Annual Report 2017

DELTICOM
Aktiengesellschaft

Profile

Delticom AG is an E-Commerce company operating primarily in Europe and the USA. It specialises in the design and operation of online shops, internet-based customer acquisition, internet marketing, developing partner networks and complex, highly efficient product picking and distribution logistics.

Delticom AG is the leading online distributor of tyres and automotive accessories. Our product range also includes the online second-hand vehicle trade and efood. Delticom has extensive experience in creating shops for the international market and in transnational E-Commerce. In addition to design, Delticom also provides product descriptions and a comprehensive customer service programme in your national language. Establishing efficient warehousing and logistics processes is utilized not only in selling tyres, used vehicles and online grocery shopping, but is also offered to third parties as an additional service.

Since its establishment in Hanover, Germany in 1999, the company has accrued exceptional expertise in designing efficient, fully integrated internal ordering and logistics processes. The company owns its own warehouses, including a fully automated small item warehouse.

In 2017, Delticom AG generated sales in excess of € 667 million. The E-Commerce specialist operates in 72 countries with over 453 online shops and online distribution platforms, serving over 12.2 million customers. The range of tyres offered to retail and commercial customers includes over 100 brands and more than 25,000 models of sedans, motorbikes, trucks, utility vehicles, buses and complete wheel sets.

Customers are also able to have the ordered products sent to one of the 43,000 service partners of Delticom AG around the world.

Our range also encompasses over 300,000 automotive parts and accessories, including motor oils, snow chains and batteries. Entry into the business of online used car selling has rounded off the automotive offering. In this sense, Delticom AG has developed from a classic online retailer to an online solutions provider. Delticom AG also now offers a comprehensive range of around 20,000 different food items.

The shares of Delticom AG have been listed in the Prime Standard of the German Stock Exchange since October 2006 (ISIN DE0005146807).

Key Figures

		01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016	–/+ (%, %p)
Revenues	€ million	667.7	606.6	+10.1
Total income	€ million	693.5	627.2	+10.6
Gross margin[1]	%	20.6	23.2	–2.6
Gross profit[2]	€ million	137.4	140.5	–2.2
EBITDA	€ million	9.3	15.1	–38.4
EBITDA-Marge	%	1.4	2.5	–1.1
EBIT	€ million	2.0	7.2	–71.8
Net income	€ million	1.1	4.5	–74.9
Earnings per share[3]	€	0.09	0.36	–75.1
Total assets	€ million	202.4	183.3	+10.4
Inventories	€ million	79.8	62.7	+27.2
Investments[4]	€ million	7.9	33.1	–76.1
Equity	€ million	52.9	58.5	–9.5
Equity ratio	%	26.2	31.9	–5.7
Return on equity	%	2.1	7.6	–5.5
Liquidity position[5]	€ million	3.9	6.7	–42.0
Operating cash flow	€ million	15.4	19.7	–21.9
Free cash flow[6]	€ million	8.0	–3.2	–349.6

(1) Gross profit ex other operating income in % of revenues
(2) Gross profit ex other operating income
(3) Undiluted
(4) Investments in tangible and intangible assets (without aquisitions)
(5) Liquidity position = cash and cash equivalents + liquidity reserve
(6) Free cash flow = Operating cash flow – Cashflow from investing activities

Highlights 2017

Revenues > € 667 million

(2016: € 606.6 million)

Consolidated net income

€ 1.1 million

€ 0.09 earnings per share

Planned dividend of

€ 0.10

per share
(previous year: € 0.50)

More than

1,349,000

new customers in 2017

More than

728,000

customers made a repeat purchase with us

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Letter to Our Shareholders

Dear shareholders, colleagues and friends,

overall, we can look back on a challenging 2017 financial year in which we were able to achieve many, but far from all, of our goals. Last year we succeeded in increasing sales by 10.1 % compared to 2016: we significantly exceeded our sales forecast of € 650 million by generating € 667.7 million in revenues compared to € 606.6 million in the previous year. This was the highest turnover in our company history. While we achieved revenues growth of 8.5 % in the first nine months, we increased Group revenues by more than 13 % in the final quarter of 2017. Our overriding goal for 2017 was to foster further growth. We fulfilled this goal: in Europe in the field of B2C and B2B, in the USA, but also with Gourmondo and our logistics services.

