Annual Report 2010

DELTICOM
Aktiengesellschaft

Profile

Delticom is Europe's leading online tyre retailer. Founded in 1999, the Hanover-based company has more than 100 online shops in 39 countries, among others the *ReifenDirekt* domains in Germany, Switzerland and Austria, mytyres.co.uk in UK and 123pneus.fr in France. Delticom offers a wide range of products for its private and business customers: more than 25,000 models from over 100 tyre brands for cars, motorcycles, commercial vehicles and buses, but also complete wheels, motor oil, replacement parts and accessories.

Delticom's customers enjoy all the advantages of modern E-Commerce: convenience in order placing, quick, efficient delivery, clear cost information and, last but not least, low prices. The products are delivered in two business days to any address the customer chooses. Alternatively, Delticom delivers the tyres to one of more than 27,000 service partners (7,700 in Germany alone) for professional fitting directly on to the customer's vehicle at a reasonable price.

Thanks to its cost-efficient processes, Delticom is a profitable and growing operation. After a successful 2010, the company intends to maintain and build upon its position as market leader in 2011. The online tyre trade is large and dynamic – and Delticom is on the right track to continue taking advantage of this.

Key Figures

		01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	yoy %
Revenues	€ million	419.6	311.3	+34.8
New customers	thousand	958	805	+18.9
Repeat customers	thousand	372	287	+29.9
Customer base	thousand	4,389	3,431	+27.9
Total income	€ million	425.3	315.6	+34.8
Gross profit	€ million	124.7	89.8	+38.9
Gross profit margin[1]	%	29.3	28.5	+0.9
EBITDA	€ million	48.4	30.4	+58.9
EBIT	€ million	47.1	29.4	+60.1
EBIT margin[2]	%	11.2	9.4	+1.8
Net income	€ million	32.3	20.2	+59.4
Earnings per share[3]	€	2.72	1.71	+59.4
Employees[4]		101	87	+16.1
Revenues per employee	€ thousand	4,154	3,578	+16.1
Total assets	€ million	149.0	106.8	+39.4
Investments[5]	€ million	4.3	4.4	–0.4
Investment quota[6]	%	1.0	1.4	–0.4
Capital Employed[7]	€ million	71.0	59.3	+19.8
Return on Capital Employed[8]	%	66.3	49.6	+16.7
Equity	€ million	71.0	58.8	+20.7
Equity ratio	%	47.6	55.0	–7.4
Return on equity	%	45.4	34.4	+11.0
Liquidity position[9]	€ million	67.8	40.6	+66.9
Dividend[10]	€	2.72	1.70	+60.0
Dividend yield[11]	%	4.1	6.2	–2.1
Operating cash flow	€ million	51.7	13.1	+294.2
Operating cash flow per share	€	4.37	1.11	+294.2
Free cash flow[12]	€ million	48.2	9.5	+406.2
Free cash flow per share	€	4.07	0.80	+406.2
Free cash flow yield[11]	%	6.1	2.9	+3.2

(1) Gross profit to total income
(2) Consolidated earnings before interest and taxes (EBIT) to revenues
(3) Undiluted
(4) Average in reporting period (FTE)
(5) Investments in tangible and intangible assets
(6) Ratio of investments to revenues
(7) Capital Employed = total assets – current liabilities
(8) ROCE = EBIT / Capital Employed
(9) Liquidity position = cash and cash equivalents + liquidity reserve
(10) Conditional on approval at the Annual General Meeting
(11) Based on official closing on 31 December
(12) Free cash flow = Operating cash flow – Capex

Highlights 2010

Revenues up +34.8% to € 419.6 million
(previous year: € 311.3 million)

EBIT margin of 11.2% EBIT increased +60.1% from
€ 29.4 million to € 47.1 million

Earnings per share
+59.4% from € 1.71 to € 2.72

Planned dividend of € 2.72 per share
(previous year: € 1.70)

More than 900,000 new customers in
2010. Customer basis grown to 4.4 million

27,000
service partners worldwide, 7,700 in Germany alone

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Letter to Our Shareholders

Dear shareholders, colleagues and friends,

The tragic events in Japan have left us holding our breath. The immense human suffering and tremendous destruction cast a long shadow over all other concerns, and we would like to express our deepest sympathy to the Japanese people. We admire them for the courage and fortitude they have demonstrated in the face of the adversity.

Despite this difficult situation, however, we offer this report on Delticom's performance in the preceding fiscal year.

After the serious setbacks caused by the recent financial and economic crisis, the world economy gained positive momentum in 2010. However, the extent of this upturn was not uniform across Europe and varied considerably from country to country. Germany in particular surprised many observers by achieving notably strong, cyclical growth. This development was driven in large part by improved consumer confidence based on declining fears of unemployment and low interest rates.

The growth in the world economy has brought with it an increased need for raw materials. Along these lines, the recent upswing in auto sales has fueled demand for natural rubber, a key component in tyre manufacturing. At the same time, the natural rubber harvest in 2010 was poorer than expected due to unfavourable weather conditions, causing further upward pressure on prices. As a result, many tyre manufacturers raised their prices over the course of the year to reflect the significant increase in their material costs. Despite these developments, Delticom was able to grow its business during the first nine months 2010 thanks to the solid development of the European replacement tyre market and the continued growth of the Internet as an online distribution channel.

Based on our strong performance in the final quarter of 2009, we approached the winter season of 2010 aware that matching these results would be most difficult. In September there was no sense that the year's last quarter would see a convergence of factors that would create an extremely dynamic marketplace. Then, in mid-October, Germany's transport minister started working on legislation making winter tyres a requirement for all vehicles on the roads in winter weather conditions. High levels of media coverage in advance of the passage of this law in November convinced many German car owners to purchase new winter tyres. On the heels of this came the onset of unseasonably harsh winter weather across much of Europe. These conditions, even in milder regions, helped create exceptionally strong demand for winter tyres across Europe.

This development came unexpectedly for tyre manufacturers. Having reduced production capacities in 2009 to reflect the decreased demand brought about by recessionary forces, manufacturers were able to ramp up their production only relatively late in the year. This situation had a particular impact on winter tyres. With manufacturers working to fill the orders for the booming auto industry, winter tyre production was delayed. Since the snowy winter of 2009 had generated above average winter tyre sales, there was little of this stock available in the delivery chain. High demand and low supply combined to send prices to never-before-seen levels in the matter of a few days.

Philip von Grolman

Rainer Binder (CEO)

Frank Schuhardt

This run on winter tyres in certain regions resulted in many stores being cleaned out of their stocks. As a result, consumers began looking online for cost-effective alternatives – something they found in our shops. In 2009, Delticom increased its storage capacity significantly with the construction of a large new warehouse facility. This strategy now paid off handsomely: Stocks which had been accumulated over the previous months were now available to meet consumer demand and could be sold at good margins. The combination of positive price and volume effects resulted in a last quarter sales volume of € 162.6 million – an increase of 48.2% over the previous year's already strong performance. Overall, Delticom was able to achieve record revenues in 2010 with a year-over-year increase of 34.8% to € 419.6 million. The EBIT margin for the final quarter of 15.0% contributed decisively to raising our overall profitability for the year. In total, the EBIT rose from € 29.4 million to € 47.1 million, or 60.1% over 2009. Our EBIT margin for 2010 was 11.2%, considerably higher than the target of 8% which was set at the beginning of the year.

Our operations are profitable and our business model is not particularly capital intensive. We are debt free, have a solid balance sheet and our liquidity remains high. Therefore, the Managing and Supervisory Boards will propose to the Annual General Meeting on 03.05.2011 that shareholders receive a dividend of € 2.72 per share, an increase of 60.0% over last year (2010: € 1.70).

Results such as those posted in 2010 have naturally raised expectations for the current year. On the other hand, it would be imprudent to expect the combination of positive factors which were key in driving our 2010 performance to occur again this year. Adding to this, experts cannot rule out further replacement tyre shortages. Many tyre manufacturers have already raised their prices. It is expected that the European tyre trade will see a year-over-year decline in the second half of 2011.

That said, the share of online sales in the tyre market continues to be comparatively low. More and more drivers are turning to the Internet in search of lower-priced alternatives, and an increasing number of these will make their tyre purchases in our shops. As a result, we see an opportunity for Delticom to increase its market share in 2011 by attracting customers away from other distribution channels.

The developments of the preceding year demonstrated to us once again how important it is for our operation to have ample own stock. As Europe's leading online tyre retailer, it is essential that we are able to fill customer orders at all times, particularly in periods of peak demand. Increasing our inventory capacities and warehouse infrastructure allows us to both deliver orders more quickly and reduce our costs. For these reasons, we will open another large warehouse this year and make additional investments in information, materials-handling and packaging technology.

At this point, experts are unable to assess the potential impact which the destruction in Japan could have on the tyre supply chain. While Delticom does not operate any business in Japan, it is nevertheless possible that the difficulties there could also have indirect consequences on the European tyre trade.

Despite the exceptionally strong results we were able to post in 2010, we are forecasting an increase in sales volumes of approximately 10% for the current year – an ambitious, but achievable goal. In calculating future EBIT margins, we will naturally need to orient ourselves to rates of growth more in line with reasonable long-term expectations. Consequently, we expect that the EBIT margin for the current year to come in at about one percentage point below that which was achieved in 2010. Despite this, our current view is that earnings per share could reach 2010 levels if the current business year unfolds in a positive manner.

Delticom is a lean operation and has been a market leader in a distribution channel which continues to grow in importance for more than ten years. We are confident in our ability to consolidate and build upon our leadership position in the European online tyre trade. We wish to thank our coworkers and business partners for their creative and spirited contributions to our business. Thanks also to the Supervisory Board for the constructive, cooperative working relationship we enjoy with it. Finally, we would like to express our gratitude to you, our shareholders, for the trust you have placed in us.

Hanover, 18 March 2011

Rainer Binder | Philip v. Grolman | Frank Schuhardt

Report of the Supervisory Board

Dear Shareholders,

during the past fiscal year, the Supervisory Board fulfilled its tasks and duties, in accordance with both all legal requirements and Delticom's articles of incorporation. We regularly advised and supervised the Management Board. Furthermore, we were involved in all decisions that were of material importance to the company. On a regular basis, we dealt intensively with the net assets, financial position and the results of operation as well as with the company's risk management. We receive written reports on a monthly basis, the scope and contents of which we dictate to the Management Board beforehand. The Supervisory Board was routinely informed about current business progress and major business events. Furthermore, at all times there is a lively exchange of information and ideas between the Supervisory Board and the Management Board, characterised in particular by regular telephone calls at the least, or meetings between individual Management Board members and individual Supervisory Board members to discuss current events and developments.

In addition, outside of the meetings the members of the Supervisory Board provided consulting to the Management Board. In certain meetings we discussed and decided on transactions which required the approval of the Supervisory Board. In instances where decisions were needed to be made quickly we took them by telephone or in circular resolution. All decisions made during the reporting period were unanimous.

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

Meetings of the Supervisory Board

There were four regular and one extraordinay Supervisory Board meetings in 2010. Each of the meetings were attended by all members.

At the meeting on 19.03.2010 we concerned ourselves with the financial statements and management reports of Delticom AG and the Group, as well as with the appropriation of the balance sheet profit. Subject was also the annual corporate governance statement and the declaration of compliance with the German Corporate Governance Code. Moreover, we agreed on the agenda for the Shareholders' General Meeting on 11.05.2010.

At the meeting on 11.05.2010 we discussed the company's course of business, among other things.

At the meeting on 10.08.2010, the Management Board reported on the Group's current business and financial positions following the conclusion of the second quarter of the financial year. We also conducted the efficiency audit of our work using a catalogue of questions. The Board also discussed the company's risk management system in detail.

At the last regular meeting on 16.11.2010 we reviewed and approved the medium-term and investment planning for Delticom AG and its subsidiary Delticom North America Inc. In addition, we passed the resolution to acquire a majority stake in Tyrepac Pte. Ltd.

The unscheduled meeting on 01.07.2010 were held in connection with the signing of the lease contract for a new warehouse.

Corporate Governance

In March 2010, together with the Management Board, we issued a declaration stating that all Delticom's activities are in conformity with Section 161 of the German Corporate Governance Code. This declaration is permanently available on the Delticom AG web page www.delti.com/CG and will be updated every year after the accounts review meeting of the Supervisory Board.

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

In financial year 2010, no conflicts of interest among members of the Board or the Supervisory Board occurred which would require disclosure to the Supervisory Board and would need to be reported to the Annual General Meeting.

Rendering of accounts

In its accounts review meeting on 18.03.2011 the Supervisory Board discussed in detail the documentation relating to the financial statements and the auditor‘s report. Particular attention was paid to the annual financial statements of Delticom AG (prepared according to the regulations of the HGB – German Commercial Code), and the consolidated financial statements of the Delticom Group (prepared according to the regulations of IFRS – International Financial Reporting Standards), both of which had a reporting date of 31.12.2010. In addition, the Supervisory Board reviewed the management reports for both the company and the group for the 2010 fiscal year. The auditor's reports, the annual financial statements for the AG and the consolidated financial statements prepared by the Management Board, the dependent company report and the management reports for Delticom AG and for the group as well as the Management Board's proposal for the use of net retained profits were submitted to the Supervisory Board in good time, so that we had sufficient opportunity to study them. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Fuhrberger Straße 5, 30625 Hanover, audited the annual financial statements. There are no concerns regarding the auditor's independence.

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

As part of its assessment of the risk management system, the auditor confirmed that the Management Board had implemented the measures required pursuant Section 91 (2) of the AktG for identifying risks which could jeopardise the company as a going concern at an early juncture. At the meeting on 18.03.2011 representatives of the auditor were present, to report on key audit results, and to be available to provide supplementary information to the Supervisory Board. Independently of the auditors, the Supervisory Board reviewed the annual financial statements, the consolidated financial statements and the management reports. The Supervisory Board followed the views of the auditors fully. With this, the annual financial statements of Delticom AG have been adopted. The Supervisory Board has followed the Management Board's proposal for the appropriation of the net retained earnings.

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

Hanover, 18 March 2011

Andreas Prüfer

Management Report of Delticom AG

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Business Operations

Since it’s foundation in 1999, Hanover-based Delticom has significantly grown in revenues and profits, both in Germany and abroad. Today the company is Europe's leading online tyre retailer. The E-Commerce division operates 120 online shops in 39 countries.

Segments

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

E-Commerce

Most of the group's revenues are generated by the E-Commerce division. Delticom sells tyres and other products over 120 online shops to private and business customers. The online shop which generates the most revenues is ReifenDirekt – a well-known brand in the German speaking Internet community.

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

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

The group offers its product range in 39 countries, with a focus on the EU market and other European countries such as Switzerland and Norway. Delticom also sells tyres outside Europe, focusing mainly on the USA and, since the end of last year, also on Asia.

Wholesale

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

Products

Replacement tyres

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

Seasonal product ranges

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

Innovative products

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

Accessories and spare parts

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

Market environment

Replacement tyre market

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

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

Tyre distribution chain

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

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

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

Online tyre dealing

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

However, the share of tyre sales made online is still relatively low. We estimate that online tyre sales accounted for not more than 5% of European sales to end customers in 2010.

In Europe, there are still great variations from country to country in the share of online tyre sales. As an example, market observers see the proportion of tyres sold online in Germany still considerably below 10%. There is, however, striking potential, as it is evident from a study conducted by the German motorists' organisation Allgemeiner Deutscher Automobil-Club (ADAC). According to this study, 16.5% of participants (previous year: 15.8%) said they would buy tyres online in the future. Among younger participants who make greater use of the Internet, the figure was notably higher, at 30.8% (previous year: 29.6%).

