.3 million to € 11.7 million. This corresponds to **earnings per share (EPS)** of € 2.97 (undiluted, 2007: € 2.12). The calculation of EPS is detailed in the notes.

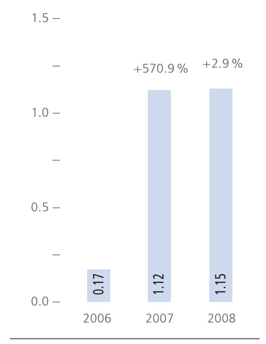
At Delticom's Annual General Meeting on 19 May 2009, the firm's Managing Board and the Supervisory Board will propose a **dividend** of € 3.00 per share – an increase of 50.0% compared to the dividend for fiscal year 2007 of € 2.00.

## 5 ASSETS

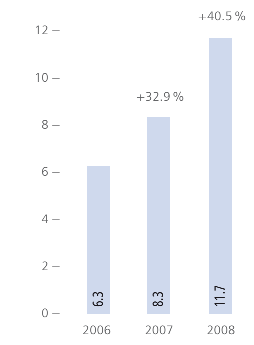
The company's **non-current assets** amounted to only € 3.4 million on 31 December 2008, or just 3.5% (31 December 2007: 4.1%) of total assets. In the **current assets**, inventories accounted for € 37.1 million, 38.8% of total assets (31 December 2007: € 35.6 million or 40.7%). The moderate 4.4% year-on-year increase in inventories is the result of the investments into better processes and systems in the warehouses and the supply chain. It was not necessary to record any impairments on any stocked goods.

To the end of the reporting period, **accounts receivable** totalled € 8.5 million. **Bad debt losses** in 2008 reached € 1,906 thousand, an increase of 78.1% over the € 1,070 thousand recorded in the year before, thus growing faster than revenues. This is evidence of the effects the recession has on some customers: In difficult times, payment behaviours worsen. In the wholesale business, individual write-downs also increased in the wake of the economic downturn, as it is not possible to fully cover the risk with credit insurances. As a consequence of the worsening economic environment the default rate (share of receivables losses and individual write-downs in percent of revenues) increased from 0.5% in 2007 to 0.7% in 2008. Delticom has reacted to these developments by tightening its credit management processes.

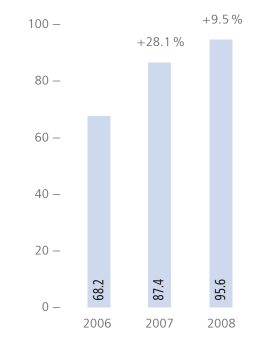
Financial Result (netto) in € million



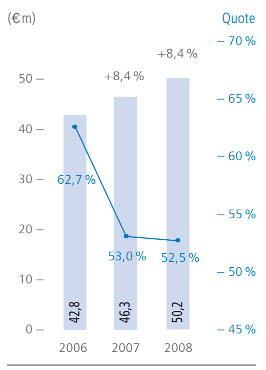

Consolidated net income
in € million



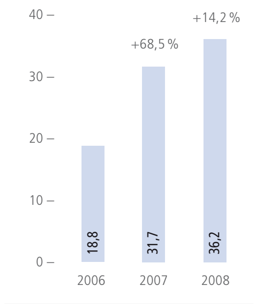

Assets in € million



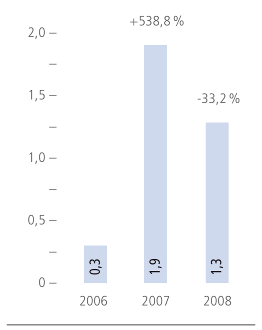
Equity Ratio



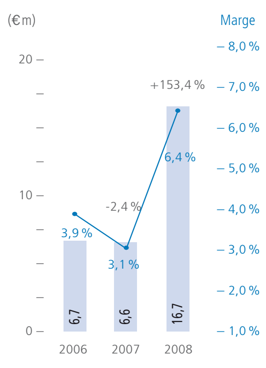

Accounts Payable in € million




Capex in € million




Operating Cashflow




## 6 FINANCIAL POSITION

### 6.1 FINANCING

In 2008, Delticom financed its business activities with current income, accounts payable and equity. As of 31 December 2008 the **equity ratio** was 52.5% (31 December 2007: 53.0%).

**Liabilities** at the end of the reporting period stood at € 45.4 million, 98.9% of which were current. The preponderant element here was accounts payable (€ 36.2 million). In line with the development of the business, this position increased by 14.2% (31 December 2007: € 31.7 million). The non-current liabilities to the end of the fiscal year totalled € 0.5 million (previous year: € 0.3 million). A large part of this related to deferred tax liabilities (€ 443 thousand).

The company has no debts at banks apart from short-term current accounts which fluctuate with the normal course of business and which are generally very low.

### 6.2 INVESTMENTS

In the reporting period, capital expenditures amounted to € 1.3 million, € 1,180 thousand of which were investments in property, plant and equipment. The bulk of these were investments into **warehousing equipment** for the facilities rented by Delticom, in close coordination with logistics service providers. The investments reduce operational costs in two areas:

- The investments help to streamline the warehousing processes. As a result, the products can be picked and packed faster and more cost-efficiently.
- The cost structure at the parcel services improves, due to optimised packaging technology and increased economies of scale.

In addition, the company invested € 106 thousand in **intangible assets**. These investments primarily took the form of web domains of eCommerce shops with complementary product assortments.

In 2008 Delticom collected proceeds from the disposal of financial assets amounting to € 1,000 thousand.

### 6.3 CASH FLOW AND LIQUIDITY

Cash flow from ordinary activities (also known as **operating cash flow**) measures the ability of a company to finance itself from is operations. In 2008, Delticom saw its operating cash flow increase to € 16.7 million (previous year: € 6.6 million). This corresponds to a cash flow margin (cash flow to revenues) of 6.4% (previous year: 3.1%). The **free cash flow** (operating cash flow minus capital expenditures) rose in the same period by 231%, from € 4.6 million to € 15.4 million.

As of 31 December 2007, Delticom had cash and cash equivalents totalling € 34.5 million. This amount declined to € 29.3 million as of 31 December 2008, however, a **liquidity reserve** was set up via investments of € 13.6 million in highly liquid money market instruments. In total, the available **liquidity position** at the end of the year went up to € 42.9 million, an increase of 24.3% year-on-year.

During 2008, the liquidity position was always markedly higher than would have been necessary for securing business operations. Delticom was able to meet its payment obligations at all times.

Change in Cash Position in € million


## 7 OVERALL STATEMENT ON THE ECONOMIC SITUATION

Although the economic climate deteriorated significantly, 2008 proved to be a very successful year for Delticom. With year-on-year revenues growth of 20.2% to € 259.0 million, a 40.5% increase of consolidated net profit to € 11.7 million and a cash flow margin rising from 3.0% to 6.4%, Delticom was again able to combine strong growth, profitability and financial strength.

## 8 REPORT ON KEY EVENTS AFTER THE END OF THE FISCAL YEAR

There were no events of particular importance after the end of fiscal year 2008.

## 9 RISK REPORT

### 9.1 RISK MANAGEMENT

As a company operating internationally, Delticom is subject to varying types of risk. In order to be able to identify, evaluate and respond to such risks in a timely fashion, Delticom put in place a risk management system early on. This system established corporate guidelines for the early recognition of risk and risk management. By routinely evaluating the extent of possible damages along with the probability of their occurrence, we work to ensure that any identified risks stay well within accepted thresholds in order to avoid any significant concentrations of risk.

The analysis, monitoring and communication of risk are integral components of managing our business. The company's „Risk Manager" is responsible for regular risk reporting. In addition, all employees are also required to report any risks they identify directly to the Managing Board, by ad-hoc reporting if required.

## 9.2 KEY INDIVIDUAL RISKS

The following sections outline key individual risks, their possible development and countermeasures. Select currency, credit, market and liquidity risks are summarized under „Financial risks" while further information can be found in the notes.

### 9.2.1 Strategic Risks

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

**Lower average mileage driven during recessions.** Car drivers limit the amount they use their vehicles during periods of crisis, meaning tyres wear out more slowly and the purchase of replacements is delayed. During times of economic difficulty, some car owners even delay buying replacement tyres in spite of being aware of dangerously low tread on their tyres. On the other hand, periods of economic downturn see the declines in the sale of so-called "big ticket items" such as automobiles. Such a development benefits Delticom, for as people hold onto their vehicles for longer periods of time, their need for replacement tyres grows accordingly.

**The state's regulatory activities impact the replacement tyre market.** During the past months, sales of new cars have fallen sharply throughout Europe. In an effort to slow or even stop this decline, governments in France, Germany, Italy, Spain and Austria have introduced so-called „scrappage schemes" to encourage consumers to discard their old vehicle and purchase a new one. Because of the multi-year nature of the replacement cycle, only a fraction of the replacement tyre market Delticom serves will be substituted. Furthermore, online tyre sales account for only a small share of overall sales and growth for this sales channel is relatively strong. As a result, we do not expect that economic stimulus packages of the type described above will have a strong impact on Delticom's revenues or revenue growth.

### 9.2.2 Weather-Related Risks

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

**Car drivers are not buying new summer or winter tyres.** An increasing number of consumers are tending to drive their cars with summer tyres during the winter. Since winter tyres are on average more expensive, this trend could have a negative impact on Delticom's revenues (worse mix). Reacting to the public safety issues this behaviour raises, lawmakers in several countries have taken steps to address this situation. In Germany, for instance, car drivers are legally obliged to ensure their tyres are appropriate for weather conditions. Failure to do so can result in a fine or the loss of insurance coverage. In parts of Scandinavia and alpine regions, winter tyres must be used during set times each year. One alternative for consumers not interested in changing their tyres as the seasons demand are all-season tyres, an understandably more expensive product, the sales of which have a positive effect on Delticom's revenues (better mix).

**Incorrectly forecasting weather-related demand can result in overstocks along the supply chain.** Over the past few years, manufacturers have successfully become leaner, and are now proficient in tailoring their production to demand. In spite of this, however, the supply chain is often depressed by overstocks. Warm summers and snowy winters then bring the necessary market corrections. The snowy winter in 2008 was such a case as it helped reduce accumulated surplus stocks and relieved pressure on margins. When purchasing stock, we typically consider the total European supply situation, and regularly evaluate alternatives in our warehousing and price policies. Through our eCommerce and Wholesale divisions, Delticom is able to quickly reduce any stock surpluses which arise from time to time.

### 9.2.3 Price Risks

**Customers are „trading down" in recession times.** In view of the threat to their quality of living, consumers pay greater attention to prices. This development typically benefits discount retailers and online vendors of which Delticom is one. Related to this increased price sensitivity is a potential decline in premium brand sales with lower-tier brands or budget tyres enjoying a corresponding increase in demand. While such a trend would not necessarily impact unit sales negatively, it would nevertheless drive down the value of each transaction and could (if unit sales do not grow enough) depress revenues, maybe even profit margins. Aware of this possible development, we will be paying close attention to our inventories, prices and product mix in the months ahead.

**Changes in input prices at the manufacturing level.** Changes in commodity prices, in particular for oil and rubber, play a significant role in sell-in pricing (manufacturers to retailers). Experts believe that the latitude for further price increases will not rise in the foreseeable future. Changes in raw material prices only factor into tyre manufacturers' calculations four to six months down the line, and are then only partially passed on downstream to tyre retailers. Thanks to our years of industry experience, Delticom is well-placed to react to structural price shifts in a timely fashion by making changes to our pricing policy if this is what is required.