In the year under review, we tested new, automated price-volume relationships in our shops and gathered considerable know-how in this field. We successfully launched our MobileMech franchise concept for mobile tyre fitting. Online trade in gourmet food by our company Gourmondo is growing at a pleasing rate. Extor installed its first warehouse logistics system at a customer's premises. DeltiCar, our online used car service, expanded its network of branches last year and gained valuable experience in the French market.

Revenues growth in the fourth quarter is also connected to our active pricing in our core automotive business: in contrast to the previous year, we did not increase our prices during the winter business period in order to further expand our leading position in a competitive market environment.

We also implemented this pricing policy against the background of an ongoing consolidation process in the European replacement tyre market. Numerous takeovers, shareholdings and insolvencies along the tyre retail chain shaped the pan-European sector profile last year. Consolidation is not limited to smaller, independent tyre dealers. Even established tyre wholesalers in Europe decided on a complete sale or at least to sell off their tyre division over the last year. In the opinion of industry experts, low margins are not only weighing on tyre retailers but also on tyre wholesalers. According to market experts, only a few companies are still achieving successful organic growth today.

In the past financial year, the trend reversal many tyre dealers long hoped for failed to materialise once again: according to the German Tyre Trade and Vulcanisation Association (Bundesverband Reifenhandel und Vulkaniseurhandwerk e. V.), the passenger car replacement tyre market, including off-road tyres (4x4), recorded a slight increase of 0.6 % in Germany. The decline in sales to consumers in the summer tyre business (–5.8 %) was offset by a slight increase in winter tyres (+1.3 %) but in particular by the significantly higher demand for all-season tyres (+16.1 %), with the result that the overall sales volume was slightly above the previous year's level.

According to experts, the strong orientation of consumers towards price and discount will increasingly be replaced in the future by a value-added orientation towards the optimum price/performance ratio – a development towards greater sustainability in purchasing behaviour, for which Delticom has created stable foundations in recent years in terms of service and quality in order to provide consumers with optimum support at all touch points of its customer journey. Thanks to our multi-shop approach, we were able to increasingly test different price/performance ratios and their effects on buying behaviour last year.

The volume-price effect in sales not only led to a decline in gross margin, but also to an increase in volume-dependent costs such as transport, warehouse handling and customer service. Our earnings before interest, taxes, depreciation and amortization (EBITDA) totalled € 9.3 million in 2017 following € 15.1 million in the previous year. This represents a decrease of 38.4 %. We thus fell well short of our EBITDA forecast of € 16 million. Consolidated net income amounts to € 1.1 million or € 0.09 per share. The previous year's figure was € 4.5 million and thus equal to € 0.36 per share. This is a decline of 75.1 %.

There are reasons for these declines in earnings. In addition to negative currency effects in the amount of € 1 million and the clear primacy that our multi-shop strategy gives to gaining market share in European tyre trading, our consolidated result is burdened by the start-ups currently being set up within the Delticom Group: MobileMech, DeltiCar, Ringway, DeltiLog and Extor are investments in the future that will contribute to Delticom's long-term profitable growth. According to unanimous expert opinion, the increasing networking of man, machine, logistics and product negotiated in the name of Industry 4.0 will continue to gain momentum in the future.

Those who do not wish to become driven by this dynamic driver must not get caught napping by the accelerated dovetailing of offline and online worlds by digitisation, but must set the course today for the digitised markets of tomorrow. This is exactly what we do with our start-ups. The subsidiaries MobileMech and DeltiCar, which complement our Automotive business, take account of the development towards a network of online and stationary offline sphere as well as the web shop innovator Ringway, our logistics company DeltiLog, the warehousing specialist Extor and the online food specialist Gourmondo.

Together, these new companies more than doubled their revenues in the year under review compared to the previous year. Nevertheless, they need further financial impetus. Given their strategic importance for the Group's long-term planning, we accept the short-term burdens on earnings associated with our start-ups.

Online penetration in the replacement tyre business is currently around 13 % and will increase to 15 to 20 % by 2020 according to forecasts. So, there is still growth potential in our core business. According to analyses by market experts, the procurement of information and the purchase of products from the automotive sector will increasingly shift to the internet. A recent specialist study showed that 29 % of all consumers around the world who bought tyres, car spare parts and accessories purchased them online. In Western Europe, this figure is 36 %. In Germany, the proportion of car parts purchased online increased by 10 % compared to the previous year. Accordingly, the trend towards E-Commerce in this area continues unabated.