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

Competitive position

Low barriers to entry

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

First mover

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

Streamlined value chain

Because we focus on online trading, we have no need for physical sales outlets with labour-intensive on-site service. Delticom maintains a tightly-knit network of more than 27,000 professional fitting partners who stand ready to change our customers' tyres on request.

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

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

Economic and regulatory factors influencing the course of business

Vehicle stock, mileage, replacement cycle

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

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

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

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

Price and mix

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

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

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

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

Weather-dependend demand

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

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

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

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

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

Regulatory effects

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

Company Management and Strategy

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

Management by Objectives

Financial objectives

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

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

Liquidity

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

Net Working Capital

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

Capital Employed

The capital required for business operations, otherwise referred to as capital employed, is the sum of non-current assets, net working capital and net cash (see section *Finance and net assets – Balance sheet structure*). Capital employed amounted to € 71.0 million as of 31.12.2010 (previous year: € 59.3 million).

ROCE

In the context of value-based corporate management we use the Return on Capital Employed (ROCE) as the main performance metric. ROCE is calculated as EBIT (2010: € 47.1 million; 2009: € 29.4 million) as a ratio of capital employed. ROCE was raised from prior-year's 49.6% to 66.3%. The increase was partly due to positive reporting-date effects.

Non-financial objectives

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

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

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

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

Strategy

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

Focus

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

Since its IPO in October 2006, Delticom generally has the financial resources for additional growth through acquisitions of other companies. We openly evaluate opportunities as they arise.

Online only

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

Optimised sourcing

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

Reliable partners

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

Wholesale

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

Organisation

Delticom is a lean company with 101 employees working mainly at the Hanover head office. We are supported by partners in the warehouses and transportation logistics. Manual routine work is outsourced to operation centres. The highly automated business processes form a company-wide, scalable value chain.

Legal Structure

As of 31.12.2010, the Delticom group of companies comprised the following subsidiaries.

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

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

Delticom runs the business mainly from the Hanover head office.

Corporate Governance

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

Supervisory Board

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

Management Board

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

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

Corporate Governance Statement

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

Compensation System

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

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

The performance-related components for all of the members of the Management Board are based on Delticom AG's operating results. In addition, Mr. Schuhardt, member of the Management Board, was allowed to participate in a stock option program as a variable component with a long-term incentive. As in the previous year, none of the members of the board were granted advances on their salaries or given loans during 2010.

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

Dependent company report (Section 312 Abs. 3 AktG – German Public Limited Companies Act)

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

Employees

101 employees

In the reporting period on average 101 staff members were employed at Delticom (previous year: 87). We focused on employing new colleagues in the logistics area last year. Goods distribution to various warehouses, and goods delivery, represent central business processes within the company. We also added staff in the IT areas, with the aim of remaining innovative in the face of a rapidly changing environment.

Education and training

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

We offer training to junior staff both in business and IT areas. Four young people started an on-the-job training at Delticom AG last year. A total of 12 trainees were employed as of the end of 2010 (previous year: 9).

Individual responsibility

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

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

IT infrastructure

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

Important business processes

Purchasing

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

Customer acquisition

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

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

In total, last year we were able to attract 958 thousand new customers, or +18.9% year-on-year (2009: 805 thousand).

Customer Capital

Since the company's founding more than 4.3 million customers have made purchases in our online shops (previous year: 3.4 million, double counting not excluded). Our customer base represents a valuable form of capital: firstly, satisfied customers gladly return, secondly we are recommended to friends and acquaintances.

Last year, 372 thousand existing customers (previous year: 287 thousand, +29.9%) made repeat purchases at Delticom. Given the long replacement cycle in the tyre business this is a pleasing figure which should rise further over the next few years.

Warehousing

Delticom carries own inventories in rented warehouses. The stock is handled by long-standing service providers. We have built up significant Process Capital with the investments into packaging machines, warehouse infrastructure, as well as into proprietary inventory management systems.

Transportation logistics

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

Ordering process and order processing

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

Research and Development

Proprietary software

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

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

Test markets

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

Liquidity management

For the time being, our liquidity management's main aim is to avoid entering into any interest-bearing liabilities at any stage during the year. Being debt-free has been a sign of balance sheet quality predating the beginning of the economic and credit crisis. It is also one of the cornerstones of our business relationships with major suppliers. We are technically able to pursue such an objective because Delticom's business model is highly profitable without being capital intensive. Since its IPO in 2006, Delticom has had access to significant financial resources (liquidity as of 31.12.2006: € 34.7 million), despite the long-standing policy of fully distributing profits.

Corporate treasury function

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

- **Payments settlement processes.** Delticom's online shops operate in 39 countries. This results in small-scale payment transactions with partner banks in both Germany and abroad. We use cash pooling wherever possible and focus on avoiding current-account liabilities.
- **Letters of credit.** Some goods are purchased using letters of credit.

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

Liquidity planning

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

General conditions in 2010

Last year, following 2009's financial crisis, the global economy rebounded strongly. The tyre industry was able to benefit from the recovery. Around mid of the year manufacturers were able to increase the capacity utilisation back to normal levels. The tyre trade experienced satisfactory business in the first nine months. Due to regulatory changes in Germany and heavy snowfalls across Europe, the year was topped off by an outstanding final quarter.

Macroeconomic development

Global recovery

After the severe setbacks suffered in the course of the financial and economic crisis, the global economy regained momentum last year. However, recovery has proceeded in very different ways in the economies of Europe. Whereas Germany and France in particular emerged as key drivers of growth in the Euro zone, peripheral countries continued to struggle with the effects of the recession. In many places, stagnating levels of unemployment and severe programmes of cuts enforced by individual governments laid additional obstacles on the already bumpy road to recovery.

Germany showing strong growth

In 2010, Germany experienced a cyclic recovery, the strength of which many commentators found surprising. The overwhelmingly positive reports from the economy, a climate of moderate prices, and good news from the job market spurred consumer spending. Nevertheless, the principal driver of recovery was the booming exports, which at times received additional impulse from the Euro's weakness.

Generally weaker US dollar

The US currency reached its 2010 high mid of the year in the wake of the Euro crisis. However, the US dollar found itself slipping again during the further course of the year. High national debt, a disappointing job market and fears of a double dip recession placed sustained pressure on the dollar. Several waves of "quantitative easing" could do little to improve the situation.

Increasing demand for raw materials

Global economic recovery has boosted demand for raw materials, also and in particular from newly industrialising countries. In 2010, this phenomenon led to price increases that were dramatic at times, a development reflected in an increased rate of inflation in the Euro zone at the end of the year.

Tyre markets

Natural rubber prices skyrocket

Natural rubber is essential to tyre production. In the context of the recovery of the automotive industry, demand for natural rubber intensified. However, adverse weather conditions in 2010 lowered harvest yields. As a result, prices increased substantially, reaching a historic high at the end of 2010. Many tyre producers were forced to increase their sell-out prices during the year in response to the rising input costs.

Shortages of winter tyres across Europe

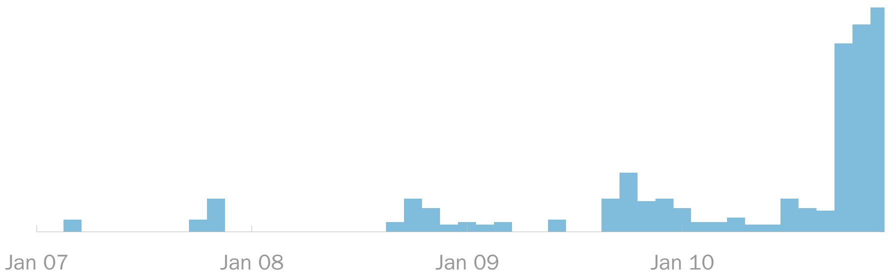
Many tyre manufacturers had stepped up production relatively late in the year, after having adjusted production levels as a consequence of the recession. The need to fulfil delivery commitments to the booming automotive industry entailed a delayed start to production of winter tyres. As the winter of 2009/2010 had also experienced a lot of snow and thus above-average sales of winter tyres, there were very few surplus stocks available in the supply chain.

Replacement tyre market

Despite these developments, Europe’s replacement tyre markets enjoyed a very positive development in 2010. Thanks to tenacious wintry conditions on the roads, the year got off to a good start for retail. Sales of summer tyres were satisfactory, creating an optimistic mood in the tyre trade early in the year.

News "Winterreifenpflicht"

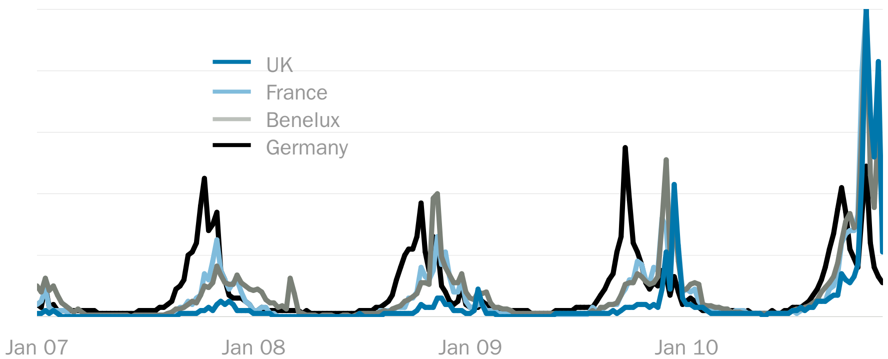
Source: Google Inc., Google News Archive Search



The winter season already began in October, with media and public debate on possible changes to the German regulations on winter tyres, which had come into force in 2006. The high level of media interest in the topic was a major contributing factor to the decision made by many drivers to purchase their new winter tyres early.

Search "winter tyres"

Source: Google Inc.



Another buoyant winter season

Heavy snowfalls caused a veritable explosion in demand for "M+S tyres" across Europe towards the end of the year. Drivers in countries which typically experience mild winters were taken by surprise by snow and ice. As a result, the year's closing quarter saw increased demand for tyres suitable for wintry road conditions in those countries.

Online retailing continues to grow

Last year, not least because of the shortage of winter tyres, an increasing number of drivers searched for moderately priced alternatives online. The Internet permits those intending to purchase tyres to access information on products and prices quickly and easily. The proportion of tyres sold online is still relatively small; nevertheless, the Internet as a sales channel continued to gain market share last year.

Business performance and earnings situation

2010 was extremely successful for Delticom. The prime reason for the positive development was the unusually favourable snowy winter weather in the closing quarter. For the whole year revenues increased by 34.8% to € 419.6 million and EBIT by 60.1% to € 47.1 million. With an EBIT margin of 11.2% the profitability has improved once again.

Revenues

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

Revenues by division

in € thousand

	FY10	%	+%	FY09	%	+%	FY08	%
Revenues	**419,577**	**100.0**	**34.8**	**311,259**	**100.0**	**20.2**	**258,979**	**100.0**
Primary Segments								
E-Commerce	403,697	96.2	36.2	296,498	95.3	24.8	237,563	91.7
Wholesale	15,880	3.8	7.6	14,761	4.7	–31.1	21,416	8.3
Regions								
EU	332,874	79.3	30.7	254,749	81.8	15.6	220,428	85.1
Rest	86,703	20.7	53.4	56,509	18.2	46.6	38,550	14.9

Strong revenue growth

Selling price levels developed favourably in the reporting period. With price increases in the order of 5–10%, a stable mix and a very favourable volume development, Delticom was able to generate revenues of € 419.6 million, a plus of 34.8% from prior-year's € 311.3 million.

E-Commerce boosted, low growth in Wholesale

Revenues in the E-Commerce division were up year-on-year by 36.2%, from € 296.5 million to € 403.7 million. The revenues of the Wholesale division lifted by 7.6% to € 15.9 million, after prior-year revenues of € 14.8 million. The development in both business divisions follows a long-term trend. Over the last years the share of Wholesale revenues in percent of Group revenues has decreased steadily. In the reporting period this E-Commerce share already amounted to 96.2%, compared to 95.3% in the previous year.

Regional split

In almost all 120 online shops in 39 countries Delticom recorded rising volume figures and further market penetration. The company recognised the bulk of its revenues in the EU countries, a total of € 332.9 million (+30.7%). Operations in Europe are not restricted to EU member states but also include countries such as Switzerland and Norway. Delticom also sells tyres outside Europe, especially in the USA. Over all non-EU countries the revenues totalled € 86.7 million (+53.4%).

Good growth in the first nine months

In the first quarter, Delticom boosted revenues by 45.9%, from € 51.0 million to € 74.5 million. One of the reasons was the unusually snowy weather that lasted well into February. This allowed for further selling opportunities for winter tyres. Furthermore, the 2010 summer tyre season started already in March.

As expected, due to the volume shift between the quarters, the higher growth in Q110 was matched with a lower increase in revenues in Q210 of +16.7%. The second quarter was also burdened by cold weather in May. This resulted in sluggish demand, especially for motorcycle tyres.

Thanks to the good business performance in the third quarter revenues totalled € 79.7 million, which translated into a year-on-year growth of 27.6% over Q309 revenues of € 62.4 million (Q309: +16.3% over Q308).

Q4: scarce supply, high prices

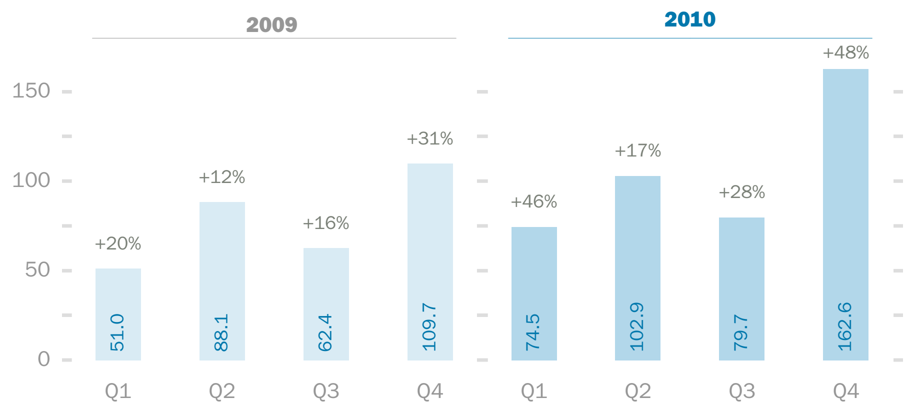
In the fourth quarter the extreme winterly weather across Europe caught many car drivers by surprise. Heavy snowfalls caused serious traffic delays, especially in countries where the winter is usually quite mild. The surge in demand was intensified by new regulations in Germany, making winter tyres mandatory. At the same time tyre supply fell substantially short of demand, because tyre manufactures had ramped up their production only relatively late in the aftermath of the recession. As a result, winter tyre prices increased starkly across Europe, driven by market-wide scarcity. In the closing quarter, revenues climbed owing to positive volume and price effects to € 162.6 million – a plus of 48.2% year-on-year over previous year's value of € 109.7 million.