**Prices can fall during recessions.** Lower demand always puts pressure on prices: In the event of a lasting recession, better purchasing conditions will increasingly have to be passed on to end customers. Typically Delticom strives to achieve stable profit margins, even at the expense of short-term declines in revenue. Delticom has sufficient cash at its disposal to be able to resist a sustained downturn in prices.

### 9.2.4 Financial Risks

**As a company with global operations, Delticom issues and pays its invoices in currencies other than the Euro. This results in currency risks.** Delticom creates hedges against these risks by using suitable financial instruments, in particular forward contracts. The effectiveness of these hedges is monitored by the firm's relevant purchasing and liquidity management employees on a regular basis. In addition, Delticom works with banking partners who have many years' experience in the import/export business.

**A strong Euro can erode Delticom's competitive position in countries with weaker currencies.** Delticom also sells its products to end customers outside the eurozone. However, complex hedge strategies are only worthwhile in the event of a continued deterioration in the value of a foreign currency or if the market is strategically important. In the USA, Delticom only sells using drop-ship fulfilment. This creates a natural hedge in its dealings with customers there; the remaining currency translation risk is accepted.

**Delticom holds large inventories, which are subject to risks of loss and obsolescence. Liquidity can be depressed by capital being tied up in inventories.** Delticom procures part of its forecast sales quantities before the season starts and warehouses these tyres to ensure that it can make deliveries during peak periods. In order to prevent overageing, the condition of these warehoused tyres is reviewed regularly. Stocks identified during this process are then sold at a discount in our online shops – naturally with an explanation for the price break. In the past years, Delticom has not had to write down any stock due to overageing. There are no liquidity risks: the company has sufficient financing to be able to make payment even during periods of high inventory levels.

**Customers find themselves with payment problems as a result of the worsened economic conditions.** Recessions have a perceptible impact on business with both private and commercial customers as payment practices deteriorate in difficult periods. In so far as it is possible, Delticom works to limit defaults through the use of credit insurance. In addition, we have further tightened our credit issuing practices and are working together with industry specialists to assess credit risk and facilitate debt collection.

**Delticom has large stocks of cash and cash equivalents. Credit risks related to investments increase as a result of the crisis on the financial markets.** As a result of recent downturns in the financial market, Delticom has further tightened our already conservative investment practices. Our cash and cash equivalents are invested with parties who enjoy top credit ratings, not so much with an eye on yield, but rather to ensure our easy access to these resources should they be required.

**Access to credit is limited or only available at a very high cost.** Delticom is only indirectly affected by the crisis in the financial markets. The company is exclusively financed via equity, earnings and trade payables. Delticom has a high level of cash and cash equivalents and is debt-free. There is no need to call upon the money and capital markets for the time being.

### 9.3 OVERALL RISK ASSESSMENT

Delticom has a risk and early warning management system which is extensive, well-integrated and effective. During the last fiscal year, potential risks were identified at an early stage and were reported upon immediately allowing countermeasures to be taken quickly. Our systems and processes for managing opportunity and risk are tried-and-tested, and Delticom is committed to ensuring that they develop to be even more effective than is already the case.

At present we can not identify any individual risks which might endanger the company as a going concern. Considered together, it is our opinion that the risk factors outlined above do not pose a danger to Delticom's business activities.

## 10 OUTLOOK

Rising unemployment and declining household income will have a negative impact on consumer confidence and demand over the next months. The tyre industry is not immune to the effects of the sharp economic downturn. This is reflected in the forecasts of industry experts. For example, the BRV is not forecasting any year-over-year growth in the German tyre market in 2009. Currently, there are few reliable indicators as to how car drivers, tyre manufacturers and companies active within the industry in Europe and the USA will act over the coming months. Furthermore, factors might interact in a complex, self-reinforcing fashion – with positive or negative outcomes.

However, the current economic situation brings not only risks for Delticom, but presents opportunities as well: Tyre buyers will increasingly look for lower-priced alternatives, in particular on the Internet which is a growing discount sales channel. Delticom's business model is robust, the company is debt-free and has a strong balance sheet. These factors combine to keep our risks controlled and allow us to respond flexibly to the opportunities as they arise.

In our planning for the current year, Delticom is forecasting a year-over-year growth in revenues of 10%. In comparison to our past performance, such a figure may initially appear defensive. We feel, however, that this estimate is a prudent one for several reasons. First, there continues to be uncertainty amongst economists regarding what sort of headwind companies like ours will be facing in 2009. Second, we believe that 2008 was a very successful year for Delticom. Consequently, growth rates might soften because of negative base effects. We are confident, though, that the guided revenues can be achieved if the year unfolds in a normal way. In a recession environment, some additional sales might be achievable at slightly reduced margins. As a result, we do not foresee EBIT margins of over 6% as the norm, but consider them a pleasant surprise.

In the event that the European market continues to stagnate or shrink beyond 2009, we will be satisfied in the medium term with yearly growth rates in the lower double digits, regarding both revenues and results. Independent of the general market conditions, however, we expect that Delticom will continue to grow at a rate above the market trend.

Assuming that the financial strength of the company develops as it has in recent years, we will continue to be in a position that will allow us to invest in new and improved systems and processes. Such changes will leave the company well positioned to achieve further growth once the economic situation improves.

Our financial planning continues to be based on the principle that a substantial portion of company profits will be paid out to shareholders in the form of dividends – subject to Deltcom's liquidity position remaining solid.

## 11 MANAGEMENT BOARD REMUNERATION REPORT

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

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

The performance related components for all of the members of the Managing Board are based on Delticom AG's operating results. In addition, Mr. Schuhardt, member of the Managing Board, was allowed to participate in a stock option program as a variable component with a long-term incentive. As in the previous year, none of the members of the board were granted advances on their salaries or given loans during 2008.

## 12 INFORMATION REQUIRED UNDER TAKEOVER LAW § 315 SECTION 4 HGB (GERMAN COMMERCIAL CODE)

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

### COMPOSITION OF SUBSCRIBED CAPITAL

After going public on 26 October 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.

### RESTRICTIONS AFFECTING VOTING RIGHTS OR TRANSFER OF SHARES

Delticom AG's shareholders are neither restricted by German legislation nor by the company's Articles of Incorporation on their decision to buy or sell shares. Only the statutory prohibitions on voting rights apply.

### EQUITY PARTICIPATIONS EXCEEDING 10% OF VOTING RIGHTS

The shareholder Binder GmbH and Prüfer GmbH are the only shareholders with an interest of more than 10%. The interest in Delticom AG in terms of Section 22 I S. 1 Nr. 1 WpHG (Securities Act) for Binder GmbH can be attributed to Rainer Binder and for Prüfer GmbH to Andreas Prüfer. In addition, Binder GmbH and Prüfer GmbH have entered in a pool contract in terms of Section 22 II S. 1 WpHG.

### SHARES WITH SPECIAL RIGHTS

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.

### CONTROL OF VOTING RIGHTS IN THE EVENT OF EMPLOYEE PARTICIPATION

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

### APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGING BOARD, CHANGES TO THE ARTICLES OF INCORPORATION

Members of the Managing Board are appointed and dismissed according to Sections 84 et seq. of the Aktiengesetz (AktG - German Public Limited Companies Act). Changes to the articles of incorporation are governed by Sections 179 et seq. of the AktG.

### AUTHORIZATION FOR THE MANAGING BOARD TO ISSUE SHARES

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 et seq. of the AktG. The Managing Board was also authorised by resolution of the shareholders' meeting on 30 August 2006, subject to the approval of the Supervisory Board, to increase the company's share capital by a maximum of € 698,240.00 (authorised capital II/2006) by no later than 29 August 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 authorised capital II/2006 was entered in the commercial register on 1 September 2006.

The General Meeting on 30 August 2006 authorised 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 29 August 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 30 August 2006, the company's share capital was conditionally increased by € 100,000 by issuing a total of up to 100,000 new no-par value registered shares (contingent capital I/2006). Contingent capital I/2006 serves exclusively to grant shares to the holders of options issued by the company on the basis of the authorisation granted by the General Meeting on 30 August 2006 for the granting of options. The contingent capital I/2006 was entered in the commercial register on 1 September 2006. In the fiscal year 25,000 option rights were issued to a member of the Board.

The General Meeting on 30 August 2006 authorised 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 29 August 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 totalling € 1,448,240.00 ("new shares") according to the details of the terms and conditions for the convertible bonds or bonds with warrants. This authorisation may be exercised in whole or in part. By way of a resolution by the General Meeting on 30 August 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 authorisation of the General Meeting on 30 August 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 1 September 2006.

### AUTHORIZATION FOR THE MANAGING BOARD TO BUY BACK SHARES

By way of a resolution by the general meeting on May 6, 2008, the company was authorized to acquire own shares of up to 10% of its share capital on that date of € 3,946,480.00. This resolution is valid for 18 months. The authorization may be exercised in full or in part, on one or several occasions, for one or for several purposes by the company or by third parties for the company's account. The shares are acquired, at the Managing Board's discretion, via the stock exchange or via a public purchase offer or via a public request to issue this type of offer. The compensation per share paid for the acquisition of shares via the stock exchange (without incidental acquisition costs) may not be more than 10% above or below the price identified in the XETRA trading system (or a comparable successor system) on the stock market day in the opening auction. If shares are acquire via a (i) public purchase offer or a (ii) public request to issue a purchase offer, the offered purchase price or the thresholds for the offered purchase price range per share (without incidental acquisition costs) may not be more than 10% higher or lower than the respective value of a share of the company. The respective value for (i) the price identified in the closing auction in XETRA trading (or a comparable successor system) on the stock market trading day prior to the date the offer is announced, and for (ii) the price identified in the closing auction in XETRA trading (or a comparable successor system) on the last stock market day prior to the date on which the offers were accepted by the company. If there are not insignificant differences between the relevant prices after the purchase offer is published, the offer can be adjusted. The Managing Board is authorized to use the acquired own shares for all purposes permitted by law: In particular, it can withdraw the shares or sell them off the stock exchange or via an offer to shareholders or against non-cash contributions. Shareholders' subscription rights can be excluded under certain conditions.

### KEY CONDITIONED AGREEMENTS OF THE COMPANY

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.

## 13 RELATED PARTIES REPORT (SECTION 312 ABS. 3 AKTG – GERMAN PUBLIC LIMITED COMPANIES ACT)

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."