One third of the world's population has internet access. In Europe alone, the internet penetration rate has increased by 13 % in the last five years. Worldwide, 94 % of consumers now shop online. In Germany, this figure amounts to even 98 %. Moreover, buying behaviour is stabilising: more than a third of consumers order products on the internet at least once a week. The German E-Commerce and Distance Selling Trade Association (Bundesverband E-Commerce und Versandhandel) is forecasting a growth of 9.3 % to around € 63.9 billion in domestic online trade for the current year. According to forecasts by the market research institute IFH Cologne, this online turnover is expected to increase to € 80.4 billion by 2021.

The online food market has annual growth rates of well over 10 %. Nevertheless, less than 2 % of the € 200 billion food turnover in Germany is still generated online. The growth potential of the efood market is therefore not close to being exhausted. We want to and will participate in this market of the future with Gourmondo. More and more people are buying mainly non-perishable food over the internet. According to a recent study, 40 % of German consumers plan on purchasing food online within the next 12 months.

The fact that the proportion of food purchased online in other countries is already significantly higher than in Germany shows the growth potential in the German market. The competition for the consumer's favour will be won by those who succeed in optimally combining distribution and data expertise. As a company that has been successful in online commerce for almost two decades, we have more than just the data expertise required for this challenge: with our fully automated small items warehouse, we also have the necessary distribution know-how to operate the online food trade cost-efficiently and thus profitably. Incidentally, we were able to demonstrate our expertise in the field of small items logistics to two further customers in the past fiscal year.

Delticom will continue to benefit from the increasing importance of the internet in the future. In the current fiscal year, we want to fine-tune the balance between sales growth and profitability and further promote the market establishment of our start-ups in the corporate portfolio in order to be able to offer our customers additional services in the future. At present, we anticipate consolidated sales of € 690 million for the current year. Although establishing our start-ups will also have a negative impact on earnings in the current year, we will align our core automotive business more closely with our earnings targets than in 2017 and at the same time push ahead with automation throughout the Group in order to generate cost-cutting effects. Accordingly, we expect our EBITDA to increase to € 14 million in the current fiscal year.

We will expand our market position in the fields of efood and logistics and continue to explore the market with regard to new developments in order to prepare ourselves for innovative E-Commerce trends in good time. Thanks to a solid balance sheet, our many years of experience in E-Commerce and our leading market position in the European online tyre trade, we are ideally positioned for future growth.

We have aligned the company for the long-term future through the strategic measures we have taken in recent years. Market experts outline the following development lines in the automotive aftermarket for the next five to ten years: consolidation in the market is increasing, so that suppliers must achieve a critical mass in customer access and purchasing volumes in order to remain competitive. Digitisation will further increase the proximity between provider and end customer. This trend also includes the

from left: Philip von Grolman, Andreas Prüfer, Thierry Delesalle, Susann Dörsel-Müller

digital networking of cars, which allows even more precise insights into customer preferences and behaviour and thus an even more precise adjustment to consumer expectations.

The transparency of the automotive market in terms of price and quality will be further increased by the intensifying use of online channels. Delticom is ideally positioned for these future developments. In addition to our web shops, we are already increasingly using other online sales channels such as online market places, price search engines and social media to reach our customers. In order to achieve the critical mass in sales volumes that allows us to optimally exploit economies of scale, we are consistently focusing on further expanding our market leadership in our core business.

Delticom has a solid balance sheet and a high level of internal financing power. Total non-current and current financial liabilities amounted to € 15.3 million as of the balance sheet date. This is a decrease of € 4.6 million compared to 2016. The free cash flow for the past fiscal year amounts to € 8 million. Our liquidity situation will enable us once again this year to let our shareholders participate in the company's success. The Executive Board and Supervisory Board will therefore propose a dividend of € 0.10 per share at the annual general meeting on 08.05.2018.

We thank you, our shareholders, for your confidence. We look forward to continuing on our path to an exciting and profitable future with you.