Seasonality

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

Revenues trend

quarterly revenues in € million



Key expense positions

Cost of sales

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

The cost of sales increased in the reporting period by 33.2%, from € 225.8 million in 2009 to € 300.7 million. Compared with the prior-year period, the ratio of cost of sales to revenues decreased from 72.5% to 71.7% of revenues, due to the relatively higher revenue growth. The cost of sales in the E-Commerce division increased by 34.5% from € 213.1 million to € 286.6 million (71.0% of divisional revenues (previous year: 71.9%). In the Wholesale division, the cost of sales increased by 11.2% to € 14.1 million (previous year: € 12.6 million), corresponding to 88.6% of this division's revenues (previous year: 85.7%).

Personnel expenses

One of the key factors for Delticom's successful growth is that its workflows are mostly automated; only an increasingly small proportion of transactions requires manual supplementary processing. Thanks to these highly efficient operating workflows, the company has been able to keep staff levels low in 2010 despite increasing transaction volumes. In the reporting period on average 101 staff members were employed at Delticom (previous year: 87).

Compared to the prior-year period, the personnel expenses ratio (staff expenditures as percentage of revenues) decreased slightly from 1.9% to 1.6%.

Depreciation

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

Depreciation pertains solely to the stated property, plant and equipment. Due to the low capital intensity of the business model, deprecation of fixed assets was with € 1.3 million still relatively low (previous year: € 1.0 million).

Other operationg expenses

Overall the other operating expenses totalled € 69.5 million in the past financial year, an increase of € 16.0 million or 29.8% over the prior-year value of € 53.5 million.

Transportation costs

Among the other operating expenses, transportation costs is the largest line item. Tyres sold online are picked up at the delivery points by parcel services which then transport the tyres to the customers or fitting stations. As business volumes increases, so too do these transportation costs, from € 26.8 million by +28.8% to € 34.5 million.

The share of transportation costs against revenues decreased from 8.6% in 2009 to 8.2% in 2010. The reason for this was the significant price effect in the revenues for the last financial year and in the closing quarter in particular. In addition, economies of scale arising from the centralised warehouse infrastructure helped to further drive down costs.

Stocking costs

Stocking costs went up in line with sales growth by 41.3% from € 3.2 million to € 4.5 million. The reason for the year-on-year deterioration of this expense position is that the share of revenues from stock-and-ship business slightly grew in comparison to drop-ship business (where no direct stocking costs accrue to Delticom). The share of revenues was nearly unchanged at 1.1%. Due to the expansion of warehouse capacity rents and overheads increased by 57.7%, from € 2.2 million to € 3.5 million.

Marketing

In the reporting period, costs for advertising totalled € 9.0 million, after € 7.7 million in 2009. This represents a marketing expense ratio (marketing expenses as a percentage of revenues) of 2.1%, after 2.5% in the corresponding period of the previous year. One of the reasons was the snowy winter which clearly illustrated the importance of appropriate tyres to safety-conscious drivers. Costs were also lower due to the fact that the client base has grown continuously over the course of the years, lowering the marketing expenses for referrals.

Operations centres

The hotline and selected parts of the customer and supplier processes are outsourced to external service providers. In the reporting period, the costs for those operations centres increased year-on-year by 8.0%, from € 3.6 million to € 3.8 million. The reason for this increase was the addition of new personnel, in line with revenue growth. Furthermore, wages moved upwards with the cyclical rebound, in particular toward the end of the year.

Bad debt losses

Compared to the previous year, bad debt losses increased slightly from € 1,553 thousand to € 1,640 thousand, an increase of 5.6%. In the business with private end customers, 2010 fraud prevention has been raised to a higher level, using organisational and technical means. Credit insurance helped to minimize the risk of bad debt losses. In addition, strict credit checks were run on business E-Commerce customers. To ensure a disciplined approach we have installed a credit department which is tasked to allot credit lines according to preset rules.

FX losses

A large portion of tyre purchases is made in foreign currency, usually US-Dollar. The FX exposure is hedged with forward contracts. FX losses are accounted for in the other operating expenses. In 2010 the FX losses amounted to € 4.8 million (previous year: € 2.8 million). In principle the FX losses are balanced with FX gains from the hedges. Gains and losses might accrue in different quarters, though, due to the long duration of the underlying transactions and the corresponding hedges. In the reporting period, the balance from FX gains and losses was € –0.7 million (previous year: € –0.4 million).

Earnings position

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

abridged profit and loss statement

in € thousand

	FY10	%	+%	FY09	%	+%	FY08	%
Revenues	**419,577**	100.0	34.8	**311,259**	100.0	20.2	**258,979**	100.0
Other operating income	5,751	1.4	33.3	4,315	1.4	34.0	3,221	1.2
Total operating income	**425,328**	101.4	34.8	**315,574**	101.4	20.4	**262,200**	101.2
Cost of goods sold	300,656	71.7	33.2	225,790	72.5	16.6	193,723	74.8
Gross profit	**124,672**	29.7	38.9	**89,784**	28.8	31.1	**68,477**	26.4
Personnel expenses	6,804	1.6	17.3	5,801	1.9	17.1	4,952	1.9
Other operating expenses	69,510	16.6	29.8	53,541	17.2	14.9	46,590	18.0
EBIT	**47,063**	11.2	60.1	**29,405**	9.4	78.8	**16,449**	6.4
Depreciation	1,295	0.3	24.8	1,037	0.3	113.3	486	0.2
EBITDA	**48,358**	11.5	58.9	**30,442**	9.8	79.8	**16,935**	6.5
Net financial result	102	0.0	–37.6	163	0.1	–85.8	1,148	0.4
EBT	**47,165**	11.2	59.5	**29,568**	9.5	68.0	**17,596**	6.8
Income taxes	14,915	3.6	59.7	9,340	3.0	59.2	5,866	2.3
Consolidated net income	**32,251**	7.7	59.4	**20,228**	6.5	72.4	**11,731**	4.5

Other operating income

Other operating income increased in 2010 in line with revenues by 33.3% to € 5.8 million (previous year: € 4.3 million).

Currency gains are shown with other operating income. In the reporting period they amounted to € 4.1 million (previous year: € 2.3 million). As outlined above, income and expenses are matched with corresponding positions from currency hedges.

Another line item in other operating income was insurance compensations of € 78 thousand (previous year: € 380 thousand).

Gross profit and gross profit margin up

As a result, the gross profit advanced in the reporting period by 38.9% year-on-year, from € 89.8 million to € 124.7 million and the gross profit margin (gross profit in relation to total income) progressed from 28.5% to 29.3%.

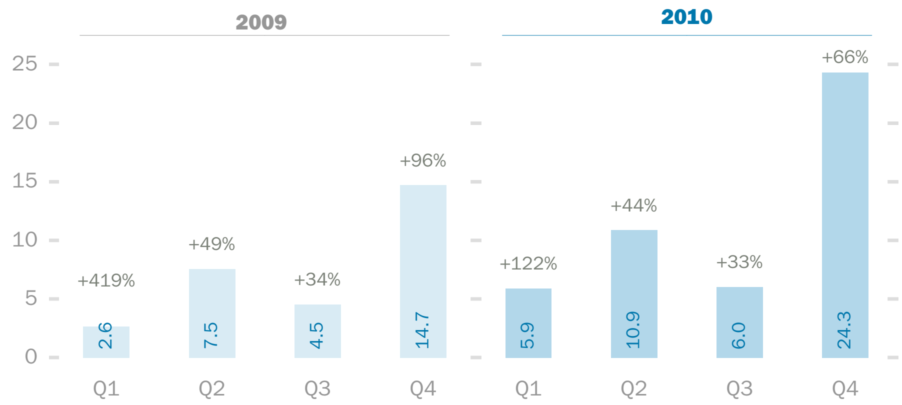
The two divisions – E-Commerce and Wholesale – operate at different gross profit margins. As usual, E-Commerce was able to achieve a better margin (2010: 29.2%, 2009: 28.5%) than Wholesale (2010: 11.8%, 2009: 14.7%). This had an additional positive contribution to the gross margin of the group, even more so as the growth in revenues in the E-Commerce division came in significantly higher than in Wholesale.

EBIT and profitability improved considerably

Earnings before interest and taxes (EBIT) improved during the reporting period to € 47.1 million (2009: € 29.4 million). This corresponds to an EBIT margin of 11.2% (2009: 9.4%). As shown by the quarterly presentation in chart *EBIT*, the reason for that was in particular the unusually successful fourth quarter.

EBIT

quarterly, in € million



A wide variety of positive effects impacted on the fourth quarter: weather-related sales growth, supportive regulatory environment, a higher demand paralleled with a lower supply in the high season. In addition and according to schedule, Delticom generated a greater share of revenues with own inventories, compared to the previous years. This increased our flexibility in price setting and helped us to meet the demand even at peak times, at good margins.

As a result, the EBIT margin in the closing quarter of 2010 was with 15.0% again higher than in the already very successful prior-year period (Q409: 13.4%). We expect that the built-in advantages of our business model could very well fall in line with favourable weather and supportive regulations in the future as well. It is clear, though, that those factors will not necessarily always build-up in our favour as in 2010.

Financial result deteriored

The continually low Euro money market rates led to a poor financial result of € 102 thousand (2009: € 163 thousand). The year-on-year erosion was amplified by a policy change: In 2010 we broadened the scope of early payment of accounts payable, resulting in less funds to invest in the money markets compared to 2009.

Overdraft facilities were scarcely used and always settled very quickly. The financial expenses of € 32 thousand (2009: € 30 thousand) resulted mainly from provisions and expenses related to Delticom's import/export business.

Tax rate unchanged from previous year

The expenditure for income taxes was € 14.9 million (previous year: € 9.3 million). The tax rate of 31.6% was unchanged from the previous year.

Net income and dividend

Consolidated net income for 2010 grew from € 20.2 million to € 32.3 million. This corresponds to earnings per share (EPS) of € 2.72 (undiluted, 2009: € 1.71), a step-up of 59.4%.

At Delticom's Annual General Meeting on 03.05.2011, the Management Board and the Supervisory Board will propose a dividend of € 2.72 per share – an increase of 60.0% compared to the dividend for financial year 2009 of € 1.70.

Overall statement on the earnings position

In the past financial year the earnings situation of the company has developed very well. Revenues were up 34.8% to € 419.6 million. The E-Commerce division was even able to increase revenues by 36.2%. Due to heavy snowfalls and positive effects from the German "Winterreifenpflicht" revenues in the fourth quarter grew by 48.2%.

The closing quarter was instrumental in the significant increase of profitability. Within the context of strong growth, convenient selling prices and relatively lower fixed costs Delticom was able to improve the EBIT margin to 15.0% in the fourth quarter. Over the course of the year, EBIT progressed from € 29.4 million to € 47.1 million, a plus of € 17.7 million or 60.1%. With an EBIT-margin of 11.2% we have topped our initial forecast of 8% significantly.

In total the consolidated net profit amounted to € 32.3 million or € 2.72 per share – after a prior-year result of € 20.2 million an increase of 59.4%. Delticom has once again been able to continue the string of revenues and earnings increases, unbroken since the company's founding in 1999.

Financial and assets position

Delticom is debt-free and has a solid balance sheet. Despite investments and inventory build-up in our warehouses, the liquidity level remains high. The low capital intensity of its business model ensures a good financial position for future growth.

Investments

In the reporting period, investments amounted to € 4.3 million (previous year: € 4.4 million).

Strategic significance of warehousing business

Delticom generates a significant part of its revenues through the sale from its own warehouses. Holding own stocks is essential to be able to make deliveries also at seasonal peaks, as was the case in the fourth quarter of 2010.

In order to take advantage of economies of scale and learning effects in warehousing logistics, we invested in 2010 in the expansion of our warehouses' information, conveying and packaging technology, in close coordination with our logistics service providers. For this reason, reported investments of € 3.4 million in 2010 relate primarily to such capital equipment.

These investments streamline our warehouse processes: products can be prepared for dispatch more rapidly and at lower costs. In addition, warehouse infrastructure investments also simplify the way we work together with our transportation service providers. This pays off, particularly during seasonal peaks of the tyre trade.

Tyre warehousing also allows us to achieve economies of scale in procurement and allows flexible utilisation of business opportunities in Germany and abroad.

Less investment into warehouse infrastructure

We aim to increase our own warehousing capacity in line with rising sales. In doing so, we successively expand the capacity by renting new warehousing facilities. The most recently commissioned large-scale warehouse was put into operation in 2009. The majority of the related investments in property, plant and equipment were thus recognised in 2009. In the reporting period we only added capacity by means of smaller satellite warehouses. As a consequence, our investments fell by –18.3%.

Intangible assets

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

Financial investments

In 2010, Delticom acquired a stake of 50.9% in Tyrepac Pte. Ltd. (Singepore). To this end, share capital of Tyrepac was increased by € 0.8 million. At Delticom, the amount was recognised as a financial investment, see also *Financial and assets position – Balance sheet structure*.

Depreciation up from a low base

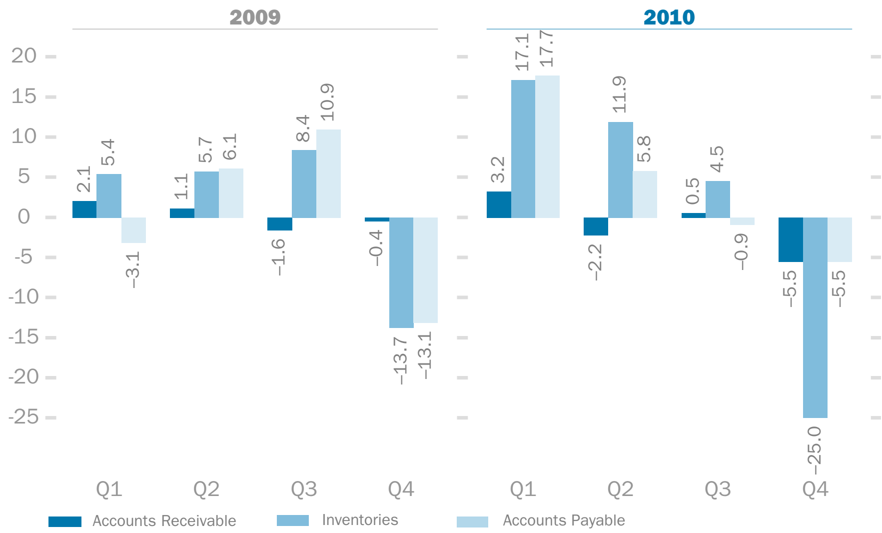
In line with our gradual warehouse capacity expansion and the parallel investments into warehousing infrastructure, scheduled depreciation rose by 24.8% from € 1.0 million in 2009 to € 1.3 million. The low absolute level of depreciation underlines the low capital intensity of Delticom's business.

Working Capital

Working Capital Management

We define Net Working Capital as the balance of funds tied-up in inventories, receivables and payables from our main trading activities. In 2010 the Net Working Capital contracted from € 13.2 million to € 1.3 million. The chart *Working Capital* illustrates the changes in the components of Net Working Capital quarter-to-quarter for the last two years.

Working Capital
in € million



Receivables

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

Usually the receivables follow the seasonal pattern quite closely. Still, owing to the reporting date distorting effects are unavoidable. Partly constrained by the streamlined claims management, the accounts receivable stood at € 10.9 million on 31.12.2010, only slightly higher than last year (31.12.2010: € 10.1 million). The unusual market and weather conditions meant that a larger proportion of business than usual was attributable to December. As a result, in contrast to previous years, as of 31.12.2010 many orders had been paid for but not yet fulfilled, leading to a comparatively high value of prepayments received, amounting to € 5.3 million (31.12.2009: € 2.2 million). Additionally, not all repayments on cancelled orders had been completed by the end of the year. This resulted in customer credits also being higher, at € 3.0 million (31.12.2009: € 1.3 million).