# Consolidated Financial Statements



# Consolidated Income Statement

| € thousand | Notes | 01.01.2008 - 31.12.2008 | 01.01.2007 - 31.12.2007 |
|---|---|---|---|
| Revenues | (1) | 258,979 | 215,504 |
| Other operating income | (2) | 3,221 | 1,701 |
| Total operating revenue | | 262,200 | 217,205 |
| Cost of goods sold | (3) | -193,723 | -163,557 |
| Gross profit | | 68,477 | 53,648 |
| Personnel expenses | (4) | -4,952 | -4,300 |
| Depreciation and amortization of intangible assets and depreciation of property, plant and equipment | (5) | -486 | -326 |
| Other operating expenses | (6) | -46,590 | -36,748 |
| Earnings before interest and taxes (EBIT) | | 16,449 | 12,274 |
| Financial expenses | | -11 | -109 |
| Financial income | | 1,159 | 1,225 |
| Net financial result | (7) | 1,148 | 1,116 |
| Earnings before taxes (EBT) | | 17,596 | 13,390 |
| Income taxes | (8) | -5,866 | -5,042 |
| Consolidated net income | | 11,731 | 8,348 |
| | | | |
| Allocable to shareholders of Delticom AG | | 11,731 | 8,348 |
| Earnings per share (basic) | (9) | 2.97 | 2.12 |
| Earnings per share (diluted) | (9) | 2.97 | 2.12 |

* EBIT = earnings before interest and taxes
** EBT = earnings before taxes

# Consolidated Balance Sheet

## ASSETS

| € thousand | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Non-current assets | | 3,387 | 3,579 |
| Intangible assets | (10) | 1,166 | 1,173 |
| Property, plant and equipment | (11) | 2,136 | 1,330 |
| Financial assets | (12) | 0 | 1,000 |
| Other receivables | (13) | 85 | 76 |
| | | | |
| Current assets | | 92,250 | 83,781 |
| Inventories | (15) | 37,134 | 35,581 |
| Accounts receivable | (16) | 8,468 | 10,356 |
| Other current assets | (17) | 3,688 | 3,303 |
| Securities | (18) | 13,620 | 0 |
| Cash and cash equivalents | (18) | 29,339 | 34,540 |
| | | | |
| Assets | | 95,637 | 87,360 |

## SHAREHOLDERS' EQUITY AND LIABILITIES

| € thousand | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Equity | | 50,224 | 46,342 |
| Subscribed capital | (19) | 3,946 | 3,946 |
| Share premium | (20) | 31,809 | 31,706 |
| Other comprehensive income | (21) | -86 | -27 |
| Retained earnings | (22) | 200 | 200 |
| Net retained profits | (23) | 14,355 | 10,518 |
| | | | |
| Liabilities | | 45,414 | 41,018 |
| | | | |
| Non-current liabilities | | 478 | 344 |
| Non-current provisions | (24) | 34 | 24 |
| Deferred tax liabilities | (14) | 443 | 320 |
| | | | |
| Current liabilities | | 44,936 | 40,674 |
| Provisions for taxes | (24) | 2,053 | 1,888 |
| Other current provisions | (24) | 28 | 337 |
| Accounts payable | (25) | 36,192 | 31,696 |
| Other current liabilities | (27) | 6,664 | 6,753 |
| | | | |
| Shareholders' equity and liabilities | | 95,637 | 87,360 |

# Consolidated Cash Flow Statement

| € thousand | 31.12.2008 | 31.12.07 |
|---|---|---|
| Earnings before interest and taxes (EBIT) | 16,449 | 12,274 |
| Depreciation and amortization of intangible assets and depreciation of property, plant and equipment | 486 | 326 |
| Changes in other provisions | -299 | 320 |
| Net gain on the disposal of assets | 1 | 0 |
| Changes in inventories | -1,553 | -14,791 |
| Changes in receivables and other assets not allocated to investing or financing activity | 1,494 | -2,689 |
| Changes in payables and other liabilities not allocated to investing or financing activity | 4,510 | 15,322 |
| Interest received | 1,159 | 1,036 |
| Interest paid | -11 | -109 |
| Income tax paid | -5,578 | -5,116 |
| Cash flow from operating activities | 16,657 | 6,574 |
| Payments for investments in property, plant and equipment | -1,180 | -1,148 |
| Payments for investments in intangible assets | -106 | -779 |
| Proceeds from the disposal of financial assets | 1,000 | 0 |
| Payments for investments in liquidity reserve | -13,579 | 0 |
| Cash flow from investing activities | -13,865 | -1,926 |
| Dividends paid by Delticom AG | -7,893 | -4,736 |
| Cash flow from financing activities | -7,893 | -4,736 |
| Changes in cash and cash equivalents due to currency translation | -100 | -32 |
| Cash and cash equivalents at the start of the period | 34,540 | 34,661 |
| Changes in cash and cash equivalents | -5,202 | -121 |
| Cash and cash equivalents - end of period | 29,339 | 34,540 |
| | | |
| For information only: | | |
| Liquidity - start of period | 34,540 | 34,661 |
| Changes in cash and cash equivalents | -5,202 | -121 |
| Changes in liquidity reserve | 13,579 | 0 |
| Liquidity - end of period | 42,918 | 34,540 |

# Statement of Changes in Shareholders' Equity

| € thousand | Subscribed capital | Share premium | Reserve from currency transla-tion | Revaluation Reserve | Accumulated profits / losses: Retained earnings | Accumulated profits / losses: Net retai-ned profits | Accumulated profits / losses: total | Total equity |
|---|---|---|---|---|---|---|---|---|
| as of 1 January 2007 | 3,946 | 31,701 | 5 | 0 | 200 | 6,905 | 7,105 | 42,758 |
| Increase in share premium due to stock options | | 4 | | | | | | 4 |
| Currency translation differences | | | -32 | | | | | -32 |
| Dividends paid | | | | | | -4,736 | -4,736 | -4,736 |
| Consolidated net income | | | | | | 8,348 | 8,348 | 8,348 |
| as of 31 December 2007 | 3,946 | 31,706 | -27 | 0 | 200 | 10,518 | 10,717 | 46,342 |
| | | | | | | | | |
| as of 1 January 2008 | 3,946 | 31,706 | -27 | 0 | 200 | 10,518 | 10,717 | 46,342 |
| Increase in share premium due to stock options | | 103 | | | | | | 103 |
| Currency translation diffe-rences | | | -100 | | | | | -100 |
| Revaluation Reserve | | | | 61 | | | | 61 |
| Deferred tax on changes without effect on income | | | | -19 | | | | -19 |
| Dividends paid | | | | | | -7,893 | -7,893 | -7,893 |
| Consolidated net income | | | | | | 11,731 | 11,731 | 11,731 |
| as of 31 December 2008 | 3,946 | 31,809 | -128 | 41 | 200 | 14,355 | 14,555 | 50,224 |

# Statement of Recognized Income and Expense

| € thousand | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Changes in the financial year recorded directly in equity | | |
| Changes in currency translation | -100 | -32 |
| Changes in value of financial assets in the “available-for-sale assets” category | | |
| Changes in current value recorded directly in equity | 61 | 0 |
| Deferred tax on current changes without effect on income | -19 | 0 |
| | | |
| | -59 | -32 |
| | | |
| Consolidated net income for the financial year | 11,731 | 8,348 |
| | | |
| Total profit pursuant to IAS 1.97 in conjunction with IAS 19.93B | 11,671 | 8,316 |

# Consolidated Notes

## GENERAL NOTES

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

Delticom’s activities as an international tyre retailer are mostly in its Wholesale and eCommerce divisions. In the Wholesale division, the company sells tyres from manufacturers, including under its own brand, to wholesalers. In the eCommerce division, tyres are sold to dealers, workshops and end users via 100 shops in 35 countries.

Delticom supplies its own tyres from external warehouses and also supplies tyres directly from suppliers to customers or to one of its around 23,700 service partners.

The Managing Board has authorized these consolidated financial statements for publication on 25 March 2009. The consolidated financial statements will be published and submitted to the operators of the electronic federal gazette, to make these public.

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

## KEY ACCOUNTING AND VALUATION POLICIES

### GENERAL PRINCIPLES

Delticom AG prepares exempting consolidated financial statements in compliance with IFRS according to the option provided by Section 315a of the Handelsgesetzbuch (HGB – German Commercial Code).

Delticom’s consolidated financial statements for fiscal year 2008 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 comissions use* | Impact |
|---|---|---|---|---|
| IAS 39<br>IFRS 7 | Revision: Reclassification of Financial Instruments | 01.07.2008 | Yes | None |
| IFRIC 11 | IFRS 2: Group and Treasury Share Transactions | 01.03.2007 | Yes | No major |

* from 31.12.2008

New or amended standards not applied

| Standard / interpretation | | Mandatory application | EU comissions use* | Impact |
|---|---|---|---|---|
| IAS 1 | Presentation of Financial Statements | 01.01.2009 | Yes | New order of statements |
| IAS 23 | Borrowing Costs | 01.01.2009 | Yes | None |
| IAS 32<br>IAS 1 | Revision: Financial instruments with return rights and obligations as part of liquidation | 01.01.2009 | No | None |
| IFRS 1<br>IAS 27 | Acquisition costs of a participating interest | 01.01.2009 | No | No major |
| IFRS 1 rev. | First-time adoption of IFRS | 01.07.2009 | No | None |
| IFRS 2 | Revision: Share-based payment: exercise conditions and cancellations | 01.01.2009 | Yes | No major |
| IFRS 3 rev. | Business combinations | 01.07.2009 | No | None |
| IFRS 8 | Operating Segments | 01.01.2009 | Yes | Segment reporting |
| IFRIC 12 | Service Concession Arrangements | 01.01.2008 | No | None |
| IFRIC 13 | Customer Loyalty Programmes | 01.07.2008 | Yes | None |
| IFRIC 14 | The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction | 01.01.2009 | Yes | None |
| IFRIC 15 | Agreements for the Construction of Real Estate | 01.01.2009 | No | None |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | 01.01.2008 | No | None |

* vom 31.12.2008

## 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, Pnebo GmbH, Hanover, as well as the foreign subsidiaries Delticom Ltd., Oxford (United Kingdom), NETIX S.R.L., Timisoara (Romania) and Delticom North America Inc. (Wilmington, Delaware, USA). The group of consolidated companies was expanded in 2008 with the addition of the subsidiary Pnebo Gesellschaft für Reifengroßhandel und Logistik mbH, which was formed on 06 August 2008. Delticom AG holds a 100% interest in all subsidiaries.

## 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 company of the Group are measured based on the currency which is the currency of the primary economic environment in which the company operates (functional currency).

The foreign companies which form part of the Delticom Group are, as a rule, independent sub-units, whose financial statements are translated to euros using the functional currency concept.

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

Currency translation

| Country | Mid rate on 31.12.2008 € 1 = | Weighted yearly average rate € 1 = |
|---|---|---|
| UK | 0.9600 GBP | 0.7863 GBP |
| USA | 1.3975 USD | 1.4633 USD |
| Romania | 3.9887 RON | 3,6621 RON |

## ESTIMATES AND ASSUMPTIONS

Assumptions have been made and estimates used in the preparation of these consolidated financial statements that impact the disclosure and amount of the assets and liabilities, income and expenses and contingent liabilities carried in these statements. The assumptions and estimates are for the most part related to the stipulation of useful life, accounting and valuation of provisions, as well as the certainty of 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 maintenance of software are recognized as expenses when these are incurred.

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

Scheduled depreciation (Intangibles)

| | Useful life in years |
|---|---|
| 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:

Scheduled depreciation (Property, Plant, Equipment)

| | Useful life in years |
|---|---|
| Machinery | 5-15 |
| Equipment | 3-15 |
| Office fittings | 3-15 |

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

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

The property, plant and equipment to be carried under finance leases is written down over the shorter of the asset's useful life or the term of the lease. If assets in a finance lease are transferred to a lessee, the cash value of the lease payments is carried as a receivable. Leasing income is recognized over the term of the lease using the annuity method. In 2008 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 taxes** were calculated in line with IAS 12. As a rule, deferred tax assets are formed for temporary differences between the carrying amounts in the tax base and the consolidated financial statements to the extent that it is probable, that in future taxable results will be available against which the temporary difference can be used. In addition, deferred taxes are also formed for losses carried forward which are expected to be realized in future. As a rule, deferred tax liabilities are formed for all taxable temporary differences between the carrying amounts in the tax base and the consolidated financial statements.