Hanover, 20 March 2018

Susann Dörsel-Müller Philip v. Grolman Andreas Prüfer Thierry Delesalle

Report of the Supervisory Board

Dear Shareholders,

During the year under review, the Supervisory Board constantly supervised and consulted regularly with the Management Board concerning the management of the company, and extensively fulfilled the tasks that are incumbent upon it pursuant to the law, the company's articles of incorporation and the rules of business procedure. 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. The Supervisory Board was routinely informed about the course of business and major business events. We received written reports on a monthly basis. Scope and contents of the reports had been defined beforehand. Furthermore, the Supervisory Board took the opportunity to engage the Management Board in lively exchanges of information and ideas. As in the years before we also had regular telephone calls and meetings with individual members of the Management Board to discuss current events and developments.

In addition, outside of the meetings the members of the Supervisory Board provided consulting to the Management Board. In instances where decisions were needed to be made quickly we took them in circulation procedure. All resolutions were unanimously approved during the period under review. No member of the Supervisory Board took part in less than half of the Supervisory Board meetings in the fiscal year.

During the reporting period, Mr Rainer Binder, Mr Michael Thöne-Flöge and Mr Alan Revie were members of the Supervisory Board. Mr Rainer Binder is Chairman of the Supervisory Board, Mr Michael Thöne-Flöge is Vice Chairman as well as financial expert in the sense of Section 100 (5) of the German Stock Corporation Act (AktG). Also, the members of the Supervisory Board as a whole are familiar with the sector in which the company operates.

The Supervisory Board has not established any committees in the sense of Section 107(3) of the AktG (German Public Limited Companies Act), because this was considered unnecessary in light of only three Members.

Main topics of Supervisory Board consultation

Important recurrent issues that claimed the attention of the Supervisory Board concerned the company's strategic development and strategy. One main topic was the provision of services in the logistics field. The opportunities as well as the challenges for the products and business models that this would give rise to were discussed at length. Delticom AG will continue to boost its competencies in the field of logistics.

Meetings and written resolutions of the Supervisory Board

There were four regular Supervisory Board meetings in 2017. Each of the meetings were attended by all members, partly by means of conference calls. Nine resolutions were passed by way of written circulation procedure.

At our first ordinary meeting on 21.03.2017 we concerned ourselves with the financial statements and management reports of Delticom AG and the Group for fiscal year 2016, as well as with the appropriation of the balance sheet profit achieved in 2016. A further topic was the annual corporate governance statement and the declaration of compliance with the German Corporate Governance Code. Moreover, we agreed on the agenda for the Shareholders' General Meeting on 02.05.2017.

In the meeting on 02.05.2017, the Management Board reported on the Group's development of business and of employment as well as the proportion of women in the Supervisory Board, setting the latter again at 0 % percent. 30.04.2022 was set as the deadline for achieving this.

In its meeting on 19.09.2017, the Management Board reported on the current performance and financial position of the Group at the end of the second quarter of fiscal 2017. Moreover, as recommended by Code item 5.6 of the German Corporate Governance Code, we carried out an audit of the efficiency of our work based on a catalog of questions.

In the last regular meeting on 21.11.2017, the Management Board reported on the course of business. Moreover, we deliberated on the Management Board's medium-term and investment planning for Delticom AG and gave our approval. At the same meeting, we took note of the complete risk report and informed ourselves of the effectiveness of the risk management system. In addition, we once again invited employees and members of the Management Board to acquire share options. Additional approvals were granted in relation to the acquisition of the remaining shareholdings of our subsidiary in Russia, on issuing a loan to our subsidiary DeltiCar SAS and commissioning non-audit services from our auditor.

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

These related to the extension of contracts of service for Mr Delesalle, Mr von Grolman and Mr Prüfer as well as a consultancy agreement with the Chairman of the Supervisory Board Mr Binder (03.01.2017), the issuing of option rights to entitled persons and the setting of exercise prices (05.01.2017, 10.01.2017), the further invitation to acquire share options to beneficiaries (21.11.2017, 30.12.2017), the foundation of a Japan-based subsidiary of Delticom OE (03.03.2017), the approval to grant power of attorney (01.08.2017), the approval for an amendment to the articles of association of DeltiTrade GmbH (now: DeltiLog GmbH) (15.08.2017) as well as a redistribution of executive responsibilities (29.08.2017).

Corporate Governance

On 21.03.2017, 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. The declaration has been made permanently available on the Delticom AG web page (www.delti.com/CG) and will be updated every year after the accounts review meeting of the Supervisory Board, or earlier if the necessity arises.