In total, working capital commitment in receivables decreased from € 6.6 million as of 31.12.2009 to € 2.6 million as of 31.12.2010. This reduced average Days Sales Outstanding (DSO, average receivables divided by average revenue per day) from 7.0 to 4.0 days.

Net increase of inventories up to Q3

For years without significant increases in warehouse capacity the ups and downs of the inventories roughly follow the seasons, as shown in the quarterly revenues (see also chart *Revenues trend*). Contrasting with this general pattern, Delticom had opened a new central warehouse in 2009. We were therefore able to ramp up inventories in 2010, in order to improve preparation for the winter tyre business.

Due to the strong sell-out of stocked goods in the closing quarter, average Days Inventory Outstanding (DIO, average inventory level divided by average cost of sales per day) for 2010 have significantly shortened from 64.7 to 57.4 days.

Payables

Traditionally, accounts payable is an essential source of financing in the tyre trade. For the purpose of analysis we reduce these payables by the amount credited to suppliers (included in the balance sheet line item of other current receivables).

Payment terms granted to Delticom by its suppliers are usually good. The company does not have to use of the terms to their full extent, though. Taking market situation and liquidity into account, we can opt to settle payables with advanced repayments. As a result of this policy, the calculated average Days Payable Outstanding (DPO, average volume of accounts payable divided by average cost of sales per day) has been curtailed somewhat over the course of the past financial year, from 58.9 to 54.8 days.

Cash Conversion Cycle

Finally, the Cash Conversion Cycle (= DSO + DIO – DPO, as defined above) for the past financial year came done considerably, from 12.8 in the prior-year period to 6.6 days in 2010.

Cash flow

Operating cash flow

The cash flow from ordinary business activities (operating cash flow) for the period under review was € 51.7 million. The strong increase of 294.2% from last year's € 13.1 million was due to the significantly lower level of funds tied up in net working capital (€ –11.9 million, see section *Working Capital*).

Investing activities

During the reporting period, investments into property, plant and equipment amounted to € 3.4 million. Including the investments into intangibles, the resulting capex was € 3.5 million (previous year: € 3.6 million).

The cash outflow from investing activities was partly offset by cash inflow from the sale of money market funds to the value of € 2.0 million (previous year: € 10.6 million). These money market fonds are routinely designated to a "liquidity reserve" (see chapter *Organisation – Liquidity management*). According to IFRS rules, money market funds held in the liquidity reserve are not of cash or cash equivalents but rather accounted for as marketable securities. Changes in the composition of the liquidity reserve – if securities are involved – result in shifts between different balance sheet line items.

The acquisition of a shareholding in Tyrepac Pte. Ltd. (Singapore) led to a payment for investments in financial assets to the amount of € 0.8 million (see also *Financial and assets position – Balance sheet structure*).

As a result, the cash flow from investment activities was negative and totalled € –2.3 million (previous year: € 7.0 million).

Financing activities

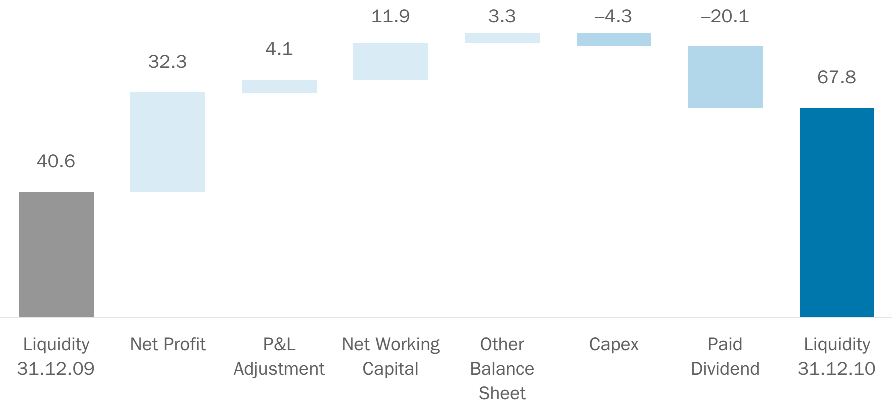
The cash flow from financing activities corresponds to the outflow of funds on the occasion of the dividend payment of € 20.1 million for financial year 2009, equating to a dividend per share of € 1.70.

Liquidity according cash flow

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

Liquidity Bridge

in million €



The starting point is the liquidity position as of 31.12.2009 amounting to € 40.6 million. We add the consolidated net income and account for the cash flow by adding the balance of non-cash expenses and income totalling € 4.1 million. The year-on-year improvement in Net Working Capital was € 11.9 million. For other balance sheet items, additional € 3.3 million were released. Subtracting the capex and the cash outflow from paying out the dividend for the 2009 financial year we arrive at a liquidity total on 31.12.2010 of € 67.8 million.

Free cash flow

Like the liquidity, the free cash flow (operating cash flow less capex) is inflated by reporting-date effects; it came in 406.2% higher than last year, totalling € 48.2 million for 2010 (previous year: € 9.5 million).

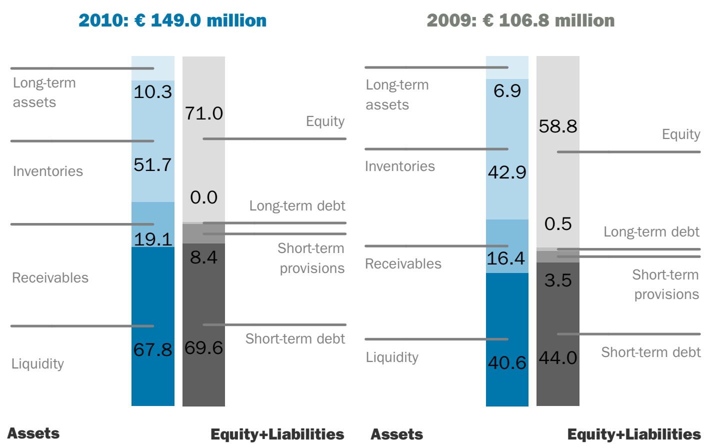
Assuming that the Annual General Meeting follows the dividend recommendation of the Management and Supervisory Boards, the total cash-out resulting from the dividend payment will thus be just 66.8% of the 2010 free cash flow. For future dividends, the Management Board and the Supervisory Board of Delticom will reserve the right to base their decision less on free cash flow and more on an in-depth analysis of the actual liquidity situation.

Balance sheet structure

As of 31.12.2010 the balance sheet total amounted to € 149.0 million (+39.4%, 31.12.2009: € 106.8 million). The chart *Balance Sheet Structure* illustrates the continued low capital intensity of the business model.

Balance Sheet Structure

in million €



Abridged balance sheet

in € thousand

	31.12.10	%	+%	31.12.09	%	+%	31.12.08	%
Assets								
Non-current assets	10,347	6.9	49.7	6,910	6.5	104.0	3,387	3.5
Fixed assets	9,654	6.5	45.8	6,621	6.2	100.5	3,302	3.5
Other non-current assets	693	0.5	140.2	289	0.3	240.4	85	0.1
Current assets	138,622	93.1	38.7	99,938	93.5	8.3	92,250	96.5
Inventories	51,671	34.7	20.6	42,858	40.1	15.4	37,134	38.8
Receivables and other current assets	19,117	12.8	16.3	16,438	15.4	35.2	12,157	12.7
Liquidity	67,834	45.5	66.9	40,642	38.0	–5.4	42,959	44.9
Securities	1,036	0.7	–65.9	3,039	2.8	–77.7	13,620	14.2
Cash and cash equivalents	66,798	44.8	77.6	37,603	35.2	28.2	29,339	30.7
Assets	**148,969**	**100.0**	**39.4**	**106,848**	**100.0**	**11.7**	**95,637**	**100.0**
Equity and Liabilities								
Long-term funds	71,008	47.7	19.8	59,276	55.5	16.9	50,701	53.0
Equity	70,963	47.6	20.7	58,794	55.0	17.1	50,224	52.5
Long-term debt	45	0.0	–90.6	482	0.5	0.9	478	0.5
Provisions	45	0.0	7.8	42	0.0	23.0	34	0.0
Liabilities	0	0.0	–100.0	440	0.4	–0.9	443	0.5
Short-term debt	77,961	52.3	63.9	47,573	44.5	5.9	44,936	47.0
Provisions	8,379	5.6	136.6	3,542	3.3	70.2	2,080	2.2
Liabilities	69,582	46.7	58.0	44,031	41.2	2.7	42,856	44.8
Equity and Liabilities	**148,969**	**100.0**	**39.4**	**106,848**	**100.0**	**11.7**	**95,637**	**100.0**

Non-current assets

On the assets side of the balance sheet, the non-current assets grew to € 10.3 million, a moderate increase of 49.7% against the low prior-year basis of € 6.9 million.

Low capital intensity despite higher warehouse capacity

The fixed assets grew by 45.8% to € 9.7 million. In the course of the expansion of warehouse capacity the predominant additions to fixed assets came from investments in property, plant and equipment. Despite the steep incline, on 31.12.2010 in absolute terms the fixed assets were only 6.5% of the balance sheet total (previous year: 6.2%).

Tyrepac

In Q410, Delticom acquired a shareholding in Tyrepac Pte. Ltd. (Singapore). A payment of € 0.8 million was made for the 50.9% stake in this company. In comparision with the Group, we have classified the position as a minority shareholding. It was recognised as a financial investment and not recorded in the consolidated financial statements.

Deferred tax assets

An important single line item in the other non-current assets (31.12.2010: € 0.7 million, 31.12.2009: € 0.3 million) were deferred taxes of € 0.3 million (31.12.2009: € 0.2 million). These tax assets result from losses carried forward in the subsidiary Delticom North America Inc.

Inventories up as planned

Among the current assets, the inventories are the biggest line item. They increased by € 8.8 million or 20.6% to € 51.7 million (31.12.2009: € 42.9 million).

Receivables remained at low level

At year-end the accounts receivable amounted to € 10.9 million, up from last-year € 10.1 million by just 7.7%. In the course of the recent financial and credit crisis, the claims management has been tightened, resulting in a better quality in the receivables.

As part of the other current assets of € 8.2 million the refund claims from taxes increased by 31.8%, from € 3.9 million to € 5.1 million.

Strong liquidity position

Cash and cash equivalents registered additions of € 29.2 million. On the other hand, short-term money market funds retracted by € 2.0 million. Consequently, the total liquidity as shown on the balance sheet came down by € 27.2 million and totalled € 67.8 million on 31.12.2010 (prior year: € 40.6 million).

In total, current assets grew by 38.7%, basically in line with revenue growth. The share of balance sheet total came down slightly, from 93.5% to 93.1%.

Increase of current liabilities

On the liabilities side of the balance sheet, the current liabilities increased by € 30.4 million or 63.9% to € 78.0 million. As part of this, short-term provisions increased by € 4.8 million or 136.6% to € 8.4 million (prior-year: € 3.5 million), thereof provisions for taxes valuing € 6.2 million which rose with the improved net profit (previous year: € 2.9 million).

As part of the € 69.6 million in short-term liabilities as of 31.12.2010, € 53.6 million were recorded as accounts payable, corresponding to a share of 36.0% of balance sheet total. Compared to the position of € 36.6 million from the prior-year period, the additions to accounts payable were € 17.0 million or +46.3%. The reason for the significant increase were mainly reporting-date effects, as explained in *Financial and assets position – Working Capital*.

In the other current liabilities of € 16.0 million (previous year: € 7.4 million) € 5.3 million are attributable to payments received on account of orders (previous year: € 2.2 million) and € 3.0 million to customer credits (previous year: € 1.3 million). Both items were inflated by year-end effects; they have been led back to normal levels since then.

Marginal long-term liabilities, no interest-bearing debt

Delticom does not have any interest-bearing debt. The debt shown above is composed of non-current provisions in the order of € 45 thousand (previous year: € 42 thousand). As a result, non-current liabilities of € 45 thousand were considerably lower than the prior-year value of € 482 thousand.

Equity up, equity ratio down due to reporting-date effects

On the liabilities side of balance sheet the equity position grew by € 12.2 million or 20.7% from € 58.8 million to € 71.0 million. Due to the reporting-date effects explained above, the structure of the liabilities and shareholders' equity shows an downturn in the equity ratio, from 55.0% to 47.6%.

As a result, Delticom is funded long-term almost entirely by equity. As of 31.12.2010 the coverage ratio of fixed assets and inventories totalling € 61.3 million to long-term funding was 86.4% (prior year: 83.5%).

Off-balance-sheet items

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

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

Overall statement on the financial and assets position

Significant financial flexibility

Delticom boasts a healthy financial and assets position. At € 67.8 million, our liquidity remains high (previous year: € 40.6 million). Our balance sheet strength had a positive impact on our working capital management last year: we increased inventories, and were able to pay off many liabilities ahead of schedule.

Solid balance sheet as basis for further growth

As in previous years, Delticom remains debt-free. This sends an important signal to our partners. As illustrated by the non-current assets amounting to just 6.5% of total assets, our capital-intensity remained low. With its scalable business model, the company is well structured financially for its future growth.

Risk Report

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

Definitions

Risks and opportunities

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

We do not operate a separate opportunities management system.

Risk management

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

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

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

Early risk detection system

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

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

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

Risk assessment

24-month observation horizon

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

Reporting thresholds

The company's equity is used as the calculation basis for reporting thresholds. As of 31.12.2010, we differentiated between going-concern risks (€ 10 million), significant risks (€ 2.5 million), and low risks (€ 0.2 million).

Gross risk

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

Net risk

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

Risk management organisation

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

Risk Support Team

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

Risk manager

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

Management Board

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

Communication and reporting

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

Software

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

Risk inventory

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

Key individual risks

Macroeconomic risks

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

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

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

Sector-specific risks

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

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

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

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

Procurement risks

Tyre shortages are possible. Fluctuating production capacities and differences in levels of demand within and outside Europe may cause bottlenecks in tyre supply.

Delticom procures and warehouses its tyres well in advance of the main sales seasons. This approach means the company is able to deliver all year round, not only with regard to tyres with standard dimensions, but also in niche sizes.

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

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

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

Financial Risks

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

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

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

Strategic risks

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

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

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

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

Personnel risks

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

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

IT risks

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

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

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

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

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

Legal risks

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

Overall statement on the risk situation

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

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

Accounting-related ICS and RMS

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

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

Organisation

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

Role of the Management and Supervisory Boards

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

Group accounting

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

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

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

IT-supported work processes

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

Outlook

In hindsight, 2010 turned out clearly better than expected, both for the economy in general and for the tyre trade in particular. As a consequence, we had to revise our full-year forecasts upwards repeatedly over the course of the year. For 2011, revenues are expected to grow around 10% year-on-year. The EBIT margin is anticipated to come in roughly one percentage point lower than last year's. The business will be influenced by scarcity in tyres and rising prices.

Significant events after the reporting date

There were no events of particular significance after the reporting date of 31.12.2010.

Business has been going well in the first few weeks of the current financial year. In consequence of dramatically increasing prices for raw materials, some tyre manufacturers have already announced further price hikes, which will be passed on with a time delay to prices for end consumers.