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

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

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

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

The German companies are subject to trade tax of 16.1% (previous year: 18.7%) of trade income, which had been deductible from the corporation tax base through to 2007. In the reporting period, the corporation tax rate was 15.0% (previous year: 25.0%) plus the solidarity surcharge of 5.5% (previous year: 5.5%) on corporation tax.

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

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

**Provisions** are only carried if the company has a current (legal or de facto) obligation to third parties as a result of a past event and it is probable that fulfilment of the obligation will lead to an outflow of resources, and the amount of the obligation can be reliably estimated. Provisions are formed taking into account all recognizable risks at the expected fulfilment amount and are not offset against any recourse claims. Provisions are reviewed on each balance sheet date and adjusted to the current best estimate. If there is a material interest effect from the date of fulfilment of the obligation, the provision is carried at its cash value. To the extent that no reliable estimate is possible in individual cases, no provision is formed – instead a contingent liability is carried.

**Trade accounts payable** 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.

## CAPITAL RISK MANAGEMENT

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

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

## NOTES TO THE INCOME STATEMENT

### (1) REVENUES

Other income is carried under other operating income.

Revenues for the period from 1 January 2007 to 31 December 2007

| € thousand | Domestic | Abroad | Total |
|---|---|---|---|
| eCommerce | 82,282 | 112,998 | 195,281 |
| Wholesale | 4,820 | 15,403 | 20,223 |
| Total | 87,103 | 128,401 | 215,504 |

Revenues for the period from 1 January 2008 to 31 December 2008

| € thousand | Domestic | Abroad | Total |
|---|---|---|---|
| eCommerce | 86,084 | 151,479 | 237,563 |
| Wholesale | 5,617 | 15,799 | 21,416 |
| Total | 91,701 | 167,278 | 258,979 |

### (2) OTHER OPERATING INCOME

Other operating income

| € thousand | 2008 | 2007 |
|---|---|---|
| Income from exchange rate differences | 2,387 | 694 |
| Insurance recoveries | 128 | 42 |
| Other | 707 | 966 |
| Total | 3,221 | 1,701 |

Currency gains include gains from exchange rate changes between the time the transaction occurs and the date of payment and valuation on the balance sheet date. Currency losses from these translations are carried under other operating expenses. Income from exchange rate differences increased substantially, in particular as a result of the high volatility of the USD/EUR exchange rate. The corresponding expense items also increased under other operating expenses.

### (3) COST OF SALES

The cost of sales amounted to € 193,723 thousand (previous year: € 163,557 thousand) result exclusively from the sale of trading goods.

### (4) PERSONNEL EXPENSES

Personnel expenses

| € thousand | 2008 | 2007 |
|---|---|---|
| Wages and salaries | 4,368 | 3,764 |
| Social security contributions | 561 | 513 |
| Expenses for pensions and other benefits | 23 | 22 |
| Total | 4,952 | 4,300 |

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, € 301 thousand (previous year: € 268 thousand) are recognized under personnel expenses when due.

In 2008, Delticom had an average of 81 employees (previous year: 75 employees).

### (5) AMORTIZATION OF INTANGIBLE ASSETS AND DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation/Amortization

| € thousand | 2008 | 2007 |
|---|---|---|
| Intangible assets | 113 | 69 |
| Property, plant and equipment | 373 | 257 |
| Total | 486 | 326 |

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

## (6) OTHER OPERATING EXPENSES

### Other operating expenses

| € thousand | 2008 | 2007 |
|---|---|---|
| Transportation costs | 20,908 | 17,068 |
| Warehousing costs | 2,508 | 2,921 |
| Credit card fees | 1,794 | 1,805 |
| Bad debt losses and individual write-downs | 1,906 | 1,070 |
| Marketing costs | 7,220 | 5,483 |
| Operations centre costs | 3,758 | 2,929 |
| Rents and overheads | 1,474 | 666 |
| Financial and legal costs | 2,031 | 2,172 |
| IT and telecommunications | 516 | 440 |
| Expenses from exchange rate differences | 3.178 | 959 |
| Other | 1,297 | 1,211 |
| Total | 46,590 | 36,748 |

The rental payments carried stem from a rental agreement for office premises and parking spaces in Brühlstrasse 11, Hanover and warehouses locations. The rental agreements meet the definition of an operating lease according IAS 17.3.

Future lease payments are discussed under „Other information“.

## (7) FINANCIAL RESULT

### Financial result

| € thousand | 2008 | 2007 |
|---|---|---|
| Financial expenses | 11 | 109 |
| Financial income | 1,159 | 1,225 |
| Total | 1,148 | 1,116 |

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

## (8) INCOME TAXES

The income taxes recognized in income result from:

### Income taxes

| € thousand | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Germany | Rest of world | Total | Germany | Rest of world | Total |
| Ongoing income taxes | 5,752 | 10 | 5,762 | 4,772 | 177 | 4,949 |
| thereof non-period | 128 | 0 | 128 | -12 | 0 | -12 |
| Deferred income taxes | 104 | 0 | 104 | 92 | 0 | 92 |
| Total | 5,856 | 10 | 5,866 | 4,864 | 177 | 5,042 |

In the year under review, income taxes of € 19 thousand (previous year: € 0 thousand) were carried directly under equity.

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

### Deferred taxes

| | 2008 | | 2007 | |
|---|---|---|---|---|
| € thousand | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Intangible assets | 0 | 28 | 0 | 30 |
| Property, plant and equipment | 0 | 35 | 0 | 32 |
| Inventories | 0 | 169 | 0 | 85 |
| Receivables | 7 | 42 | 0 | 17 |
| Financial Assets | -7 | 19 | 0 | 0 |
| Provisions | 3 | -22 | 3 | 8 |
| Liabilities | 0 | 181 | 0 | 164 |
| Other equity and liabilities | 7 | 0 | 13 | 0 |
| Total | 10 | 453 | 16 | 336 |
| Netting | -10 | -10 | -16 | -16 |
| Carrying amount | 0 | 443 | 0 | 320 |

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

Actual income tax

| € thousand | 2008 | 2007 |
|---|---|---|
| Profit before income taxes | 17,596 | 13,390 |
| Delticom AG income tax rate | 31.93% | 40.15% |
| Expected tax expense | 5,619 | 5,376 |
| Differences from anticipated income tax expense | | |
| Adjustment to different tax rate | -18 | -102 |
| Adjustment of deferred taxes due to new tax rate | 0 | -82 |
| Non-capitalized deferred taxes on losses carried forward | 125 | 0 |
| Non-capitalized deferred taxes on temporary differences | 59 | 0 |
| Non-deductible operating expenses | 34 | 14 |
| Creditable foreign withholding tax | -78 | -156 |
| Non-period ongoing taxation | 128 | -12 |
| Other tax effects | -2 | 3 |
| Total adjustments | 247 | -334 |
| Actual tax expense | 5,866 | 5,042 |

The adjustment to the different tax rate is based on lower income tax rates for foreign subsidiaries. No deferred tax assets were formed for non-recoverable foreign losses carried forwards totalling € 395 thousand; these can be carried forward for between 15 and 20 years. In addition, no deferred tax assets were formed for temporary differences totalling € 185 thousand.

## (9) EARNINGS PER SHARE

Basic earnings per share totalled € 2.97 (previous year: € 2.12). The diluted earnings per share totalled € 2.97 (previous year: € 2.12).

Earnings per share are calculated according to IAS 33. During the year under review, there were 5,270 potential shares (financial instruments and other agreements which entitle their holders to subscribe to ordinary shares) from the tranche dated 22 November 2007 and 12,500 potential shares from the tranche dated 08 May 2008 and 12,500 potential shares from the tranche dated 25 November 2008. As the exercise price for the tranche dated 22 November 2007 was higher than the average share price since the option was issued on 22 November 2007, this tranche was not included in the diluted earnings per share. The exercise prices for the tranches 08 May 2008 and 25 November 2008 were below the average share prices since the options were issued on 08 May 2008 and 25 November 2008. As a result these tranches are included in the diluted earnings per share. However, when calculated the basic earnings per share and the diluted earnings per share to not differ.

The calculation of the earnings per share was based on net income after taxes totalling € 11,730,508.91 (previous year: € 8,348,354.22) and the weighted average number of shares during the fiscal year and the number of potential shares from options totalling 3,955,864 shares (previous year: 3,946,480 shares).

# NOTES TO THE BALANCE SHEET

## NON-CURRENT ASSETS

## (10) INTANGIBLE ASSETS

Intangible assets

| € thousand | Domains | Software | Total |
|---|---|---|---|
| Acquisition costs | | | |
| as of 1 January 2007 | 527 | 44 | 572 |
| Additions | 639 | 140 | 779 |
| as of 31 December 2007 | 1,166 | 185 | 1,351 |
| Accumulated depreciation | | | |
| as of 1 January 2007 | 73 | 36 | 108 |
| Additions | 41 | 28 | 69 |
| as of 31 December 2007 | 114 | 64 | 177 |
| Residual carrying amounts as of 31 December 2007 | 1,053 | 121 | 1,173 |

| € thousand | Domains | Software | Total |
|---|---|---|---|
| Acquisition costs | | | |
| as of 1 January 2008 | 1,166 | 185 | 1,351 |
| Additions | 23 | 83 | 106 |
| as of 31 December 2008 | 1,189 | 267 | 1,456 |
| Accumulated depreciation | | | |
| as of 1 January 2008 | 114 | 64 | 177 |
| Additions | 59 | 54 | 113 |
| as of 31 December 2008 | 172 | 118 | 290 |
| Residual carrying amounts as of 31 December 2008 | 1,017 | 150 | 1,166 |

## (11) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

| € thousand | Land, similar rights and buildings including buildings on third party land | Technical equipement and machinery | Other equipment, factory and office equipment | Payments made on account | Total |
|---|---|---|---|---|---|
| Acquisition costs | | | | | |
| as of 1 January 2007 | 0 | 0 | 917 | 0 | 917 |
| Additions | | | 1,148 | | 1,148 |
| as of 31 December 2007 | 0 | 0 | 2,065 | 0 | 2,065 |
| Accumulated depreciation | | | | | |
| as of 1 January 2007 | 0 | 0 | 479 | 0 | 479 |
| Additions | | | 257 | | 257 |
| Disposals | | | 0 | | 0 |
| as of 31 December 2007 | 0 | 0 | 735 | 0 | 735 |
| Residual carrying amounts as of 31 December 2007 | 0 | 0 | 1,330 | 0 | 1,330 |

| € thousand | Land, similar rights and buildings including buildings on third party land | Technical equipement and machinery | Other equipment, factory and office equipment | Payments made on account | Total |
|---|---|---|---|---|---|
| Acquisition costs | | | | | |
| as of 1 January 2008 | 0 | 0 | 2,065 | 0 | 2,065 |
| Additions | 257 | 21 | 845 | 58 | 1,180 |
| Disposals | 0 | 0 | -99 | 0 | -99 |
| Reclassifications | 0 | 388 | -388 | 0 | 0 |
| as of 31 December 2008 | 257 | 409 | 2,423 | 58 | 3,147 |
| Accumulated depreciation | | | | | |
| as of 1 January 2008 | 0 | 0 | 735 | 0 | 735 |
| Additions | 0 | 54 | 319 | 0 | 373 |
| Disposals | 0 | 0 | -98 | 0 | -98 |
| Reclassifications | 0 | 18 | -18 | 0 | 0 |
| as of 31 December 2008 | 0 | 72 | 938 | 0 | 1,010 |
| Residual carrying amounts as of 31 December 2008 | 257 | 337 | 1,485 | 58 | 2,136 |

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

## (12) FINANCIAL ASSETS

Before 2008, Delticom had made an financial investment amounting to € 1,000 thousand via Deutsche Bank Portugal. This asset had a term of three years and ended on 10 June 2008. It paid an annual fixed interest of 2.14%. Interest was due with the repayment upon expiration in 2008. The financial asset had a fair value in 2007 of € 990 thousand. In the previous year, the fair value was based on an interest rate of 4.5%.