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.

Audit of annual and consolidated financial statements

In its accounts review meeting on 20.03.2018 the Supervisory Board discussed in detail the documentation relating to the financial statements and the auditor‘s report for fiscal year 2017. 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 31.12.2017. In addition, the Supervisory Board reviewed the management reports for both the company and the Group for the 2017 fiscal year as well as the dependent company report. 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, in each case for the 2017 financial year, 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 for fiscal year 2017 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 the accounting regulations. The auditor's review of the dependent company report for fiscal year 2017 resulted in no reservations. The auditor has issued an unqualified audit certificate for both areas. The auditor's certificate for the dependent company report contains the following wording: "Following our audit and assessment in accordance with our duties, we confirm that the actual statements made in the report are correct, and that the consideration paid by the company in legal transactions listed in the report was not inappropriately high, or that disbenefits were compensated for."

As part of its assessment of the risk management system, the auditor confirmed that the Management Board had implemented the measures required pursuant Section 91 Paragraph 2 of the German Stock Corporation Act (AktG) for identifying risks which could jeopardise the company as a going concern at an early juncture. At the meeting on 20.03.2018 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, the management reports and the dependent company report, in each case for fiscal year 2017. The Supervisory Board followed the views of the auditors fully. With this, the annual financial statements for fiscal year 2017 of Delticom AG have been adopted. The Supervisory Board has followed the Management Board's proposal for the appropriation of the net retained profits of 2017.

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

Hanover, 20 March 2018

Rainer Binder

The Delticom share

The Delticom share (WKN 514680, ISIN DE0005146807, stock market symbol DEX) closed 2017 at € 11.50.

Development of the stock markets

2017 stock market

Equity markets developed stable in 2017 despite the challenging environment. The DAX started the year at 11,598 points.The DAX reached its high of 13,479 points on 03.11.2017. On 06.02.2017 it marked a low at 11,510 points. It closed the year at 12,918 points, an overall rise of 1,319 points or 11.4 %.

Development of the Delticom share (DEX)

Benchmarks

We use the STOXX® Europe 600 Retail (SXRP) as a benchmark for DEX. SXRP comprises large European retail companies, which also includes large online retailers.

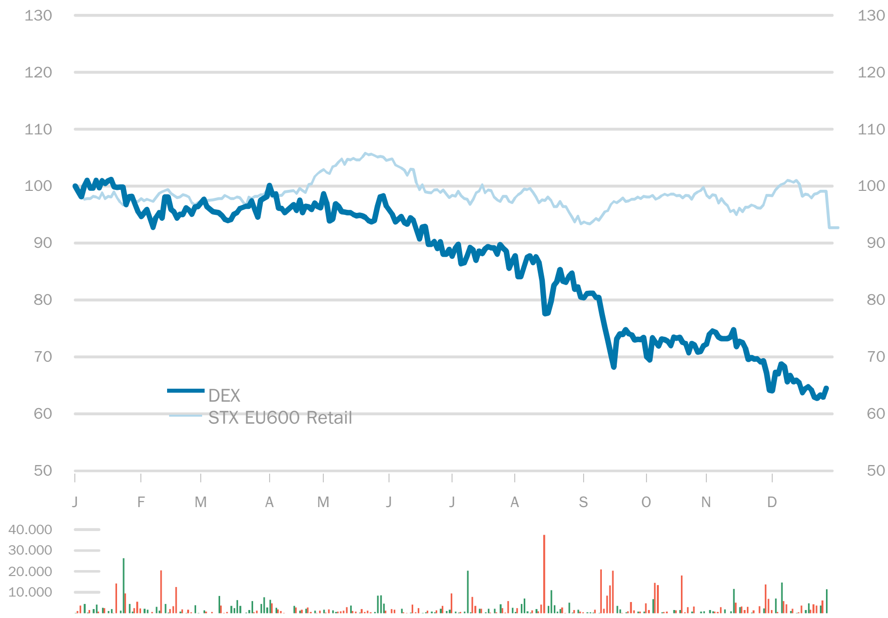
As customary, we use the performance index which takes dividend payments into account for SXRP. When comparing the performance of DEX to the benchmarks we therefore take the dividend for 2016 into consideration, amounting € 0.50 per share as decided on the Annual General Meeting on 02.05.2017. The chart *Share performance* shows the performance of DEX and SXRP since the beginning of 2017 over the course of the year.