Additionally, market observers are forecasting repeats of shortages for 2011, citing longer production periods for winter tyres and fundamental limitations in production capacity as the main reasons. It remains to be seen how prices will develop over the course of the year and particularly in the approaching summer tyres trading season. Against the background of the rise in the cost of living, the extent to which these impending price increases can be passed on to end consumers is as yet unclear.

Forecast report

Explanation of deviations from 2010 forecast

Several forecast revisions

At the beginning of the year, it had been very difficult to get a reading on the recession's after-effects and how they would influence European consumer behaviour. Moreover, because the 2009 financial year was a very successful one for Delticom, significant negative base effects had to be expected for 2010. Our original budget therefore assumed a growth in revenues of up to 10% year-on-year, with an EBIT margin of around 8% for the full year.

In the context of the robust development seen in Europe's tyre trade and of further rapid growth in the online sales channel, we were able to continue expanding our business in the first nine months.

Mid of October, an unforeseen debate on the German winter tyre regulations broke out. Adding to this, just a few weeks later we (and with us many motorists) were taken by surprise by a sudden and severe spell of wintry weather across

Europe. Heavy snowfall plunged traffic conditions into chaos in many places. Even in milder regions, it became essential to fit adequate tyres. Due to strong sales and high prices in the year's final quarter, we were forced to adjust our full-year forecast several times, to take account of the latest improved conditions.

Many positive, coinciding factors

Although the strong revenue growth has also been accompanied by market share gains, it would nevertheless be premature to conclude that Delticom has switched to a steeper growth curve. In the end, the scope of our success above and beyond our forecast was instead largely due to the interlocking positive effects, as outlined above. To speak of one-off effects in this context would be slightly misleading, though, because weather, new regulations and our continued balance sheet strength will also play a role in our company's successes in the future. It is of course impossible to predict, however, if and when so many favourable effects will coincide again in a single year.

Future macroeconomic environment

Growth slowing

After last year's forceful recovery, the current consensus among economists calls for softer growth and a stabilisation of the European economy in 2011. However, austerity measures and rigorous governmental budget cuts increasingly burden economic growth. Within the Euro zone, differences in rates of growth remain considerable, leading to a further increase in the economic gap between some countries and others.

Inflation threatening consumption

Whereas unemployment figures have remained at stubbornly high levels in many European countries, economic recovery is expected to give the German job market a further boost. Nevertheless, if inflation continued to rise, increases in the cost of living would threaten to put the brakes on consumers' willingness to spend.

Increases in crude oil prices

In the context of the continuing economic boom – not only in the industrialised nations, but also, indeed particularly, in the developing and emerging economies – demand for oil has jumped in the last few months. Further, current unrest in the Arab world has fuelled fears of bottlenecks. For these reasons, oil prices have seen notable increases in the past few weeks.

Future sector-specific development

Natural Rubber prices at record highs

Natural rubber, a key raw material in tyre production, went up in price once again at the beginning of the year, after prices had already hit a historic high at the end of 2010. Due to developments in the oil price, synthetic rubbers also became more expensive. Some tyre manufacturers have already hiked their prices; further increases have been announced for the months to come.

Shortages very likely

Experts take the view that shortages in tyres are likely again this year, as the production capacities are still not sufficient. The situation is exacerbated by high demand for original equipment tyres, especially for new car sales into emerging economies. The volume required here could be missing from the replacement markets in the sales period for summer tyres.

Tyre prices on the rise

Tyre retailers will be compelled to pass cost price increases on to their end customers. Whether or not they will be able to compensate the entire price increases in this way depends to a considerable degree on consumers' financial situations. If the cost of living continues to rise and wages and salaries remain stagnant, consumers' budgets for larger purchases shrink. Such a situation might intensify the phenomenon of drivers "trading down" from premium to budget tyre brands. Should the stocks in the tyre distribution chain be higher and tyre demand lower than anticipated, volumes, prices and margins would find themselves subject to pressure in the second half of the year. Market observers, however, consider this scenario to be improbable, in view of current delivery bottlenecks.

Market observers cautious

Despite sustained recovery on the replacement tyre markets and the positive overall economic outlook, tyre retailers will unlikely to be able to continue the success story seen in recent years. The tyre trade must be prepared for negative base effects in the second half of this year. In line with this view, the German trade association for tyre retail and vulcanising (Bundesverband für Reifenhandel und Vulkaniseur-Handwerk e.V., BRV) is anticipating only limited growth for 2011, on the order of +1% (as of January 2011).

2011 forecast

E-Commerce becomes more important

Compared to other product groups the share of tyres sold online is still relatively small. We believe that Delticom will continue to win market share from competing channels. Although 2010 will be difficult to beat, we nevertheless expect sales to grow year-on-year.

Revenue rises by around 10%

German regulations requiring drivers to fit winter tyres will play a less important role this year. That the next winter will experience as much snowfall as last winter remains to be seen. On the other hand, we hope that the previous harsh winters will have also shown motorists in other countries how important it is to drive tyres which are suitable for the winter road conditions. In addition to the expected increase in volume, we are anticipating higher average prices due to the tight buying market. In total, we expect revenue growth of around +10% for 2011.

Lower EBIT margin

We base our EBIT margin estimates on a longer-term trend. Coming from a very high 11.2% of 2010, we thus expect the 2011 EBIT margin to drop year-on-year by approximately one percentage point. We are confident that we can attain this ambitious target, given a good course of business. According to our planning we assume EPS roughly at par with last year (2010: € 2.72).

As an online tyre dealer, we benefit from the increasing number of those car owners who are looking for attractively priced tyres. However, should this trading-down give way into ongoing demand weakness (contrary to expectations) then even a superior sales volume would probably not allow us to fully compensate falling prices.

Financial result remains low

General expectations are that only in the second half of this year will interest rates for financial investments be able to rebound from the low levels we have seen in the last few quarters. Therefore, we do not expect Delticom to achieve 2011 a financial result of more than 500 thousand €.

Income tax rate at 32%

Particular tax effects are not anticipated for 2011. For our budget we plan with an income tax rate of approximately 32% (2010: 31.6%).

New major warehouse

In the current financial year, we will open a further major warehouse and make major investments into information, conveyor and packaging technology. In this context, capex will exceed the previous year's level by around 50-80% (2010: € 3.5 million), depending on the progress of the project. The additional capacities will open up important potential opportunities for us. We will be able to make purchases earlier, which in turn will strengthen our delivery capability during the main sales season.

Liquidity lower than in 2010

At this point in time, we can only give a rather uncertain estimate with regards to liquidity as of 2011. Reporting-date effects can never be ruled out, as seen in 2010. As working capital will expand due to the new warehouse, liquidity could fall under 40 million € by the end of the 2011.

Medium term planning

Additional warehouse capacities needed in the medium term

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

Europe is core market

Delticom currently operates online shops in 39 countries. We intend to consolidate and expand our market position in these countries in the years to come. Replacement tyre markets are also increasing in attractiveness in emerging economies outside Europe, due to rising numbers of new vehicle registrations in those regions. Despite this potential for expansion, we see our company's geographical focus remaining in Europe in the medium term.

Product range

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

Medium term outlook

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

The Delticom share

The Delticom share (WKN 514680, ISIN DE0005146807, stock market symbol DEX) closed 2010 on the high of € 68.40 and achieved a performance of +131.3% over the course of the year. DEX is a stable member of the German small- and midcap index SDAX.

Stock markets 2010

DAX traces economic cycle

The DAX started at a level of 6,048 points into the year. On 05.02.2010 it marked a low at 5,434 points, the lowest level since 2004. On the back of improving business prospects the investors came back to the market. The rest of the year was characterised by a stable upward trend with low volatility. The DAX closed the year at 6,914 points, after hitting the yearly high of 7,078 points on 21.12.2010. In total, the DAX climbed 2010 by 865.9 points or 14.3%.

SDAX gained ground

The German small- and midcap index SDAX performed with +42.8% even better. It started at 3,623 points and was able to improve by 1,551 points over the course of the year, closing at 5,174 points.

Development of the Delticom share (DEX)

Benchmarks

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

Alternatively we could compare DEX with the DAX sector index CXPR which tracks the performance of German retailers; DEX is one of its components. Because of the high non-domestic share of sales, Delticom is affected by the development of the business conditions in many European countries. We therefore feel that DJSGR is the more complete and thus a better benchmark.

As customary, we use the performance index which takes dividend payments into account for both SDAX and DJSGR. When comparing the performance of DEX to the benchmarks we therefore take the dividend for 2009 into consideration, amounting € 1.70 per share as decided on the Annual General Meeting on 11.05.2010. The chart *Share performance* shows the performance of DEX, SDAX and DJSGR since the beginning of 2010 over the course of the year.

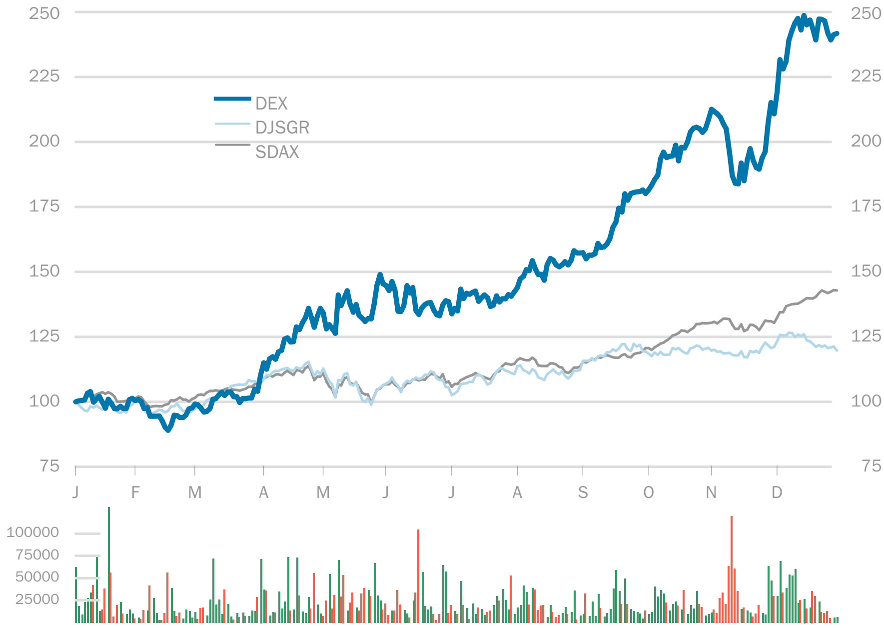
DEX performance

After beginning the year at € 28.75, the Delticom share (DEX) kept approximately to the level of its benchmark indices during the year's first quarter. The share's low for the year was recorded on 16.02.2010, at € 25.60. The announcement of very favourable figures in March 2010 set a continuous upward trend in motion.

In the further course of the year, the Delticom share was able to push ahead and away from the rest of the market.

Share performance 2010

indexed, traded volume in shares (XETRA)



As was the case last year, the financial press covered DEX in the closing quarter as a "winter winner", first after a discussion for a "concrete winter tyre obligation" in Germany, later in the wake of strong snowfalls across Europe in December. This had a favourable impact on the share price and helped DEX to gain ground against SDAX and DJSGR. DEX ran up to the annual high of € 68.40 on 14.12.2010 and closed the year on € 66.50. In the course of 2010 the market capitalisation of DEX increased from € 340.4 million to € 809.8 million – accounting for the dividend a total performance of +131.3%.

Index membership

SDAX Ranking improved

On 22.12.2008 DEX was included in the SDAX. Membership in the index is determined by the Deutsche Börse according to a ranking published as *Cash Market: Monthly Index Ranking – MDAX*. The ranking depends on free float market capitalisation and traded volume of shares included in MDAX and SDAX. Over the course of last year the rank of DEX improved in the criterion "free float market capitalisation" from 77 to 59 and in the criterion "traded volume" von 87 to 57.

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

- DAX International Mid 100
- GEX (German Entrepreneur Index)
- DAXPlus Familiy Index
- NISAX20

Earnings per share and dividend recommendation

Undiluted earnings per share are € 2.72 (2009: € 1.71). Diluted earnings per share are € 2.70 (previous year: € 1.70).

The calculation of the earnings per share was based on net income after taxes totalling € 32,250,808.46 (previous year: € 20,228,075.06) and the weighted average number of shares outstanding during the fiscal year and the number of potential shares from options totalling 11,945,250 shares (previous year: 11,925,814 shares).

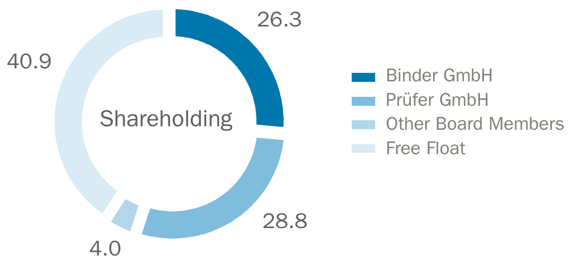
At Delticom's Annual General Meeting on 03.05.2011, the Management Board and the Supervisory Board will propose a dividend of € 2.72 per share – an increase of 60.0% compared to the dividend for financial year 2009 of € 1.70.

Shareholder structure

There were no material changes in the shareholder structure of Delticom AG in 2010.

Shareholder structure

Shareholding in % of the 11,839,440 shares outstanding, as of 31.12.2010



The shares of Prüfer GmbH and Binder GmbH are attributed to the company founders Andreas Prüfer and Rainer Binder. As in previous years, Andreas Prüfer as Head of the Supervisory Board and Rainer Binder as CEO have again increased their shareholding in 2010.

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

Coverage

In total 9 analysts from renowned banks and brokers regularly offer their views on the course of Delticom's business and future prospects (in the order in which they initiated coverage, with recommendations as of 09.03.2011):

- Frank Schwope, NORD/LB (Buy)
- Jürgen Pieper, Bankhaus Metzler (Buy)
- Andreas Inderst, Exane BNP Paribas (Outperform)
- Lars Dannenberg, Berenberg Bank (Buy)
- Aleksej Wunrau, BHF-Bank (Market Weight)
- Tim Rokossa, Deutsche Bank (Hold)
- Marcus Sander, Macquarie (Neutral)
- Christian Ludwig, Bankhaus Lampe (Buy)
- Dennis Schmitt, Commerzbank (Buy)

Investor relations activities

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

Apart from the yearly analyst conference on the occasion of the German Equity Forum in Frankfurt, the Management Board presented business developments and strategy during 8 road shows and conferences in Frankfurt, Düsseldorf, Cologne, London, Paris, Zurich and Geneva. Furthermore, we had many one-on-one talks with investors.

On 14.09.2010, we held our first Analysts' Day. This allowed us to discuss current developments with analysts and show those interested our new major warehouse.