## (13) OTHER NON-CURRENT RECEIVABLES

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

## (14) DEFERRED TAXES

Deferred tax liabilities are realized after more than 12 months in the amount of € 63 thousand (previous year: € 62 thousand).

## CURRENT ASSETS

## (15) INVENTORIES

Inventories

| € thousand | 2008 | 2007 |
|---|---|---|
| Tyres | 35,632 | 34,459 |
| Other accessories | 1,502 | 1,122 |
| Total | 37,134 | 35,581 |

Inventories comprise merchandise which is underway for which sales transactions had been concluded in part on the balance sheet date totalling € 3,016 thousand (previous year € 2,103 thousand) as well as stored goods totalling € 34,118 thousand (previous year: € 33,478 thousand) intended for sale via eCommerce. Inventories are carried taking into account the agreed terms of delivery according to Incoterms 2000. During fiscal year 2008, € 105,332 thousand of inventories were carried as expenses (previous year: € 88,938 thousand). There were no write-ups during the assessment year. All inventories are free of pledges.

## (16) ACCOUNTS RECEIVABLE

### Accounts receivable

| € thousand | 2008 | 2007 |
|---|---|---|
| Accounts receivable | 8,468 | 10,356 |
| thereof receivables from related parties | 111 | 0 |

### Maturity of accounts receivable

| Trade receivables € thousand | Carrying amount | Due on balance sheet date and not written down | Not written down and due in the following periods | | | | |
|---|---|---|---|---|---|---|---|
| | | | up to 30 days | 30 to 60 days | 60 to 90 days | 90 to 180 days | > 180 days |
| as of 31.12.2008 | 8,468 | 4,521 | 1,920 | 1,062 | 929 | 37 | 0 |
| as of 31.12.2007 | 10,356 | 3,601 | 3,005 | 2,895 | 494 | 343 | 19 |

The write-downs for trade receivables were as follows:

### Write-downs

| € thousand | 2008 | 2007 |
|---|---|---|
| Write-downs - balance on January 1 | 1,141 | 1,095 |
| Additions (expenses for write-downs) | 1,763 | 1,070 |
| Reversals | 0 | -23 |
| Expenses for writing off receivables | -1,088 | -1,001 |
| Write-downs - balance on December 31 | 1,816 | 1,141 |
| | | |
| Income from the receipt of written-off receivables | 73 | 29 |

## (17) OTHER CURRENT RECEIVABLES

### Other current receivables

| € thousand | 2008 | 2007 |
|---|---|---|
| Refund claims from taxes | 1,590 | 2,089 |
| Credits with suppliers | 753 | 342 |
| Deferrals | 197 | 286 |
| Other cash and cash equivalents | 952 | 0 |
| Other current receivables | 197 | 586 |
| Total | 3,688 | 3,303 |

## (18) SECURITIES, CASH AND CASH EQUIVALENTS

Money market funds and a single position of a government bond are carried under securities.

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

Cash and cash equivalents are broken down as follows:

### Cash and cash equivalents

| € thousand | 2008 | 2007 |
|---|---|---|
| Cash | 1 | 6 |
| Bank balances | 29,338 | 34,535 |
| Total | 29,339 | 34,540 |

Bank balances do not include any overdrafts, as was the case in the previous year.

## EQUITY

## (19) SUBSCRIBED CAPITAL

After going public on 26 October 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.

The Managing Board was also authorized by resolution of the shareholders' meeting on 30 August 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 29 August 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 01 September 2006.

The General Meeting on 30 August 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 29 August 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 30 August 2006, the company's share capital was conditionally increased by € 100,000.00 by issuing a total of up to 100,000 new no-par value registered shares (contingent capital I / 2006). Contingent capital I / 2006 serves exclusively to grant shares to the holders of options issued by the company on the basis of the authorization granted by the General Meeting on 30 August 2006 for the granting of options. The contingent capital I / 2006 was entered in the commercial register on 01 September 2006.

In the fiscal year 25,000 option rights were issued to a member of the Board.

The General Meeting on 30 August 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 29 August 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 totalling € 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 30 August 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 30 August 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 01 September 2006.

By way of a resolution by the general meeting on 06 May 2008, the company was authorized to acquire own shares of up to 10% of its share capital on that date of € 3,946,480.00. This resolution is valid for 18 months. The authorization may be exercised in full or in part, on one or several occasions, for one or for several purposes by the company or by third parties for the company's account. The shares are acquired, at the Managing Board's discretion, via the stock exchange or via a public purchase offer or via a public request to issue this type of offer. The compensation per share paid for the acquisition of shares via the stock exchange (without incidental acquisition costs) may not be more than 10% above or below the price identified in the XETRA trading system (or a comparable successor system) on the stock market day in the opening auction. If shares are acquire via a (i) public purchase offer or a (ii) public request to issue a purchase offer, the offered purchase price or the thresholds for the offered purchase price range per share (without incidental acquisition costs) may not be more than 10% higher or lower than the respective value of a share of the company. The respective value for (i) the price identified in the closing auction in XETRA trading (or a comparable successor system) on the stock market trading day prior to the date the offer is announced, and for (ii) the price identified in the closing auction in XETRA trading (or a comparable successor system) on the last stock market day prior to the date on which the offers were accepted by the company. If there are not insignificant differences between the relevant prices after the purchase offer is published, the offer can be adjusted. The Managing Board is authorized to use the acquired own shares for all purposes permitted by law: In particular, it can withdraw the shares or sell them off the stock exchange or via an offer to shareholders or against non-cash contributions. Shareholders subscription rights can be excluded under certain conditions.

## (20) SHARE PREMIUM

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

### Stock option program

Delticom AG has granted a member of the Managing Board equity-settled options. This commitment is based on the option conditions dated 09 August 2007.

As a rule, the options can be exercised in a six-week period in each case after the announcement of the final quarterly results or the final results of the previous fiscal year.

Exercising an option is conditional upon the unweighted average of the closing price of the company's shares on the five stock market days prior to the first day of the respective exercise period in which the option was exercised being at least 120 % of the exercise price.

### Stock options book

| | 3rd tranche | 2nd tranche | 1st tranche |
|---|---|---|---|
| Date of issuance | 25.11.2008 | 08.05.2008 | 22.11.2007 |
| Term | 10 years | 10 years | 10 years |
| Blackout period | 2 years | 2 years | 2 years |
| Exercise price | € 36.68 | € 39.57 | € 59.43 |
| Number of options issued | 12,500 | 12,500 | 5,270 |
| Number of exercised options issued | 0 | 0 | 0 |
| Number of expired options issued | 0 | 0 | 0 |
| Outstanding on 31.12.2008 | 12,500 | 12,500 | 5,270 |
| Excersisable on 31.12.2008 | 0 | 0 | 0 |

### Stock options valuation parameters

| | 3rd tranche | 2nd tranche | 1st tranche |
|---|---|---|---|
| Fair value per option on the date granted | € 9.80 | € 11.26 | € 19.41 |
| Total fair value of the options totaled on the date granted | € 122,500.00 | € 140,750.00 | € 102,291.00 |
| Expenses from the stock option program to be taken into account in fiscal year 2008 totaled | € 5,104.00 | € 46,917.00 | € 51,144.00 |
| Expected time to maturity of issued stock options | 3.70 years | 4.25 years | 4.71 years |
| Expected annual dividend yield | 5,00% | 5,00% | 3,00% |
| Risk-free interest rate | 2,57% | 4,31% | 3,90% |
| Stock price at issue date | € 38.49 | € 40.24 | € 58.95 |
| Exercise price | € 36.68 | € 39.57 | € 59.43 |
| Expected volatility | 44,00% | 45,00% | € 45,00% |

The options' fair values were calculated using a binomial model. In so doing, possible developments in Delticom AG's share price were modeled using a binomial decision tree.

The expected volatility was calculated on the basis of historic stock prices of Delticom AG shares. The expected maturity relates to the remaining time to the expiration of the contract of the Board member. The riskless interest rate was calculated on the basis of a (hypothetical) default-free zero coupon bond without for the appropriate times to maturity.

## (21) GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY

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

The revaluation reserve from financial instruments totals € 41 thousand (previous year: € 0 thousand). This addition is based on the increased market values of the securities.

## (22) 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).

## (23) NET RETAINED PROFITS

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

## LIABILITIES

## (24) PROVISIONS

Provisions had the following breakdown:

**Provisions**

| € thousand | 01.01.2008 | Taken up | Reversal | Additions | 31.12.2008 |
|---|---|---|---|---|---|
| Provisions for taxes | 1,888 | 1,309 | 0 | 1,473 | 2,053 |
| Other non-current provisions | 24 | 0 | 0 | 10 | 34 |
| Other provisions | 337 | 310 | 0 | 0 | 28 |
| Total | 2,249 | 1,619 | 0 | 1,484 | 2,115 |

Other provisions include, for example, costs for 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.