DEX performance

After beginning the year at € 17.83, DEX reached an annual low on 22.12.2017 at € 11.19. The shares' annual high was recorded on 18.01.2017 at € 18.04. DEX closed the year on € 11.50. In the course of 2017 the market capitalisation of DEX decreased from € 213.0 million to € 143.3 million.

Share performance 2017

indexed, traded volume in shares (XETRA)



Index membership

Apart from DAX Composite Index (CDAX) DEX is included in the calculation of the following indices:

- Classic All Share
- DAXplus Family Index
- DAXsector All Retail
- DAXsector Retail
- DAXsubsector Retail Internet
- DAXsubsector All Retail Internet
- NISAX 20
- Prime All Share

Earnings per share and dividend recommendation

Undiluted earnings per share are € 0.09 (2016: € 0.36). Diluted earnings per share are € 0.09 (previous year: € 0.36).

The calculation of the earnings per share was based on net income after taxes totalling € 1,117,760.32 (previous year: € 4,454,802.83) and the weighted average number of shares outstanding during the fiscal year totalling 12,463,331 shares (previous year: 12,463,331 shares).

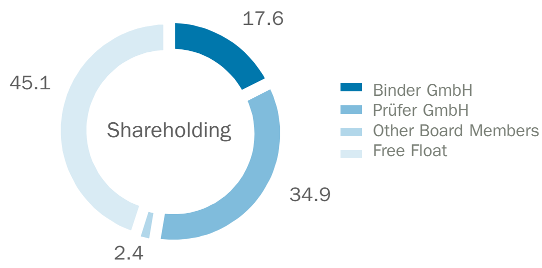
At Delticom's Annual General Meeting on 08.05.2018, the Management Board and the Supervisory Board will propose a dividend of € 0.10 per share – reduced compared to the dividend for financial year 2016 of € 0.50 per share.

Shareholder structure

There were no material changes in the shareholder structure of Delticom AG in 2017.

Shareholder structure

Shareholding in % of the 12,463,331 shares outstanding, as of 31.12.2017



The shares of Prüfer GmbH and Binder GmbH are attributed to the company founders Andreas Prüfer and Rainer Binder. In 2017, Andreas Prüfer as Board Member and Rainer Binder as Chairman of the Supervisory Board held more than 50 % of the outstanding shares.

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

Coverage

In total 4 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 16.02.2017):

- Frank Schwope, NORD/LB (Sell)
- Christoph Schlienkamp, Bankhaus Lampe (Sell)
- Marc-René Tonn, Warburg (Sell)

- Tim Busse, Montega (Hold)

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.

In 2017, the Management Board presented business developments and strategy of the company during the yearly analyst conference on the occasion of the German Equity Forum in Frankfurt. Furthermore, we had many one-on-one talks with investors.

The internet is an important part of financial communications. On www.delti.com/Investor_Relations/index_en.html we offer annual reports, quarterly corporate news 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

		01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Number of shares	shares	12,463,331	12,463,331
Share price on first trading day[1]	€	17.83	20.83
Share price on last trading day of the period[1]	€	11.50	17.89
Share performance[1]	%	–35.5	–14.1
Share price high/low[1]	€	18,04 / 11,19	20,83 / 14,49
Market capitalisation[2]	€ million	143.3	223.0
Average trading volume per day (XETRA)	shares	3,189	5,724
EPS (undiluted)	€	0.09	0.36
EPS (diluted)	€	0.09	0.36

(1) based on closing prices
(2) based on official closing price at end of quarter

Report on disclosures pursuant to Section 289a (1) and Section 315a (1) of the German Commercial Code (HGB)

The Management Board of Delticom AG reported as set out below on information in the management report on Delticom AG and on the Group for fiscal 2017, taking account of the knowledge and events up until the time when this report was prepared in accordance with Section 289a (1) and Section 315a (1) of the German Commercial Code, as follows:

No. 1: Composition of subscribed capital

Following the IPO on 26.10.2006, the subscribed capital consisted of 3,946,480 ordinary no-par value registered shares (no-par shares), each with a proportionate interest of € 1.00 in the company's share capital. The subscribed capital tripled to € 11,839,440 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.