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

The investor relations department gladly answers any further questions:

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Stock key information

		01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Number of shares	shares	11,839,440	11,839,440
Share capital	€	11,839,440	11,839,440
Share price on 04 January 2010[1]	€	28.75	13.00
Share price on 31 December 2010[1]	€	66.50	27.61
Share performance[1]	%	+131.3	+112.4
Share price high/low[1]	€	68.40 / 25.60	27,61 / 11,92
Market capitalisation[2]	€ million	787.3	326.9
Average trading volume per day (XETRA)	shares	23,870	9,163
EPS (undiluted)	€	2.72	1.71
EPS (diluted)	€	2.70	1.70
Equity per share	€	5.99	4.97
Dividend per share[3]	€	2.72	1.70
Dividend amount[4]	€ million	32.2	20.1
Payout ratio (IFRS)	%	99.9	100.9
Payout ratio (HGB)	%	100.0	100.2
Dividend yield[2]	%	4.1	6.2
Operating cash flow per share	€	4.37	1.11
Free cash flow per share[5]	€	4.07	0.80
Free cash flow yield[2]	%	6.1	2.9

(1) based on closing prices
(2) based on official closing price at end of year
(3) conditional on approval at the Annual General Meeting
(4) based on number of shares outstanding at end of year
(5) Free cash flow = Operating cash flow – capex

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

Following the IPO on 26.10.2006, the subscribed capital consisted of 3,946,480 ordinary no-par value registered shares (no-par shares), each with a proportionate interest of €1 in the company's share capital. The subscribed capital tripled after the capital increase out of retained earnings and the resulting issuance of new shares, decided upon during the Annual General Meeting on 19.05.2009. The share capital now amounts to €11,839,440.00 and is split into 11,839,440 ordinary no-par value registered shares (no-par shares), each with a proportionate interest of €1 in the company's share capital.The relating amendment of the articles of incorporation was entered in the commercial register of the Hanover local court on 10.06.2009.

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

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

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

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

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

The Management Board's powers in regard to the issue and buyback 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.

Authorised Capital II/2006

The Management Board was also authorised by resolution of the shareholders' meeting on 30.08.2006, 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 29.08.2011, 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 01.09.2006. With the Supervisory Board's assent, the Management Board is authorised to exclude subscription rights for capital increases against non-cash capital contributions, and, in some instances, in the case of cash capital increases.

Contingent Capital I/2006

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

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

As a result of the capital increase out of retained earnings by means of the issuance of new shares, decided upon the General Meeting on 19.05.2009, the *Contingent Capital I/2006* increased proportionally to the share capital to € 300,000. The capital increase and the amendment of the articles of incorporation relating to the *Contingent Capital I/2006* were entered in the commercial register of the Hanover court on 10.06.2009.

Contingent Capital II/2006

The General Meeting on 30.08.2006 authorised the Management Board, with the approval of the Supervisory Board, to issue bearer or registered convertible bonds or bonds with warrants up to 29.08.2011 on one or several occasions, 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. In some instances, the Management Board is authorised, with the Supervisory Board's assent, to exclude shareholder subscription rights when issuing convertible or warrant bonds. By way of a resolution by the Annual General Meeting on 30.08.2006, 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 30.08.2006 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 01.09.2006.

As a result of the capital increase out of retained earnings by means of the issuance of new shares, decided upon the General Meeting on 19.05.2009, the *Contingent Capital II/2006* increased proportionally with the share capital to € 4,344,720. The capital increase and the amendment of the articles of incorporation relating to the *Contingent Capital II/2006* were entered in the commercial register of the Hanover court on 10.06.2009.

Management Board authorisations to repurchase and re-utilise treasury shares

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

The compensation per share paid for the acquisition of shares via the stock exchange (without incidental acquisition costs) may not be more than 10% above or below the price identified in the XETRA trading system (or a comparable successor system) on the stock market day in the opening auction. If shares are acquire via a (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% above or below 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 significant differences between the relevant prices after the purchase offer is published, the offer can be adjusted. The Management Board is authorised to utilise the acquired treasury shares for all statutorily permissible purposes. In particular, it may withdraw and cancel the shares, sell them in return for non-cash payments, dispose of them by means other than the stock market or through an offer to shareholders, or offer them to employees of the company or its Group companies for purchase, or offer them to holders of subscription rights to satisfy the company's obligation arising from the stock option plan that was set up pursuant to the Annual General Meeting resolution of 30.08.2006. Shareholders' subscription rights can be excluded under certain conditions.

Key conditioned agreements of the company

According to the option terms and conditions, in the event of a change in control at the company the stock options of the Management Board member Frank Schuhardt are immediately exercisable, provided options have been vested. Options which have not yet been vested lapse without substitution. The first stock option tranche comprising 15,810 options was issued on 22.11.2007, the second tranche of 37,500 options was issued on 08.05.2008, and the third tranche of 37,500 options was issued on 25.11.2008. All options which are part of the stock option plans vest after 2 years. As a result, those options from these tranches are vested and are immediately excercisable in the event of a change in control.

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

Consolidated Financial Statements of Delticom AG

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Consolidated Income Statement

in € thousand	Notes	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Revenues	(1)	**419,577**	**311,259**
Other operating income	(2)	5,751	4,315
Total operating income		**425,328**	**315,574**
Cost of goods sold	(3)	–300,656	–225,790
Gross profit		**124,672**	**89,784**
Personnel expenses	(4)	–6,804	–5,801
Depreciation of intangible assets and property, plant and equipment	(5)	–1,295	–1,037
Other operating expenses	(6)	–69,510	–53,541
Earnings before interest and taxes (EBIT)		**47,063**	**29,405**
Financial expenses		–32	–30
Financial income		134	194
Net financial result	(7)	**102**	**163**
Earnings before taxes (EBT)		**47,165**	**29,568**
Income taxes	(8)	–14,915	–9,340
Consolidated net income		**32,251**	**20,228**
Thereof allocable to:			
Shareholders of Delticom AG		32,251	20,228
Earnings per share (basic)	(9)	2.72	1.71
Earnings per share (diluted)	(9)	2.70	1.70

Statement of Recognised Income and Expenses

in € thousand	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Consolidated Net Income	**32,251**	**20,228**
Changes in the financial year recorded directly in equity		
Changes in currency translation	–46	4
Changes in value of financial assets in the “available-for-sale assets” category		
Changes in current value recorded directly in equity	4	33
Recognition of settled hedging transactions with effect on income	–22	–60
Deferred tax on current changes without effect on income	6	9
Other comprehensive income for the period	**–58**	**–15**
Total comprehensive income for the period	**32,193**	**20,213**

Consolidated Balance Sheet

Assets

in € thousand	Notes	31.12.2010	31.12.2009
Non-current assets		**10,347**	**6,910**
Intangible assets	(10)	1,112	1,198
Property, plant and equipment	(11)	7,724	5,424
Financial assets		818	0
Deferred taxes	(12)	346	154
Other receivables	(13)	347	134
Current assets		**138,622**	**99,938**
Inventories	(14)	51,671	42,858
Accounts receivable	(15)	10,928	10,148
Other current assets	(16)	8,189	6,289
Securities	(17)	1,036	3,039
Cash and cash equivalents	(18)	66,798	37,603
Assets		**148,969**	**106,848**

Shareholders' Equity and Liabilities

in € thousand	Notes	31.12.2010	31.12.2009
Equity		**70,963**	**58,794**
Subscribed capital	(19)	11,839	11,839
Share premium	(20)	24,216	24,112
Other components of equity	(21)	–159	–101
Retained earnings	(22)	200	200
Net retained profits	(23)	34,867	22,744
Liabilities		**78,006**	**48,054**
Non-current liabilities		**45**	**482**
Non-current provisions	(24)	45	42
Deferred tax liabilities	(25)	0	440
Current liabilities		**77,961**	**47,573**
Provisions for taxes	(24)	6,179	2,915
Other current provisions	(24)	2,200	627
Accounts payable	(26)	53,615	36,645
Other current liabilities	(28)	15,967	7,386
Shareholders' equity and liabilities		**148,969**	**106,848**

Consolidated Cash Flow Statement

in € thousand	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Earnings before interest and taxes (EBIT)	**47,063**	**29,405**
Depreciation of intangible assets and property, plant and equipment	1,295	1,037
Changes in other provisions	1,576	607
Net gain on the disposal of assets	1	–2
Changes in inventories	–8,813	–6,482
Changes in receivables and other assets not allocated to investing or financing activity	–3,097	–4,504
Changes in payables and other liabilities not allocated to investing or financing activity	25,655	1,372
Interest received	134	194
Interest paid	–32	–30
Income tax paid	–12,090	–8,482
Cash flow from operating activities	**51,692**	**13,115**
Proceeds from the disposal of property, plant and equipment	10	2
Payments for investments in property, plant and equipment	–3,405	–3,411
Payments for investments in intangible assets	–115	–187
Payments for investments in financial assets	–818	0
Changes in liquidity reserve	2,003	10,581
Cash flow from investing activities	**–2,324**	**6,985**
Dividends paid by Delticom AG	–20,127	–11,839
Cash flow from financing activities	**–20,127**	**–11,839**
Changes in cash and cash equivalents due to currency translation	–46	4
Cash and cash equivalents at the start of the period	37,603	29,339
Changes in cash and cash equivalents	29,195	8,264
Cash and cash equivalents - end of period	**66,798**	**37,603**
For information only:		
Liquidity - start of period	**40,642**	**42,959**
Changes in cash and cash equivalents	29,195	8,264
Changes in liquidity reserve	–2,003	–10,581
Liquidity - end of period	**67,834**	**40,642**

Statement of Changes in Shareholders' Equity

in € thousand	Sub-scribed capital	Share premium	Reserve from currency translation	Revaluation Reserve	Accumulated profits / losses: Retained earnings	Accumulated profits / losses: Net retained profits	Accumulated profits / losses: total	Total equity
as of 1 January 2009	**3,946**	**31,809**	**–128**	**41**	**200**	**14,355**	**14,555**	**50,224**
Capital increase from company funds	7,893	–7,893						
Increase in share premium due to stock options		196						196
Dividends paid						–11,839	–11,839	–11,839
Total comprehensive income for the period			4	–19		20,228	20,228	20,213
as of 31 December 2009	**11,839**	**24,112**	**–124**	**23**	**200**	**22,744**	**22,943**	**58,794**
as of 1 January 2010	**11,839**	**24,112**	**–124**	**23**	**200**	**22,744**	**22,943**	**58,794**
Increase in share premium due to stock options		104						104
Dividends paid						–20,127	–20,127	–20,127
Total comprehensive income for the period			–46	–13		32,251	32,251	32,193
as of 31 December 2010	**11,839**	**24,216**	**–169**	**10**	**200**	**34,867**	**35,067**	**70,963**

Notes to the Consolidated Financial Statements of Delticom AG

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Segment reporting

Segment results

2010

in € thousand	E-Commerce	Wholesale	not allocated	Group
Revenues	**403,697**	**15,880**	**0**	**419,577**
Other operating income	1,120	66	4,565	5,751
Cost of goods sold	–286,594	–14,062	0	–300,656
Gross profit	**118,223**	**1,884**	**4,565**	**124,672**
Personnel expenses	–2,874	–387	–3,543	–6,804
Depreciation and amortization	–1,139	–1	–155	–1,295
thereof property, plant and equipment	–998	–1	–102	–1,100
thereof intangible assets	–141	0	–53	–194
Other operating expenses	–66,142	–742	–2,626	–69,510
thereof bad debt losses and one-off loan provisions	–1,551	–89	0	–1,640
Segment result	**48,069**	**754**	**–1,759**	**47,063**
Net financial result				102
Income taxes				–14,915
Consolidated net income				**32,251**

2009

in € thousand	E-Commerce	Wholesale	not allocated	Group
Revenues	**296,498**	**14,761**	**0**	**311,259**
Other operating income	1,421	62	2,831	4,315
Cost of goods sold	–213,143	–12,647	0	–225,790
Gross profit	**84,775**	**2,177**	**2,831**	**89,784**
Personnel expenses	–2,466	–398	–2,938	–5,801
Depreciation and amortization	–857	–1	–179	–1,037
thereof property, plant and equipment	–743	–1	–137	–881
thereof intangible assets	–114	0	–42	–156
Other operating expenses	–47,955	–781	–4,804	–53,541
thereof bad debt losses and one-off loan provisions	–1,449	–104	0	–1,553
Segment result	**33,498**	**997**	**–5,090**	**29,405**
Net financial result				163
Income taxes				–9,340
Consolidated net income				**20,228**

Segment assets, segment liabilities and segment investments

as of 31 December 2010:

in € thousand	E-Commerce	Wholesale	not allocated	Group
Segment assets				
Intangible assets, property, plant and equipment and financial assets	9,332	4	317	9,654
Other non-current assets	273	0	74	347
Total non-current assets	**9,605**	**4**	**391**	**10,001**
Inventories	50,646	1,025	0	51,671
Accounts receivable	7,618	3,310	0	10,928
Cash and cash equivalents	63,821	0	2,976	66,798
Other assets	864	6	7,319	8,189
Total current assets	122,950	4,341	10,295	137,586
Total segment assets	**132,555**	**4,345**	**10,686**	**147,587**
Deferred taxes				346
Securities				1,036
Total assets				148,969
Segment liabilities				
Non-current segment liabilities	**0**	**0**	**45**	**45**
Other current provisions	1,965	0	235	2,200
Accounts payable	53,090	457	69	53,615
Other current borrowing	13,909	57	2,000	15,967
Current segment liabilities	**68,964**	**513**	**2,304**	**71,782**
Total segment liabilities	**68,964**	**513**	**2,349**	**71,827**
Deferred taxes and tax liabilities				6,179
Total segment assets				78,006
Segment investments				
Investments in financial assets	0	0	818	818
Intangible assets	70	0	44	114
Property, plant and equipment	3,320	1	86	3,406
Total investments	3,389	1	948	4,338

as of 31 December 2009:

in € thousand	E-Commerce	Wholesale	not allocated	Group
Segment assets				
Intangible assets, property, plant and equipment and financial assets	6,234	4	384	6,621
Other non-current assets	134	0	0	134
Total non-current assets	**6,368**	**4**	**384**	**6,756**
Inventories	42,468	390	0	42,858
Accounts receivable	6,677	3,471	0	10,148
Cash and cash equivalents	33,647	0	3,956	37,603
Other assets	911	2	5,376	6,289
Total current assets	83,704	3,864	9,331	96,899
Total segment assets	**90,072**	**3,868**	**9,715**	**103,655**
Deferred taxes				154
Securities				3,039
Total assets				106,848
Segment liabilities				
Non-current segment liabilities	**0**	**0**	**42**	**42**
Other current provisions	537	0	90	627
Accounts payable	35,439	1,134	72	36,645
Other current borrowing	6,390	39	956	7,386
Current segment liabilities	**42,366**	**1,174**	**1,118**	**44,658**
Total segment liabilities	**42,366**	**1,174**	**1,160**	**44,700**
Deferred taxes and tax liabilities				3,354
Total segment assets				48,054
Segment investments				
Intangible assets	168	0	20	188
Property, plant and equipment	4,078	2	89	4,169
Total investments	4,246	2	109	4,356

General notes

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

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

Most of the group's revenues are generated by the E-Commerce division. Delticom sells tyres and other products over 120 online shops to private and business customers. The online shop which generates the most revenues is ReifenDirekt – a well-known brand in the German speaking Internet community. The group offers its product range in 39 countries, with a focus on the EU and other European countries such as Switzerland and Norway. Delticom also sells tyres outside Europe, with the main focus on the USA.

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

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

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

The Management Board has authorized these consolidated financial statements for publication on 23.03.2011. The consolidated financial statements will be published and submitted to the operators of the electronic federal gazette, to make these public.

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

Key accounting and valuation policies

General principles

Delticom AG prepares exempting consolidated financial statements in compliance with IFRS according to the option provided by Section 315a of the Handelsgesetzbuch (HGB – German Commercial Code). Delticom's consolidated financial statements for the fiscal year 2010 were prepared according to the accounting standards No. 1606/2002 prescribed by the International Accounting Standards Board (IASB) that were mandatory on the balance sheet date according to the EU Directive, based on the historical costs principle, restricted by financial assets and financial liabilities (including derivative financial instruments) carried at their fair value and recognised in income. The requirements of the standards and interpretations (SIC / IFRIC) applied were fulfilled without exception and lead to the financial statements providing a true and fair view of the Delticom's financial position and results of operations.