## (25) TRADE ACCOUNTS PAYABLE

**Accounts payable**

| € thousand | 2008 | 2007 |
|---|---|---|
| Accounts payable | 36,192 | 31,696 |
| thereof payables from related parties | 22 | 121 |
| Total trade accounts payable | 36,192 | 31,696 |

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

## (26) ADDITIONAL NOTES CONCERNING FINANCIAL INSTRUMENTS

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

| € thousand | Valuation categories according to IAS 39 | Book value as of 31.12. 2007 | Balance sheet valuation according to IAS 39: amortized cost | Fair Value without effect on income | Fair value - recognized in income | Fair value as of 31.12. 2007 |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and cash equivalents | LaR | 34,541 | 34,541 | | | 34,541 |
| Accounts receivable | LaR | 10,356 | 10,356 | | | 10,356 |
| Other receivables | LaR | 76 | 76 | | | 76 |
| Other original financial assets | HtM | 1,000 | 1,000 | | | 1,000 |
| Liabilities | | | | | | |
| Accounts payable | FLAC | 31,696 | 31,696 | | | 31,696 |
| Derivative financial liabilities | | | | | | |
| Derivates not used for hedging (Held for Trading) | FLHfT | 47 | | | 47 | 47 |
| Thereof cumulated according valuation categories IAS 39 | | | | | | |
| Loans and Receivables (LaR) | | 44,972 | 44,972 | | | 44,972 |
| Held-to-Maturity Investments (HtM) | | 1,000 | 1,000 | | | 1,000 |
| Financial Liabilities Measured at Mortised Cost (FLAC) | | 31,696 | 31,696 | | | 31,696 |
| Financial Liabilities Held for Trading (FLHfT) | | 47 | | | 47 | 47 |

| € thousand | Valuation categories according to IAS 39 | Book value as of 31.12.2008 | Balance sheet valuation according to IAS 39: amortized cost | Fair Value without effect on income | Fair value - recognized in income | Fair value as of 31.12.2008 |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and cash equivalents | LaR | 29,339 | 29,339 | | | 29,339 |
| Accounts receivable | LaR | 8,468 | 8,468 | | | 8,468 |
| Other receivables | LaR | 85 | 85 | | | 85 |
| Other original financial assets | | | | | | |
| Held-to-Maturity | HtM | 4,060 | 4,060 | | | 4,020 |
| Available for Sale | AfS | 9,560 | | 9,560 | | 9,560 |
| Derivative financial assets | | | | | | |
| Derivates not used for hedging (Held for Trading) | FAHfT | 10 | | | 10 | 10 |
| Liabilities | | | | | | |
| Accounts payable | FLAC | 36,192 | 36.192 | | | 36,192 |
| Derivative financial liabilities | | | | | | |
| Derivates not used for hedging (Held for Trading) | FLHfT | 212 | | | 212 | 212 |
| Thereof cumulated according valuation categories IAS 39 | | | | | | |
| Loans and Receivables (LaR) | | 37,900 | 37,900 | | | 37,900 |
| Held-to-Maturity Investments (HtM) | | 4,060 | 4,060 | | | 4,020 |
| Available for Sale Financial Assets (AfS) | | 9,560 | | 9,560 | | 9,560 |
| Financial Assets Held for Trading (FAHfT) | | 10 | | | 10 | 10 |
| Financial Liabilities Measured at Mortised Cost (FLAC) | | 36,192 | 36,192 | | | 36,192 |
| Financial Liabilities Held for Trading (FLHfT) | | 212 | | | 212 | 212 |

The results of the categories are as follows:

| € thousand | 2008 | 2007 |
|---|---|---|
| Accounts receivable (LaR) | 63 | -63 |
| Held-to-Maturity Investments (HtM) | 18 | 0 |
| thereof interests | 18 | 0 |
| Available for Sale Financial Assets (AfS) | 61 | 0 |
| Financial Assets Held for Trading (FAHfT) | 10 | 0 |
| Accounts payable (FLAC) | 32 | 95 |
| Financial Liabilities Held for Trading (FLHfT) | -165 | -4 |
| Sum: | 19 | 29 |





The maximum default risk can be seen from the carrying amount of each financial asset in the balance sheet including derivative financial instruments. As the counterparties for the derivatives are well-known banks, the Group's management believes that those will be able to fulfil their obligations. As a result, the Group's maximum risk of default is the amount of trade receivables and the total other current assets less the write-downs for these assets taken into account on the balance sheet date. The securities carried under other original financial assets are quoted instruments and are valuated using market prices on the balance sheet date.

## (27) OTHER CURRENT LIABILITIES

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

In addition, this item includes liabilities from currency hedge contracts totalling € 212 thousand (currency forwards) (previous year: € 47 thousand).

All current liabilities are due within one year.

Other current liabilities

| € thousand | 2008 | 2007 |
|---|---|---|
| Sales tax (VAT) | 2,490 | 1,572 |
| Payments received on account of orders | 1,819 | 1,798 |
| Customer credits | 1,247 | 2,225 |
| Social security contributions | 1 | 8 |
| Income and church tax | 111 | 89 |
| Other current liabilities | 996 | 1,061 |
| Total | 6,664 | 6,753 |

Other liabilities include interest-bearing current account overdrafts from banks totalling € 28 thousand (previous year: € 154 thousand).

## 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:

Key financial liabilities

| € thousand | 2008 | 2007 |
|---|---|---|
| Order commitments for goods | 3,327 | 3,547 |
| Other financial commitments | 11,662 | 8,688 |
| Total | 14,989 | 12,235 |

Delticom rents office premises and parking spaces in Brühlstrasse 11, Hanover, as well as warehouses for trading goods in 2 locations. The rental agreement meet the definition of an operating lease according IAS 17.3. The agreement for the office premises in Brühlstr. 11 runs until 31 December 2012. The agreements for the warehouses run until 31 August 2010 and 31 December 2015.

In addition, there are operating leases for three cars. The car leases end in July 2009 after a period of 24 months, and in July and September 2011 after a 36-month term in each case.

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

Accumulated minimum lease payments

| € thousand | 2008 | 2007 |
|---|---|---|
| up to one year | 1,456 | 1,416 |
| 2 years to 5 years | 3,334 | 4,043 |
| more than 5 years | 1,349 | 1,161 |
| Total | 6,139 | 6,620 |

## ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS

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

The derivatives do not fulfil the conditions for hedge accounting within the meaning of IAS 39.142. All derivatives are carried at their fair values. The valuation is performed by banks taking into account current ECB reference rates and forward premiums and discounts. The changes in the fair values of the derivatives were recorded in the income statement in the amount of € -155 thousand (previous year: € 4 thousand).

The remaining maturities of the forward exchange transactions were all less than 7 months on the balance sheet date (previous year: 6 months).

## CURRENCY RISK

Delticom has international operations, which means that the company is subject to market risks as a result of changes to exchange rates. Currency risks result primarily for cash and cash equivalents and trade payables and receivables. Delticom uses derivative financial instruments to reduce these risks. Purchasing contracts in foreign currencies (mostly USD) were hedged. These contracts are either to stock the company's own warehouses or have a corresponding sale transaction in EUR. In addition, in the Wholesale division, if required sales contracts in foreign currencies were hedged, purchasing and the associated sales contracts in the same foreign currency are not hedged. No currency hedges were performed for sales contracts in foreign currency in the eCommerce division.

In order to show market risks, IFRS 7 calls for sensitivity analyses which show the impact of hypothetical changes in relevant risk variables on the results. There are currency risks within the meaning of IFRS 7 as a result of assets and liabilities not denominated in euros.

The following table shows the positive and negative impact of changes of 10% up (gains) or down (losses) in the value of the euro compared to the various currencies. Movements in the exchange rates were calculated on a symmetrical basis.

FX sensitivities

| Currency | in Euro (as of 31.12.2008) | Profit in thousand € | Loss in thousand € |
|---|---|---|---|
| CHF | 0.6729 | 155 | -155 |
| DKK | 0.1342 | 42 | -42 |
| GBP | 1.0417 | 14 | -14 |
| RON | 0.2500 | 4 | -4 |
| SEK | 0.0916 | 31 | -31 |
| USD | 0.7155 | 205 | -205 |
| Others | N/A | 32 | -32 |

## LIQUIDITY RISK

Delticom defines liquidity risk as the risk to fail on existing or future payment obligations as a result of a lack of availability of cash and cash equivalents. Liquidity risk is managed centrally within the Delticom Group. In order to ensure liquidity at all times, a sufficient amount of cash and cash equivalents are always kept available in order to be able to meet all planned payment obligations throughout the Group on their respective due dates. In addition, a reserve is maintained for unplanned lower receipts or additional expenditure. Liquidity is mostly held in the form of call money and fixed-term deposits as well as money-market funds and government bonds. In addition, bank credit lines are also available.

In its Wholesale division, Delticom supplies tyres 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. The total credit-insured gross receivables amounted to € 4,351 thousand (previous year: € 4,138 thousand).

## PERSONS IN KEY POSITIONS

Please see the information provided in „Executive bodies of the company" for information on persons in key positions.

## SUBSIDIARIES

A list of all the subsidiaries included in the consolidated financial statements can be found in the sections on the group of consolidated companies and shareholdings. Transactions between the company and its subsidiaries which are related parties were eliminated during consolidation and are not discussed in these notes.

### Companies with a significant influence on the Group

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

- Binder GmbH (number of shares 1,034,031, 26.20% interest)
- Prüfer GmbH (number of shares 1,091,943, 27.67% interest plus 500 shares held personally by Andreas Prüfer)

Rainer Binder (CEO) is the majority shareholder of Binder GmbH and Andreas Prüfer (Chairman of the Supervisory Board) is the majority shareholder of Prüfer GmbH.

## SALE OF GOODS / SERVICES

| € thousand | 2008 | 2007 |
|---|---|---|
| to related parties | 706 | 1,159 |

## PURCHASE OF GOODS / SERVICES

| € thousand | 2008 | 2007 |
|---|---|---|
| from related parties | 465 | 841 |

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

## EXECUTIVE BODIES

The company's executive bodies are the General Meeting, the Supervisory Board and the Managing Board. The Chairman of the Supervisory Board, Peter Stappen, resigned his office as of 06 May 2008. At the General Meeting on 06 May 2008, Mr. Andreas Prüfer and Mr. Michael Thöne-Flöge were elected to the Supervisory Board. The new Supervisory Board elected Mr. Andreas Prüfer as Chairman of the company's Supervisory Board in its meeting on 06 May 2008.

As a result, the composition of the Managing and Supervisory Boards is as follows:

### Managing Board

- Rainer Binder, Hanover: CEO, Wholesale, procurement, pricing and marketing
- Philip von Grolman, Hanover: logistics, North America, IT/software development
- Andreas Prüfer, Hanover, to 06 May 2008: consumer business, company organization and IT
- Frank Schuhardt, Düsseldorf: finance, controlling, investor relations and operations center

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

### Remuneration of Board Members

| | Non-performance related remuneration | | Performance-related remuneration | | Long-term incentive | |
|---|---|---|---|---|---|---|
| € thousand | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Rainer Binder | 285 | 285 | 110 | 87 | 0 | 0 |
| Philip von Grolman | 125 | 49 | 36 | 6 | 0 | 0 |
| Andreas Prüfer | 100 | 285 | 38 | 87 | 0 | 0 |
| Frank Schuhardt | 209 | 51 | 36 | 0 | 263 | 102 |

The remuneration of € 263 thousand carried under long-term incentives for Frank Schuhardt comprises the total fair value of the options granted as of the balance sheet date. This figure was calculated using a binomial model.

### Supervisory Board

During fiscal year 2008, the Supervisory Board was composed as follows:

- Peter Stappen, merchant banker, Hofheim am Taunus: Member of the Supervisory Board and Chairman to 06 May 2008
- Andreas Prüfer, entrepreneur, Hanover: Member of the Supervisory Board and Chairman from 06 May 2008
- Alan Revie, entrepreneur, Hamilton / UK: Member of the Supervisory Board
- Michael Thöne-Flöge, entrepreneur, Peine: Deputy Chairman of the Supervisory Board

In fiscal year 2008, remuneration totalled € 5 thousand (previous year: € 15 thousand) for the member of the Supervisory Board Peter Stappen, € 10 thousand (previous year: € 0 thousand) for Andreas Prüfer, € 10 thousand (previous year: € 1 thousand) for Michael Thöne-Flöge and € 5 thousand (previous year: € 5 thousand) for Alan Revie.

## DIVIDENDS

The General Meeting on 06 May 2008 resolved to pay a dividend in the amount of € 7,892,960.00 from Delticom AG's 2007 net retained profits (€ 2.00 per share, previous year € 1.20 per share) and to carry forward the remaining amount of € 472,912.99 to new account.