On 06.05.2011, the subscribed capital increased to € 11,847,440 through exercising 8,000 option rights that entitled subscription for 8,000 new no-par value ordinary registered shares in the company, on 02.05.2013 to € 11,859,440 through the exercising of a further 12,000 option rights that entitled subscription for 12,000 new no-par value ordinary registered shares in the company, and on 30.04.2014 to € 11,945,250 through the exercising of a further 85,810 option rights that entitled subscription for 85,810 new no-par value ordinary registered shares in the company. Former Management Board member Frank Schuhardt exercised the aforementioned option rights.

On 01.03.2016, subscribed capital rose owing to an increase in the capital stock from € 518,081 to € 12,463,331 partly by way of using Authorized Capital I/2011.

No. 2: : Restriction affecting voting rights or the transfer of shares

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

No. 3: Interests exceeding 10 % of voting rights

Only the shareholders Binder GmbH and Prüfer GmbH, both of which are based in Hanover/Germany, hold direct interests in the company that exceed 10 % of Delticom AG's voting rights. Indirect interests that exceed 10 % of Delticom AG's voting rights exist on the part of Mr Rainer Binder, Hanover, to whom Binder GmbH's direct interest is attributed pursuant to Section 34 Paragraph 1 Clause 1 Number 1 of the German Securities Trading Act (WpHG), and on the part of Dr. Andreas Prüfer, Hanover, to whom Prüfer GmbH's direct and indirect stake is attributed pursuant to Section 34 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 34 Paragraph 2 Clause 1 of the German Securities Trading Act (WpHG).

No. 4

Holders of shares with special rights conveying controlling powers: There are no shares with special rights which grant the holders controlling powers.

No.5

Voting rights control in the case of employee interests: Employees do not participate in equity so that employees cannot directly exercise their controlling rights.

No.6: Appointment and recall from office of Management Board members, amendments to articles of incorporation

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.

No. 7: Management Board authorizations, especially to issue and repurchase shares

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

a) Authorized Capital

The Annual General Meeting on 02.05.2017 authorized the Management Board, with the agreement of the Supervisory Board, to increase the company’s share capital by issuing up to 6,231,665 new no-par value registered shares in the company against cash or non-cash contributions on one or more occasions by a total of up to € 6,231,665 in the period up to 01.05.2022 (Authorized Capital 2017).

The Management Board is authorized, with the agreement of the Supervisory Board, to exclude the subscription right in the case of capital increases against contributions in kind, provided that the shares issued during the term of this authorization under exclusion of shareholders’ subscription rights against cash or contributions in kind do not exceed a total of 20 % of the share capital, either at the time this authorization becomes effective or at the time it is exercised.

In the case of capital increases against cash contributions, shareholders are generally granted a subscription right to the new shares. The new shares should then be taken over by at least one bank or at least one company active within the meaning of Section 53 (1) sentence 1 or Section 53b (1) sentence 1 or (7) of the German Banking Act (KWG) with the obligation to offer them to the shareholders for subscription.

The Management Board is however authorized, with the agreement of the Supervisory Board, to exclude the subscription right of shareholders in the case of capital increases against cash contributions, provided that the shares issued during the term of this authorization under exclusion of shareholders' subscription rights against cash or contributions in kind do not exceed a total of 20 % of the share capital, either at the time this authorization becomes effective or at the time it is exercised

- in order to exploit any peaks,
- to the extent necessary, to protect against dilution, to grant holders of conversion or option rights issued by Delticom AG or by companies in which Delticom AG directly or indirectly holds a majority interest a subscription right to new shares to the extent to which they would be entitled after exercising the conversion or option rights or after fulfilment of conversion obligations,
- if the issue price of the new shares does not significantly undercut the share price and the shares issued in accordance with or in analogous application of Section 186 (3) sentence 4 AktG against cash contributions with exclusion of subscription rights during the term of this authorization do not exceed a total of 10 % of the share capital, either at the time this authorization becomes effective or at the time it is exercised. The following shall count towards this limit of 10 % of the share capital: (1) the shares issued or to be issued in order to service bonds with conversion or option rights insofar as the bonds are issued during the term of this authorization in analogous application of Section 186 (3) sentence 4 AktG under exclusion of the subscription right and (2) own shares which are sold during the term of this authorization in corresponding application of Section 186 (3) sentence 4 AktG under exclusion of the subscription right of shareholders.