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

Impact of new or changed standards:

Standard / interpretation		Mandatory application	EU commissions use on 31.12.10	Impact
IFRIC 12	Service Concession Arrangements	30.03.09	yes	none
IFRIC 15	Agreements for the Construction of Real Estate	01.01.10	yes	none
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	01.07.09	yes	none
IFRIC 17	Distributions of Non-cash Assets to Owner	01.11.09	yes	none
IFRIC 18	Transfers of Assets from Customers	01.11.09	yes	none
	Improvements 2010 – negligible changes to a number of standards (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) and changes following thereof	01.01.10	yes	no major impact
IFRS 3 IAS 27	Business Combinations / Consolidated and Separate Financial Statements	01.07.10	yes	changed representation of business combinations
IAS 39	Financial Instruments: Recognition and Measurement	01.07.10	yes	none
IFRS 1	First-Time Adoption of IFRS	01.01.10	yes	none
IFRS 1	Additional Exemptions for First-time Adopters	01.01.10	yes	none
IFRS 2 IFRIC 11	Share-based Payment, Group and Treasury Share Transactions	01.01.10	yes	none

New or amended standards not applied:

Standard / interpretation		Mandatory application	EU commissions use on 31.12.10	Impact
IAS 32	Classification of rights issues	01.02.10	yes	none
IFRS 1	Limited exemption from comparative IFRS 7 disclosures for first-time adopters	01.07.10	yes	none
	Improvements 2009 – negligible changes to a number of standards (IFRS 3, IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 27, IAS 88, IAS 34, IAS 40, IFRIC 13) and changes following thereof	01.07.10	no	no major impact
IAS 24	Related party disclosures	01.01.11	yes	none
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Changes	01.01.11	yes	none
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	01.07.10	yes	none
IFRS 7	Financial Instruments: Disclosures – changes	01.07.11	no	Notes
IFRS 1	First-Time Adoption of IFRS: Fixed transition dates and severe hyperinflation – changes	01.07.11	no	none
IAS 12	Deferred Tax: Recovery of Underlying Assets	01.12.12	no	not known
IFRS 9	Financial Instruments: classification and measurement	01.01.13	no	not known

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 Gesellschaft für Reifengroßhandel und Logistik mbH, Hanover, as well as the foreign subsidiaries Delticom Tyres Ltd., Oxford (United Kingdom), NETIX S.R.L., Timisoara (Romania) and Delticom North America Inc. (Wilmington, Delaware, USA). Delticom AG holds a 100% interest in all subsidiaries.

In the year under review, Delticom acquired 50.9% of the shares in Tyrepac Pte. Ltd., Singapore. Due to its negligible impact on Delticom's net assets, financial position and results of operations, the company is not consolidated, but instead recognized as a financial instrument pursuant to IAS 39.

Consolidation methods

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

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

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

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

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

Segment reporting

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

Delticom is a two-segment company: The company's activities that result in revenues and other income are grouped under the divisions of Wholesale and E-Commerce. In the Wholesale division, the company sells tyres from manufacturers, including under its own brand, to wholesalers. In the E-Commerce division, tyres are sold to dealers, workshops and end users via 120 shops (previous year: 105) in 39 countries. There are no other divisions that could constitute segments with a separate reporting requirement. As in previous years, there were no inter-segment revenues. These segments are managed internally via the Wholesale and E-Commerce divisions. Segment reporting is also in line with this breakdown.

Currency translation

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

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

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

Country	Mid rate on 31.12.2010 € 1 =	Weighted yearly average rate € 1 =
UK	0.8630 GBP	0.8589 GBP
USA	1.3282 USD	1.3247 USD
Romania	4.2890 RON	4.2246 RON

Estimates and assumptions

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

Accounting and valuation principles

Intangible assets acquired for a fee are capitalised at cost plus the costs required to make these usable and are, to the extent that they have a definite useful life, written down over their useful life using the straight-line method on a pro rata basis.

Costs that are associated with the maintenance of software are recognised as expenses when these are incurred.

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

	Useful life in years
Internet domains	20
Software	3–5

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

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

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

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

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

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

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

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

The property, plant and equipment to be carried under finance leases is written down over the shorter of the asset's useful life or the term of the lease. If assets in a finance lease are transferred to a lessee, the cash value of the lease payments is carried as a receivable. Leasing income is recognised over the term of the lease using the annuity method. Delticom did not enter into any such leases in 2010.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Costs are calculated based on the average cost method (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 capitalised as costs.

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

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

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

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

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

Deferred taxes are measured using the tax rates and tax regulations that apply on the balance sheet date or which have mostly been passed by law and which are expected to apply on the date the deferred taxes are realised or the deferred tax liability is expected to be paid. Deferred taxes for German companies are measured at a tax rate of 31.93% (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: 16.1%) of trade income. In the reporting period, the corporation tax rate was 15.0% (previous year: 15.0%) plus the solidarity surcharge of 5.5% (previous year: 5.5%) on corporation tax.

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

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

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

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

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

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

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

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

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

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

Capital risk management

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

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

Notes to the income statement

(1) Revenues

Other income is carried under other operating income.

for the period from 01.01.2009 to 31.12.2009:

in € thousand	EU Countries	USA and others	Total
E-Commerce	241,362	55,136	296,498
Wholesale	13,388	1,373	14,761
Total	**254,749**	**56,509**	**311,259**

for the period from 01.01.2010 to 31.12.2010:

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

(2) Other operating income

in € thousand	2010	2009
Income from exchange rate differences	4,073	2,334
Insurance compensation	78	380
Book gains from the disposal of assets	3	2
Other	1,597	1,599
Total	**5,751**	**4,315**

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

(3) Cost of sales

The cost of sales amounted to € 300.7 million (previous year: € 225.8 million) result exclusively from the sale of trading goods.

(4) Personnel expenses

in € thousand	2010	2009
Wages and salaries	6,001	5,134
Social security contributions	780	643
Expenses for pensions and other benefits	23	24
Total	**6,804**	**5,801**

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, € 404 thousand (previous year: € 340 thousand) are recognised under personnel expenses when due.

In 2010, Delticom had an average of 101 employees (previous year: 87 employees).

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

in € thousand	2010	2009
Intangible assets	194	156
Property, plant and equipment	1,100	881
Total	**1,295**	**1,037**

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

(6) Other operating expenses

in € thousand	2010	2009
Transportation costs	34,544	26,810
Warehousing costs	4,505	3,189
Credit card fees	3,122	2,135
Bad debt losses and one-off loan provisions	1,640	1,553
Marketing costs	8,955	7,691
Operations centre costs	3,838	3,556
Rents and overheads	3,491	2,214
Financial and legal costs	2,761	1,829
IT and telecommunications	690	603
Expenses from exchange rate differences	4,776	2,763
Other	1,188	1,199
Total	**69,510**	**53,541**

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

Future lease payments are discussed under "Other information".

(7) Financial result

in € thousand	2010	2009
Financial expenses	32	30
Financial income	134	194
Total	**102**	**163**

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

(8) Income taxes

The income taxes recognised in income result from:

	2010			2009		
in € thousand	Germany	Abroad	Total	Germany	Abroad	Total
Current income taxes	15,371	157	15,528	9,520	–27	9,494
Deferred income taxes	–626	12	–614	5	–158	–154
Total	**14,746**	**169**	**14,915**	**9,525**	**–185**	**9,340**
thereof out-of-period	–165	–28	–192	–12	0	–12

In the year under review, income taxes of € 6 thousand (previous year: € 11 thousand) were carried directly under equity.

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

	2010		2009	
in € thousand	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carryforwards	154	0	154	0
Intangible assets	23	0	3	26
Property, plant and equipment	25	76	0	72
Inventories	88	46	36	230
Receivables	5	12	0	93
Financial assets	0	5	0	11
Cash an cash equvialents	0	0	0	62
Other assets	0	60	0	0
Provisions	41	0	0	23
Liabilities	107	125	0	85
Other equity and liabilities	334	108	124	1
Total	**778**	**431**	**317**	**603**
Balancing	–431	–431	–163	–163
Value on the balance sheet	**346**	**0**	**154**	**440**

The adjustment to the different tax rate is based on lower income tax rates for foreign subsidiaries. No deferred tax assets were formed for non-recoverable foreign loss carriedforwards totalling € 12 thousand; these can be carried forward for 5 years.

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

in € thousand	2010	2009
Profit before income taxes	47,165	29,568
Delticom AG income tax rate	31.93%	31.93%
Expected tax expense	**15,060**	**9,441**
Differences from anticipated income tax expense		
Adjustment to different tax rate	–9	16
Non-capitalised deferred taxes on tax loss carryforwards	3	15
Capitalised deferred taxes on loss carryforwards	0	–146
Non-deductible operating expenses	52	27
Non-period ongoing taxation	–192	–12
Other tax effects	0	–1
Total adjustments	**–145**	**–101**
Actual tax expense	**14,915**	**9,340**

(9) Earnings per share

Basic earnings per share totalled € 2.72 (previous year: € 1.71). The diluted earnings per share totalled € 2.70 (previous year: € 1.70).

Earnings per share are calculated according to IAS 33. During the year under review, there were 15,810 potential shares (financial instruments and other agreements which entitle their holders to subscribe to ordinary shares) from the tranche dated 22.11.2007, 37,500 potential shares from the tranche dated 08.05.2008, 37,500 potential shares from the tranche dated 25.11.2008 and 15,000 potential shares from the tranche dated 30.03.2009.

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

The calculation of the earnings per share was based on net income after taxes totalling € 32,250,808.46 (previous year: € 20,228,075.06) and the weighted average number of shares outstanding during the fiscal year and the number of potential shares from options totalling 11,945,250 shares (previous year: 11,925,814 shares).

Notes to the balance sheet

Non-current assets

(10) Intangible assets

in € thousand	Domains	Software	Total
Acquisition costs			
as of 1 January 2009	1,189	267	1,456
Additions	40	147	187
Disposals	0	1	1
Reclassifications	0	0	0
as of 31 December 2009	1,229	414	1,643
Accumulated depreciation			
as of 1 January 2009	172	118	290
Additions	60	96	156
Disposals	0	–1	–1
Reclassifications	0	0	0
as of 31 December 2009	232	213	445
Residual carrying amounts as of 31 December 2009	**997**	**201**	**1,198**

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

(11) Property, plant and equipment

in € thousand	Land, similar rights and buildings incl. buildings on third party land	Technical machinery and equipments	Other equipment, factory and office equipment	Payments made on account	Total
Acquisition costs					
as of 1 January 2009	257	409	2,423	58	3,147
Additions	0	1,146	2,789	234	4,169
Disposals	0	0	–5	0	–5
Reclassifications	0	184	0	–184	0
as of 31 December 2009	257	1,739	5,207	107	7,311
Accumulated depreciation					
as of 1 January 2009	0	72	938	0	1,010
Additions	85	85	711	0	881
Disposals	0	0	–4	0	–4
Reclassifications	0	0	0	0	0
as of 31 December 2009	85	157	1,645	0	1,887
Amortised cost as of 31 December 2009	**172**	**1,582**	**3,562**	**107**	**5,424**

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

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

(12) Deferred taxes

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

(13) Other non-current receivables

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

Current assets

(14) Inventories

in € thousand	2010	2009
Tyres	42,366	35,632
Other accessories	493	1,502
Total	**51,671**	**42,858**

Inventories comprise merchandise which is underway for which sales transactions had been concluded in part on the balance sheet date totalling € 9,514 thousand (previous year € 4,347 thousand) as well as stored goods totalling € 42,157 thousand (previous year: € 38,511 thousand) intended for sale via E-Commerce. Inventories are carried taking into account the agreed terms of delivery according to Incoterms 2000. During fiscal year 2010, € 211,364 thousand of inventories were carried as expenses (previous year: € 143,447 thousand). There were no write-ups during the assessment year. All inventories are free of pledges.

(15) Accounts receivable

in € thousand	2010	2009
Accounts receivable	10,928	10,148
thereof receivables with associated companies and related parties (category: persons in key positions)	424	1,146

in € thousand			Not written down and overdue since the following periods					
Trade receivables	Carrying amount	Overdue on balance sheet date and not written down	< 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Written down
as of 31.12.2010	10,928	2,940	2,710	146	39	35	9	283
as of 31.12.2009	10,148	2,565	2,189	314	12	38	12	304

The write-downs for trade receivables were as follows:

in € thousand	2010	2009
Write-downs – balance on January 1	**1,471**	**1,816**
Additions (expenses for write-downs)	1,532	1,355
Reversals	–111	–318
Expenses for writing off receivables	–1,265	–1,383
Write-downs – balance on December 31	**1,627**	**1,471**

in € thousand	2010	2009
Income from the receipt of written-off receivables	19	2

(16) Other current receivables

in € thousand	2010	2009
Refund claims from taxes	5,092	3,863
Credits with suppliers	582	401
Deferrals	288	395
Other cash an cash equivalents	1,009	1,009
Restricted cash	1,000	0
Other current receivables	218	621
Total	**8,189**	**6,289**

The other current receivables comprise € 187 thousand receivables from foreign exchange contracts (foreign exchange forward contract) (previous year: € 188 thousand).

(17) Securities

Money market funds is carried under securities.

(18) Cash and cash equivalents

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

Cash and cash equivalents are broken down as follows:

in € thousand	2010	2009
Cash	1	2
Bank balances	66,797	37,601
Total	**66,798**	**37,603**

Equity

(19) Subscribed capital

Following the IPO on 26.10.2006, the subscribed capital consisted of 3,946,480 ordinary no-par value registered shares (no-par shares), each with a proportionate interest of € 1.00 in the company's share capital. The subscribed capital tripled after the capital increase out of retained earnings and the resulting issuance of new shares, decided upon during the Annual General Meeting on 19.05.2009. The share capital now amounts to € 11,839,440.00, and is split into 11,839,440 ordinary no-par value registered shares (no-par shares), each with a proportionate interest of € 1.00 in the company's share capital.The relating amendment of the articles of incorporation was entered in the commercial register of the Hanover local court on 10.06.2009.

The Management 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 Management Board was also authorized by resolution of the shareholders' meeting on 30.08.2006, 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 29.08.2011, 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 01.09.2006.

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

On the occasion of the capital increase out of retained earnings, which had been decided on the the Annual General Meeting on 19.05.2009, the newly stock issues increased the *Contingent Capital I/2006* to € 300,000.00, proportionally with the share capital. The capital increase and the amendment of the articles of incorporation relating to the *Contingent Capital I/2006* was registered with the Hanover Local Court on 10.06.2009.

The General Meeting on 30.08.2006 authorized the Management Board, with the approval of the Supervisory Board to issue on one or several occasions bearer or registered convertible bonds or bonds with warrants up to 29.08.2011 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 30.08.2006, 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 30.08.2006 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 01.09.2006.

As a result of the capital increase out of retained earnings by means of the issuance of new share, decided upon the General Meeting on 19.05.2009, the *Contingent Capital I/2006* increased proportionally with the share capital to € 4,344,720.00. The capital increase and the amendment of the articles of incorporation relating to the *Contingent Capital II/2006* were entered in the commercial register of the Hanover court on 10.06.2009.