## PROPOSAL FOR THE APPROPRIATION OF PROFITS

The Managing Board proposes to distribute an amount of € 11,839,440.00 or € 3.00 per share from Delticom AG's net retained profits of € 12,293,258.12, carrying € 453,818.12 forward to new account.

## SHAREHOLDINGS

| | Fixed capital interest % | |
|---|---|---|
| Name, registered office, country | 2008 | 2007 |
| Delticom Tyres Ltd., Oxford, Great Britain | 100 | 100 |
| NETIX S.R.L., Timisoara, Romania | 100 | 100 |
| Reifendirekt GmbH, Hanover, Germany | 100 | 100 |
| Delticom North America Inc., Wilmington, Delaware, USA | 100 | 100 |
| Pnebo Gesellschaft für Reifengrosshandel und Logistik mbH, Hanover, Germany | 100 | - |

## AUDITOR'S FEES

In fiscal years 2008 and 2007, the following fees were recorded for the auditor Pricewaterhouse Coopers AG Wirtschaftsprüfungsgesellschaft, Hanover:

| € thousand | 2008 | 2007 |
|---|---|---|
| Audits of the financial statements | 87 | 103 |
| Other confirmation and valuation services | 23 | 29 |
| Tax consultancy services | 19 | 22 |
| Other services | 1 | 26 |
| Total | 130 | 180 |

## DECLARATION OF CONFORMITY ON THE APPLICATION OF THE RECOMMENDATIONS OF THE „GERMAN CORPORATE GOVERNANCE CODE GOVERNMENT COMMISSION"

The Managing and Supervisory Boards issued the declaration required by Section 161 of the Aktiengesetz (AktG – German Public Limited Companies Act) on 26 March 2008, and made accessible to shareholders on our Web site: www.delti.com.

## NOTES TO THE CASH FLOW STATEMENT

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

## SEGMENT REPORTING

The company's activities that result in revenues and other income are grouped under the divisions of Wholesale and eCommerce. As a result, Delticom is a two-segment company. In the Wholesale division, the company sells tyres from manufacturers, including under its own brand, to wholesalers. In the eCommerce division, tyres are sold to dealers, workshops and end users via 100 shops (previous year: 88) in 35 countries. There are no other divisions that could constitute segments with a separate reporting requirement. As in previous years, there were no inter-segment revenues.

These segments are managed internally via the Wholesale and eCommerce divisions. Primary segment reporting is also in line with this breakdown.

## PRIMARY SEGMENT REPORTING

Segment results for fiscal year 2007 are as follows:

| € thousand | eCommerce | Wholesale | not allocated | Group |
|---|---|---|---|---|
| Revenues | 195,281 | 20,223 | 0 | 215,504 |
| Other operating income | 913 | 42 | 746 | 1,701 |
| Cost of goods sold | -145,709 | -17,848 | 0 | -163,557 |
| Gross profit | 50,484 | 2,417 | 746 | 53,648 |
| Personnel expenses | -1,662 | -432 | -2,206 | -4,300 |
| Depreciation and amortization | -148 | -72 | -106 | -326 |
| thereof property, plant and equipment | -98 | -68 | -90 | -257 |
| thereof intangible assets | -50 | -4 | -15 | -69 |
| Other operating expenses | -32,666 | -644 | -3,438 | -36,748 |
| thereof bad debt losses and individual write-downs | -984 | -86 | 0 | -1,070 |
| Segment result | 16,008 | 1,269 | -5,003 | 12,274 |
| Net financial result | | | | 1,116 |
| Income taxes | | | | -5,042 |
| Consolidated net income | | | | 8,348 |

Segment results for fiscal year 2008 are as follows:

| € thousand | eCommerce | Wholesale | not allocated | Group |
|---|---|---|---|---|
| Revenues | 237,563 | 21,416 | 0 | 258,979 |
| Other operating income | 708 | 128 | 2,386 | 3,221 |
| Cost of goods sold | -174,673 | -19,051 | 0 | -193,723 |
| Gross profit | 63,598 | 2,493 | 2,386 | 68,477 |
| Personnel expenses | -2,058 | -404 | -2,489 | -4,952 |
| Depreciation and amortization | -271 | 0 | -215 | -486 |
| thereof property, plant and equipment | -197 | 0 | -176 | -373 |
| thereof intangible assets | -75 | 0 | -38 | -113 |
| Other operating expenses | -40,514 | -843 | -5,233 | -46,590 |
| thereof bad debt losses and individual write-downs | -1,857 | -49 | 0 | -1,906 |
| Segment result | 20,754 | 1,246 | -5,551 | 16,449 |
| Net financial result | | | | 1,148 |
| Income taxes | | | | -5,866 |
| Consolidated net income | | | | 11,731 |

The segment assets, segment liabilities and segment investments were as follows on 31 December 2007:

| € thousand | eCommerce | Wholesale | not allocated | Group |
|---|---|---|---|---|
| Segment assets | | | | |
| Intangible assets, property, plant and equipment and financial assets | 2,128 | 83 | 1,293 | 3,503 |
| Other non-current assets | 76 | 0 | 0 | 76 |
| Total non-current assets | 2,204 | 83 | 1,293 | 3,579 |
| Inventories | 35,581 | 0 | 0 | 35,581 |
| Accounts receivable | 4,401 | 5,955 | 0 | 10,356 |
| Cash and cash equivalents | 5,243 | 4,298 | 25,000 | 34,540 |
| Other assets | 653 | 0 | 2,650 | 3,303 |
| Total current assets | 45,878 | 10,252 | 27,650 | 83,781 |
| Total segment assets | 48,082 | 10,335 | 28,943 | 87,360 |
| Deferred taxes | | | | 0 |
| Securities | | | | 0 |
| Total assets | | | | 87,360 |
| | | | | |
| Segment liabilities | | | | |
| Non-current segment liabilities | 0 | 0 | 24 | 24 |
| Other current provisions | 0 | 0 | 337 | 337 |
| Accounts payable | 28,450 | 3,049 | 196 | 31,696 |
| Other current borrowing | 5,522 | 39 | 1,191 | 6,753 |
| Current segment liabilities | 33,972 | 3,089 | 1,725 | 38,786 |
| Total segment liabilities | 33,972 | 3,089 | 1,749 | 38,810 |
| Deferred taxes and tax liabilities | | | | 2,208 |
| Total segment assets | | | | 41,018 |
| | | | | |
| Segment investments | | | | |
| Intangible assets | 645 | 0 | 134 | 779 |
| Property, plant and equipment | 937 | 0 | 210 | 1,148 |
| Total investments | 1,583 | 0 | 344 | 1,926 |

The segment assets, segment liabilities and segment investments were as follows on 31 December 2008:

| € thousand | eCommerce | Wholesale | not allocated | Group |
|---|---|---|---|---|
| Segment assets | | | | |
| Intangible assets, property, plant and equipment and financial assets | 2,986 | 3 | 313 | 3,302 |
| Other non-current assets | 85 | 0 | 0 | 85 |
| Total non-current assets | 3,071 | 3 | 313 | 3,387 |
| Inventories | 37,058 | 77 | 0 | 37,134 |
| Accounts receivable | 3,425 | 5,043 | 0 | 8,468 |
| Cash and cash equivalents | 6,740 | 0 | 22,599 | 29,339 |
| Other assets | 757 | 38 | 2,893 | 3,688 |
| Total current assets | 47,980 | 5,158 | 39,113 | 78,630 |
| Total segment assets | 51,050 | 5,161 | 39,426 | 82,017 |
| Deferred taxes | | | | 0 |
| Securities | | | | 13,620 |
| Total assets | | | | 95,637 |
| | | | | |
| Segment liabilities | | | | |
| Non-current segment liabilities | 0 | 0 | 34 | 34 |
| Other current provisions | 0 | 0 | 28 | 28 |
| Accounts payable | 34,569 | 1,569 | 53 | 36,192 |
| Other current borrowing | 5,457 | 46 | 1,160 | 6,664 |
| Current segment liabilities | 40,026 | 1,616 | 1,241 | 42,883 |
| Total segment liabilities | 40,026 | 1,616 | 1,275 | 42,918 |
| Deferred taxes and tax liabilities | | | | 2,496 |
| Total segment assets | | | | 45,414 |
| | | | | |
| Segment investments | | | | |
| Intangible assets | 86 | 0 | 20 | 106 |
| Property, plant and equipment | 1,094 | 4 | 83 | 1,180 |
| Total investments | 1,180 | 4 | 103 | 1,286 |

## SECONDARY SEGMENT REPORTING

Delticom's two divisions operate in three main geographic regions. In Germany, the Group serves both the wholesale and eCommerce segments. The Group companies in the United Kingdom, Romania and USA exclusively serve customers in the eCommerce segment 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 | 2008 | 2007 |
|---|---|---|
| EU countries | 220,428 | 188,899 |
| USA and rest of world | 38,550 | 26,605 |
| Total | 258,979 | 215,504 |

The following tables show the carrying amounts of segment assets and additions to property, plant, equipment, and intangible assets

### Assets and additions

| | Carrying amount of segment assets | | Additions to property, plant and equipment and intangible assets | |
|---|---|---|---|---|
| € thousand | 2008 | 2007 | 2008 | 2007 |
| Germany | 93,802 | 86,246 | 1,029 | 1,926 |
| United Kingdom | 777 | 947 | 0 | 0 |
| Romania | 316 | 165 | 257 | 0 |
| USA | 670 | 1 | 0 | 0 |
| Total | 95,565 | 87,360 | 1,286 | 1,926 |

# Declaration by legal representatives

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

Hanover, 06 March 2009

(The 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 recognised income and expense, 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, 2008 to December 31, 2008. 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 9, 2009)

| | |
|---|---|
| Günter Benz | ppa. Philip Friedel |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

[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.

# Corporate Governance Report

The German Corporate Governance Code aims to create transparent general conditions for company management and control. Delticom considers good corporate governance as an important measure to increase trust on the part of shareholders, employees and the general public. Delticom conforms to the recommendations of the Code except for three exceptions, and these deviations are explicitly outlined within this report.

## SHAREHOLDERS AND GENERAL MEETING

Shareholders are able to exercise their rights and vote at the General Meeting. Each share grants one vote. Shares with multiple voting rights, preferential voting rights or maximum voting rights do not exist.

The Managing Board prepares the General Meeting, the annual financial statements and consolidated financial statements. The General Meeting decides upon the appropriate use of any net retained profits and exonerates the members of both the Managing Board and the Supervisory Board for their responsibilities for the previous fiscal year.

More over, the General Meeting is empowered to make changes to the company's articles of incorporation, elect the members of the Supervisory Board and select the auditors. During the year under review, the General Meeting authorized the company to acquire Delticom shares.

The General Meeting takes place annually and it is here where Managing and Supervisory Boards give account of the preceding fiscal year. At the General Meeting, shareholders can either exercise their voting rights in person, be represented by an authorised proxy of their choice or by a proxy appointed by the company and obliged to vote as per instruction.

The Chairman of the Meeting ensures that the General Meeting proceeds in a timely manner. The Managing Board is responsible for preparing and publishing the reports and documents presented at the General Meeting, including the annual report. These documents, along with the meeting's agenda, are readily accessible on the company's Web site.

## COOPERATION BETWEEN THE MANAGING AND SUPERVISORY BOARDS

The Supervisory Board and the Managing Board work together intensively. In the exercizing of its monitoring and advisory roles, the Supervisory Board works closely together with the Managing Board in both regularly-scheduled and ad-hoc meetings. Both boards share as achieving a sustained increase in enterprise value as their main objective. The Managing Board informs the Supervisory Board in a regular, prompt and comprehensive manner about all relevant company issues relating to planning, business development, risk positions, risk management and compliance. The information provided by the Managing Board examines in great detail any business developments which deviate from the proposed plans and objectives and provides explanations for these deviations. Critically assessing the course of business is one of the Supervisory Board's core tasks.

The Managing Board's concrete tasks and duties in relation to the Supervisory Board are set out in the rules of procedure for the Managing Board. The rules of procedure specify the Managing Board's obligations in regards to informing and reporting to the Supervisory Board, and outline the requirement that the Supervisory Board provide its approval of any transactions of fundamental importance to the business.

Item 3.8 of the German Corporate Governance Code recommends that companies carry liability insurance with an appropriate deductible (so-called Directors and Officers liability insurance – D&O) for its Managing and Supervisory Board members. However, the current D&O insurance carried by Delticom for its Board members does not require the payment of a deductible for insured persons. This deviation from the Code's recommendation is clearly stated in the Declaration of Conformity.

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

This Corporate Governance Report as well as the current Declaration of Conformity are published in the annual report and available on the Delticom website in both German and English for a period of five years.

## MANAGEMENT BOARD

Delticom's Managing Board is responsible for managing the company in line with provisions of the Stock Corporation Act, the company's rules of procedure, as well as its plan outlining areas of responsibility for the Boards and their members. The Managing Board devises the strategic plans, secures the approval of the Supervisory Board for its plans and, having done so, ensures their implementation. The Managing Board consists of the following three members:

| Name | Function | Contract begin | Contract end |
|---|---|---|---|
| Rainer Binder | CEO | 08.09.2004 | 31.12.2012 |
| Philip von Grolman | Logistics, North America, IT | 09.08.2007 | 08.08.2012 |
| Frank Schuhardt | CFO | 09.08.2007 | 08.08.2012 |

A Chairman of the Managing Board was elected. The members of the Managing Board have clearly defined and delimited tasks.

As set out in the respective applicable schedule of reponsibilities, each Managing Board member is solely responsible for his own specific area. Members of the Managing Board are jointly responsible for the overall management of the company.

The Supervisory Board is responsible for determining the structure of the remuneration system for the Managing Board and its application to this Board's individual members. The Supervisory Board regularly examines the remuneration structure to ensure its adequacy.

The Managing Board's remuneration comprises three components:

- A base monthly salary independent of performance
- Performance-related salary components
- Variable components which include long-term incentives

The performance-related components for all of the members of the Managing Board are based on Delticom AG's operating results. In addition, Mr. Schuhardt, member of the Managing Board, was allowed to participate in a stock option program as a variable component with a long-term incentive.

Remuneration in the form of non-cash benefits received by Managing Board members during 2008 included the use of a company car.

The members of the Managing Board received the following remuneration in 2008:

| | Fixed Salary | | Variable remuneration | | Other remuneration | |
|---|---|---|---|---|---|---|
| € thousand | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Rainer Binder | 285 | 285 | 110 | 87 | 0 | 0 |
| Philip von Grolman | 125 | 49 | 36 | 6 | 0 | 0 |
| Andreas Prüfer (member of the Managing Board until 06.05.2008) | 100 | 285 | 38 | 87 | 0 | 0 |
| Frank Schuhardt | 209 | 51 | 36 | 0 | 263 | 102 |

The current Managing Board members have no individual pension benefit plans. The Managing Board members do not receive loans from the company.

## SUPERVISORY BOARD

The advisory and supervisory functions have been completely fulfilled by the Supervisory Board during the reporting period. As part of the strategic evaluation of the company, its risk management and reporting, the Managing Board communicates with the entire Supervisory Board and not only the Supervisory Board Chairman.

The Supervisory Board has established rules of procedure. These define the Supervisory Board's tasks, obligations and internal organisation and outline details on non-disclosure requirements, the handling conflict of interests and clarify the Managing Board's reporting duties.

Committees in the Supervisory Board have deliberately not been established. This was deemed unnecessary because its limited number of members (three) and the size of the company.

Neither the Managing Board nor the Supervisory Board sees a need to effect a change here, even if this results in a deviation from the Code (Item 5.3).

The elections of Mr. Prüfer and Mr. Thöne-Flöge to the Supervisory Board took place individually during the General Meeting on May 6, 2008.

Since that date, the Supervisory Board has consisted of the following members:

- Andreas Prüfer, Chairman
- Michael Thöne-Flöge, Deputy Chairman
- Alan Revie

The Supervisory Board now includes a former member of the company's Managing Board; the reasons for the change to the Supervisory Board were discussed at the General Meeting. The Supervisory Board believes that the company remains in adherence to Item 5.4.2 of the German Corporate Governance Code when its membership contains two independent members.

Remuneration for the entire Supervisory Board totals € 30,000, of which the Chairman receives € 15,000, the Deputy Chairman € 10,000 and one ordinary member € 5,000 respectively. The remuneration does not contain any performance-related component, contrary to Item 5.4.6. The Supervisory Board has reviewed the efficiency of its activities.

## TRANSPARENCY

The Managing Board and public relations employees ensure that shareholders, financial analysts, the media and interested general public receive open, prompt information on the company's situation and any major changes to the business.

Insider information directly affecting the company is published immediately by Delticom, even outside regular reporting schedule. To ensure shareholders receive comprehensive and prompt information, Delticom uses the Internet also. The website is clearly structured and features a financial calendar which includes the dates of publication of all major documents and important company events (e.g. Annual Report, interim reports or General Meeting).

In accordance with the provisions of Section 15a of the German Securities Trading Act, Delticom discloses securities transactions promptly upon receiving the corresponding information (Directors' Dealings). Information on securities transactions made by members of the Managing Board and Supervisory Board which were reported for the 2008 fiscal year are included in the so-called "Annual Document" prepared in line with Section 10 of the German Securities Trading Act. This document also contains all the publications made in accordance with capital market regulations (including ad hoc disclosures) that Delticom released during the fiscal year.

The following table shows shares held by members of Supervisory Board and Managing Board of Delticom AG (as of 31 December 2008):

| Name | Owner | Shares | Shareholding |
|---|---|---|---|
| Rainer Binder | Binder GmbH | 1,034,031 | 26.20% |
| Andreas Prüfer | Prüfer GmbH | 1,091,943 | 27.67% |
| Andreas Prüfer | held personally | 500 | 0.01% |
| Philip von Grolman | held personally | 95,967 | 2.43% |
| Alan Revie | held personally | 58,635 | 1.49% |
| Frank Schuhardt | held personally | 2,000 | 0.05% |
| Peter Stappen (member of Supervisory Board until 06.05.2008) | held personally | 2,000 | 0.05% |

## ACCOUNTING AND AUDITING

Since the 2004 fiscal year, the accounting of the company at group level has been done in accordance with the International Financial Reporting Standards (IFRS) while the single-entity statements are completed in adherence to German standards (Code of Commercial Law). Reporting with the annual financial statements and quarterly interim reports is made in line with statutory requirements and stock market regulations. In keeping with international standards, the annual report and company website are published in English and the annual and interim reports are also published online.

The Managing Board prepares the consolidated financial statements and these are examined by the auditor and the Supervisory Board. The corresponding dates for 2009 are found in the financial calendar published on the company website.

Delticom has the following subsidiaries listed below:

| Company name | Registered office | Ownership | Share capital (in local currency) | Exchange rate | Share capital (in €) | Equity as of 31,12,2008 (in € ,000) | Result (in € ,000) |
|---|---|---|---|---|---|---|---|
| Reifendirekt GmbH | Hanover, Germany | 100% | 25,000.00 EUR | | 25,000.00 | 41 | 0 |
| Pnebo Gesellschaft für Großhandel und Logistik mbH | Hanover, Germany | 100% | 25,000.00 EUR | | 25,000.00 | 41 | 16 |
| Delticom Tyres Ltd. | Oxford, Great Britain | 100% | 2.00 GBP | 0.626672 | 3.19 | 174 | 26 |
| NETIX S.R.L. | Timisoara, Romania | 100% | 200.00 RON | 4.13564 | 48.36 | 314 | 52 |
| Delticom North America Inc. | Wilmington, Delaware, USA | 100% | 0.10 USD | 1.4716 | 0.07 | 16 | -390 |

Relationships to shareholders – who are to be classified as related parties according to the applicable accounting standards – are described in the consolidated notes.

The appointed auditors issued written confirmation of their neutrality. The auditors of Delticom AG agreed that the Supervisory Board Chairman is to be promptly informed of any possible disqualifying reasons and conflict of interests discovered in the course of the audit, if these are not resolved immediately. The auditor receives its mandate from the Supervisory Board Chairman who is directed in this choice by the vote of the General Meeting.

The auditor is required to inform the Supervisory Board or, if more appropriate, include mention in its audit report, of any factual contradiction between the Declaration of Conformity to the German Corporate Governance Code submitted by the Managing Board and Supervisory Board and the facts as the auditor finds them.

On 25 March 2009, the auditor attended the Supervisory Board's discussions of the 2008 annual financial statements and consolidated financial statements. At this meeting, the auditor reported to the Supervisory Board on the results of its audit of the annual financial statements, the Delticom management report of December 31, 2008 (German Commercial Code) as well as the consolidated financial statements and Delticom group management report of December 31, 2008 (IFRS).

### DELTICOM'S DECLARATION OF CONFORMITY IN LINE WITH SECTION 161 OF THE AKTG (GERMAN PUBLIC LIMITED COMPANIES ACT)

The Managing Board and the Supervisory Board of Delticom declare that they have conformed to the recommendations of the most recent version of the German Corporate Governance Code as announced by Germany's Federal Ministry of Justice on 4 July 2003[1], with the following exceptions:

- The recommendation to include a deductible for D&O insurance in line with Item 3.8 of the Code is not conformed to.
- The recommendation to form committees in the Supervisory Board in line with Item 5.3 of the Code is currently not conformed to.
- The recommendation to fix a variable component in the Supervisory Board's remuneration in line with Item 5.4.6 of the Code is not conformed to.

Hanover, March 25, 2009

Andreas Prüfer,
Chairman of the
Supervisory Board

Rainer Binder,
Chairman of the
Managing Board

Philip von Grolman,
Member of the
Managing Board

Frank Schuhardt,
Member of the
Managing Board

[1] Published in the Federal Ministry of Justice's electronic Federal Gazette, 4 July 2003.

# Financial Calendar 2009

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|---|---|
| 30.04.09 | Publication of provisional 3-monthly turnover |
| 14.05.09 | 3-monthly report 2009 |
| 19.05.09 | Annual General Meeting 2009 |
| 30.07.09 | Publication of provisional 6-monthly turnover |
| 13.08.09 | 6-monthly report 2009 |
| 29.10.09 | Publication of provisional 9-monthly turnover |
| 09.11.09 | 9-monthly report 2009 |
| 09.11. – 11.11.09 | German Equity Forum Frankfurt |

## Imprint


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