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

The compensation per share paid for the acquisition of shares via the stock exchange (without incidental acquisition costs) may not be more than 10% above or below the price identified in the XETRA trading system (or a comparable successor system) on the stock market day in the opening auction. If shares are acquire via a (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 Management 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.

In the context of a **stock option program** Delticom AG has granted a member of the Management Board equity-settled options. This commitment is based on the option conditions dated 09.08.2007.

	4th tranche	3rd tranche	2nd tranche	1st tranche
Date of issuance	30.03.2009	25.11.2008	08.05.2008	22.11.2007
Term	10 years	10 years	10 years	10 years
Blackout period	2 years	2 years	2 years	2 years
Exercise price	€ 12.88	€ 12.23	€ 13.19	€ 19.81
Number of options issued	15,000	37,500	37,500	15,810
Number of exercised options issued	0	0	0	0
Number of expired options issued	0	0	0	0
Outstanding on 31.12.2009	15,000	37,500	37,500	15,810
Excersisable on 31.12.2009	0	37,500	37,500	15,810

	4th tranche	3rd tranche	2nd tranche	1st tranche
Fair value per option on the date granted	€ 3.18	€ 3.27	€ 3.75	€ 6.47
Total fair value of the options totaled on the date granted	€ 47,700.00	€ 122,500.00	€ 140,750.00	€ 102,291.00
Expenses from the stock option program to be taken into account in fiscal year 2010	€ 23,856.00	€ 56,148.00	€ 23,513.00	€ 0.00
Expected time to maturity of issued stock options	3.36 years	3.70 years	4.25 years	4.71 years
Expected annual dividend yield	5.00%	5.00%	5.00%	3.00%
Risk-free interest rate	1.80%	2.57%	4.31%	3.90%
Stock price at issue date	€ 13.63	€ 12.83	€ 13.41	€ 19.65
Exercise price	€ 12.88	€ 12.23	€ 13.19	€ 19.81
Expected volatility	42.00%	44.00%	45.00%	45.00%

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.

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

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

(21) Gains and losses recognised directly in equity

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

The revaluation reserve from financial instruments totals € 10 thousand (previous year: € 23 thousand). The reduction has its reason in the realisation of the gains from disposal of the securities in income.

(22) Retained earnings

Retained earnings exclusively comprise the legal reserve, which Delticom AG must form according to Section 150 of the 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 in shareholders' equity.

Liabilities

(24) Provisions

Provisions had the following breakdown:

in € thousand	01.01.2010	Taken up	Reversal	Additions	31.12.2010
Provisions for taxes	2,915	2,915	0	6,179	6,179
Other non-current provisions	42	34	0	13	45
Other provisions	627	137	41	2,226	2,200
Total	**3,584**	**3,085**	**41**	**8,418**	**8,424**

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

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

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

(25) Deferred tax liabilities

There were no deferred tax liabilities during the period under review. Deferred tax liabilities are realised after more than 12 months in the amount of previous year: € 83 thousand.

(26) Trade accounts payable

in € thousand	2010	2009
Accounts payable	53,615	36,645
thereof liabilities with associated companies and related parties (category: persons in key positions)	51	304

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

(27) Additional notes concerning financial instruments

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

	Valuation categories acc. to IAS 39	**Book Value 31.12.09**	Balance sheet valuation according to IAS 39			**Fair Value 31.12.09**
in € thousand			amortized cost	Fair value not affecting income	Fair value – affecting income	
Assets						
Cash and cash equivalents	LaR	37,603	37,603			37,603
Accounts receivable	LaR	10,148	10,148			10,148
Other receivables	LaR	535	535			535
Other original financial assets						
Available for Sale Financial Assets	AfS	3,039		3,039		3,039
Derivative financial assets						
Derivates not used for hedging (Held for Trading)	FAHfT	188			188	188
Liabilities						
Accounts payable	FLAC	36,645	36,645			36,645
Other current liabilities	FLAC	1,350	1,350			1,350
Derivative financial liabilities						
Derivates not used for hedging (Held for Trading)	FLHfT	108			108	108
Thereof cumulated according valuation categories IAS 39						
Loans and receivables (LaR)		48,286	48,286			48,286
Held-to-Maturity Investments (HtM)		0	0			0
Available for Sale Financial Assets (AfS)		3,039		3,039		3,039
Financial Assets Held for Trading (FAHfT)		188			188	188
Financial liabilities measured at amortised cost (FLAC)		37,995	37,995			37,995
Financial Liabilities Held for Trading (FLHfT)		108			108	108

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

Net profits and losses from financial instruments are as follows:

in € thousand	2010	2009
Loans and receivables (LaR)	–234	–1,651
Held-to-Maturity Investments (HtM)	0	25
thereof interests	0	25
Available for Sale Financial Assets (AfS)	26	64
Financial Assets and Liabilities Held for Trading (FAHfT + FLHfT)	–926	90
Financial liabilities measured at amortised cost (FLAC)	–810	–3
Sum	–1,943	–1,475

The fair value of cash and cash equivalents, short-term receivables, trade payables as well as other short-term assets and liabilities approximately corresponds to the book value, due to the short time to maturity. The fair value of the subsidiary Tyrepac Pte. Ltd., Singapore, corresponds to acquisition costs, due to Tyrepac having been acquired shortly before the balance sheet date. The securities in the available-for-sale category are exchange listed. They are valued on the basis of their market price on the reporting date. The book value of the derivative financial instruments equals the fair value.

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

Securities *available for sale* contained in the other non-derivative financial assets amount to € 1,036 thousand. They are listed on the stock exchange and thus valued using the market price on the balance sheet date (Level 1 of the fair value hierarchy). The financial instruments in category *available for sale* total € 818 thousand, in category *assets held for trading* total € 187 thousand and those designated to the category *liabilities held for trading* total € 629 thousand. We have classified this three times in the fair value hierarchy level 2.

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

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

Net profits from financial investments *held-to-maturity* recognise interest income only.

Net profits from *assets available-for-sale* comprise the changes in value amounting to € 4 thousand (previous year: € 92 thousand), accounted for in the other operating income. In addition, the net profits from assets in that category contain changes in the revaluation reserve of € –22 thousand (previous year: € –60 thousand) which are recognised in the income statement on the occasion of selling those securities.

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

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

(28) Other current liabilities

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

This balance sheet item also contains € 629 thousand of liabilities arising from derivative financial instruments (previous year: € 108 thousand).

All current liabilities are due within one year.

Other liabilities include interest-bearing current account overdrafts from banks totalling € 4 thousand (previous year: € 0 thousand).

in € thousand	2010	2009
Sales tax (VAT)	5,582	2,795
Payments received on account of orders	5,268	2,227
Customer credits	3,045	1,350
Social security contributions	7	13
Income and church tax	92	137
Current accounts	4	0
Other current liabilities	1,968	864
Total	**15,967**	**7,386**

Other notes

Contingent liabilities and other financial commitments

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

The key financial liabilities comprise:

in € thousand	2010	2009
Order commitments for goods	9,118	2,777
Other financial commitments	54,623	40,022
Total	**63,741**	**42,799**

Delticom rents office premises and parking spaces in Brühlstrasse 11, Hanover, as well as warehouses for trading goods in 4 locations. The rental agreement meet the definition of an operating lease according IAS 17.3. The agreement for the office premises in Brühlstr. 11 runs until 31.12.2017. The agreements for the warehouses run until 31.08.2011, 31.12.2015, 31.03.2019 and 31.07.2023.

In addition, there are operating leases for three cars. The car leases end in July and September 2011 after a 36-month term and in June 2011 after a 24-month term.

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

in € thousand	2010	2009
up to one year	4,557	3,301
2 years to 5 years	22,013	10,582
more than 5 years	26,150	9,170
Total	**52,720**	**23,053**

Accounting for derivative financial instruments

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

The remaining maturities of the forward exchange transactions were all less than 12 months on the balance sheet date (previous year: 6 months).

Risk Management

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

Currency risk

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

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

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

Currency	1 unit FX = Euro (as of 31.12.2010)	Profit in thousand €	Loss in thousand €
CHF	0.8037	141	–141
DKK	0.1341	42	–42
GBP	1.1587	240	–249
RON	0.2332	5	–5
SEK	0.1113	14	–14
USD	0.7529	–1,352	1,691
Others	N/A	5	–5

Interest rate risk

For cash and cash equivalents there exists a cash flow risk from the interest earned on the holdings. Due to the low level of interest rates the sensitivities were calculated by a parallel movement of the yield curve by 50 basis points. For the scenario of an increase of the interest rates by 50 basis points the holdings would earn € 86 thousand, for a downward move of 50 basis points they would lose € 86 thousand. In relation to the amount of cash and cash equivalent held, the interest-rate sensitivity is low. The reason for that is that most of the cash is carried in accounts which do not bear interest.

Other price risks

The securities are exposed to price risk. If the value of the securities rose by 10%, the equity would rise by € 104 thousand. In case the value securities dropped by 10%, the equity would drop in turn by € 104 thousand. Above changes in the equity position exclude effects from deferred taxes. The sensitivities were calculated using a hypothetical change in price of the listed securities by +/- 10%.

Liquidity risk

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

Credit risk

In its Wholesale division, Delticom supplies tyres and rims to retail companies with varying creditworthiness. There can be temporary concentrations of risk for some customers, which could depress the Group's earnings position and liquidity situation. Delticom has therefore negotiated credit insurances and uses commission business for certain customers. These instruments restrict the financial impact on the company and eliminate any dangers to its going concern. The total credit-insured gross receivables in the Wholesale division amounted to € 2,348 thousand (previous year: € 2,699 thousand). For the E-Commerce division they totalled € 224 thousand (previous year: € 224 thousand). The deductibles for credit-insured receivables lie between 20% and 25%.

Related party disclosures

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

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

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

- Binder GmbH (number of shares 3,114,153, 26.30% interest)
- Prüfer GmbH (number of shares 3,406,864, 28.78% interest)

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 (CEO), Hanover, and for Prüfer GmbH to Andreas

Prüfer (Chairman of the Supervisory Board), Hanover. In addition, Binder GmbH and Prüfer GmbH have entered in a pool contract in terms of Section 22 II S. 1 WpHG.

Sale of goods

in € thousand	2010	2009
to associated companies and related parties (category: persons in key positions)	2,381	2,291

Purchase of goods

in € thousand	2010	2009
from associated companies and related parties (category: persons in key positions)	1,027	1,450

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

Executive bodies

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

2010 the **Management Board** had the following members:

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

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

	Non-performance related compensation		Performance-related compensation		Long-term incentive	
in € thousand	2010	2009	2010	2009	2010	2009
Rainer Binder	350	284	239	161	0	0
Philip von Grolman	128	128	119	81	0	0
Frank Schuhardt	210	261	362	233	0	48

During fiscal year 2010, the **Supervisory Board** was composed as follows:

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

In fiscal year 2010, remuneration totalled € 35 thousand (previous year: € 35 thousand) for Andreas Prüfer, € 10 thousand (previous year: € 10 thousand) for Michael Thöne-Flöge and € 5 thousand (previous year: € 5 thousand) for Alan Revie.

Dividend

The General Meeting on 11.05.2010 resolved to pay a dividend in the amount of € 20,127,048.00 from Delticom AG's 2009 net retained profits (€ 1.70 per share, previous year € 1.70 per share) and to carry forward the remaining amount of € 491,621.60 to new account.

Proposal for the appropriation of profits

The Management Board proposes to distribute an amount of € 32,203,276.80 or € 2.72 per share from Delticom AG's net retained profits of € 32,989,268.90, carrying € 785,992.10 forward to new account.

Shareholdings

	Fixed capital interest %	
Name, registered office, country	2010	2009
Delticom Tyres Ltd., Oxford, United Kingdom	100	100
NETIX S.R.L., Timisoara, Romania	100	100
Reifendirekt GmbH, Hanover, Germany	100	100
Delticom North America Inc., Wilmington, Delaware, USA	100	100
Pnebo Gesellschaft für Reifengroßhandel und Logistik mbH, Hanover, Germany	100	100
Tyrepac Pte. Ltd., Singapur	50.9	0

Auditor's fees

In fiscal years 2010 and 2009, the following fees were recorded for the auditor Pricewaterhouse Coopers AG Wirtschaftsprüfungsgesellschaft, Hannover:

in € thousand	2010	2009
Audits of the financial statements	73	79
Other confirmation and valuation services	24	24
Tax consultancy services	11	8
Other services	20	23
Total	**128**	**135**

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 19.03.2010, and made accessible to shareholders on our Web site: www.delti.com.

Notes to the cash flow statement

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

Responsibility Statement

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

Hanover, 08 March 2011

(The Management Board)

Auditors' Report

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

We have audited the consolidated financial statements prepared by the Delticom AG, Hanover, comprising the income statement, the statement of recognised income and expenses, the balance sheet, cash flow statement, statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the business year from 01 January 2010 to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Hanover, 08 March 2011

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Helmuth Schäfer
German Public Auditor

ppa. Thomas Monecke
German Public Auditor

Abridged Financial Statements of Delticom AG (HGB – German Commercial Code)

Balance Sheet

Assets

in € thousand	31.12.2010	31.12.2009
Fixed assets	**10,669**	**6,947**
Intangible assets	1,059	1,124
Property, plant and equipment	6,493	4,920
Financial assets	3,117	903
Current assets	**133,945**	**97,224**
Inventories	50,578	42,038
Accounts receivable	10,070	9,737
Receivables from affiliated companies	3,093	965
Other receivables and other assets	7,790	5,530
Securities	1,022	3,006
Cash and cash equivalents	61,393	35,948
Deferred item	**271**	**209**
Deferred taxes	**287**	**0**
Assets	**145,171**	**104,380**

Shareholders' Equity and Liabilities

€ thousand	31.12.2010	31.12.2009
Equity	**69,914**	**57,519**
Subscribed capital	11,839	11,839
Share premium	24,861	24,861
Retained earnings	224	200
Balance sheet profit	32,989	20,619
Provisions	**10,947**	**4,801**
Provisions for taxes	5,975	2,913
Other Provisions	4,972	1,889
Liabilities	**64,288**	**42,060**
Liabilities to banks	4	0
Payments received on account of orders	4,619	2,020
Accounts payable	51,350	35,732
Payables to affiliated companies	711	0
Other liabilities	7,603	4,308
Deferred item	**23**	**0**
Shareholders' Equity and Liabilities	**145,171**	**104,380**

Income Statement

in € thousand	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Revenues	**407,774**	**303,047**
Other operating income	8,256	5,478
Cost of goods sold	–293,516	–220,470
Personnel expenses	–6,635	–5,586
Depreciation	–1,301	–1,313
Other operating expenses	–67,207	–51,674
Income from participating interests	125	121
Income from loans	0	0
Other interest received and similar income	134	217
Impairment losses on financial assets	0	–105
Paid interest and similar expenses	–25	–30
Result from ordinary business activities	**47,606**	**29,683**
Taxes on income and profit	–15,109	–9,518
Other taxes	0	0
Annual surplus	32,498	20,165
Profit carried forward	492	454
Balance sheet profit	**32,989**	**20,619**

Financial Calendar

19.04.2011	Publication of provisional Q1 figures
03.05.2011	Annual General Meeting 2011
10.05.2011	3-monthly report 2010
19.07.2011	Publication of provisional H1 figures
09.08.2011	6-monthly report 2010
18.10.2011	Publication of provisional 9M figures
08.11.2011	9-monthly report 2010
21.–23.11.2011	German Equity Forum Frankfurt

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