The Authorized Capital 2017 was entered into the commercial register on 17.05.2017. No other authorized capital exists.

b) Contingent capitals

Based on the Contingent Capital II/2011 under Section 5 (7) of the Articles of Association, no further shares may be issued as this serves the sole purpose of granting new shares to the holders of convertible or option rights issued in accordance with an authorizing resolution adopted by the Annual General Meeting of 03.05.2011 under Agenda item 9 lit. b) through Delticom AG or through companies in which Delticom AG holds a majority stake, either directly or indirectly. The aforementioned authorizing resolution expired at midnight on 02.05.2016, without having been utilized.

The Annual General Meeting of 29.04.2014 authorized the Management Board, with Supervisory Board assent (respectively the Supervisory Board instead of the Management Board to the extent that option rights are granted to Management Board members), to grant until 28.04.2019, once or on several occasions, option rights to subscribe for a total of up to 540,000 of the company's new no-par registered shares to members of the company's Management Board, employees of the company, as well as to employees and management members of companies associated with the company.

The company's share capital is conditionally increased by up to € 540,000 through issuing up to 540,000 new no-par registered shares (Contingent Capital I/2014). Contingent Capital I/2014 serves exclusively to grant new shares to the holders of conversion or warrant rights that are issued pursuant to the aforementioned authorization resolution by Delticom AG. Contingent Capital I/2014 was entered in the commercial register on 11.06.2014.

A stock option plan for employees of the company was introduced by resolutions of the Management Board of the company on 25.12.2016 and the Supervisory Board of the company on 27.12.2016, and a stock option plan for members of the Management Board of the company was rolled out following a resolution from the Supervisory Board of the company on 28.12.2016.

Based on these plans, a total of 16,003 stock options were issued to employees of the company on 10.01.2017 and 32,000 stock options to members of the Management Board of the company on 05.01.2017. Moreover, a total of 18,337 stock options were issued to employees of the company on 05.01.2018 and 32,000 stock options to members of the Management Board of the company on 05.01.2018. The vesting period for all stock options is four years beginning on the respective issue date. As a result, the share options are currently not yet exercisable.

In accordance with the applicable rules and regulations, the Management Board and the Supervisory Board will report in detail on the option rights granted and the exercising of option rights in each fiscal year in the notes to the separate financial statements, the notes to the consolidated financial statements or in the management report. The period of validity of the stock option plan ends on 28.04.2019. After this date, issuing stock options under this stock option plan is no longer permitted.

c) Management Board authorizations to repurchase and re-utilize treasury shares

With an Annual General Meeting resolution of 05.05.2015, the company was authorized to acquire its own shares in an amount of up to 10 % of its capital stock existing at the time of an approved resolution or, if this percentage is less, of the capital stock existing at the time when this authorization is exercised. The authorization is valid until 04.05.2020. It can be exercised in its entirety or in partial amounts, once or several times, for one or several purposes by the company, its Group companies or by third parties on its or their behalf. At the discretion of the Management Board, the purchase of these shares may take place via the stock exchange or by way of a public offer to buy directed to all shareholders.

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 average of the closing prices on the three trading days preceding the commitment to acquire ("reference days").

The "closing price" is defined as the closing price determined by the closing auction on each individual stock market trading day or, if a closing price is not determined on the respective trading day, the last price of the company's share calculated during current trading. In the case of all three reference days, reference is made to the closing price in Xetra trading (or a comparable successor system) of the Frankfurt Securities Exchange, or the closing price formed in floor trading at a German securities exchange, or the last price formed in current trading which reflected the highest level of turnover in the ten preceding trading days preceding the first of the three reference days.

If shares are acquired by way of a public tender offer, the purchase price (not including incidental acquisition costs) per share may not be more than 10 % above or below the average of the closing prices quoted on the three trading days prior to the reference date.

"Reference date" is the day when the company's decision to submit a public offer is published or, in the event of an amendment concerning the purchase price, the day of the Management Board's final decision on the amendment to the offer.

The purchase offer may provide for conditions. If more shares are tendered to the company for repurchase than the total number offered by the company to the shareholders for repurchase, the purchase of shares by the company is carried out based on the ratio of the number of company shares tendered. The company can provide for a preferential acceptance of small numbers of up to 100 shares tendered per shareholder.

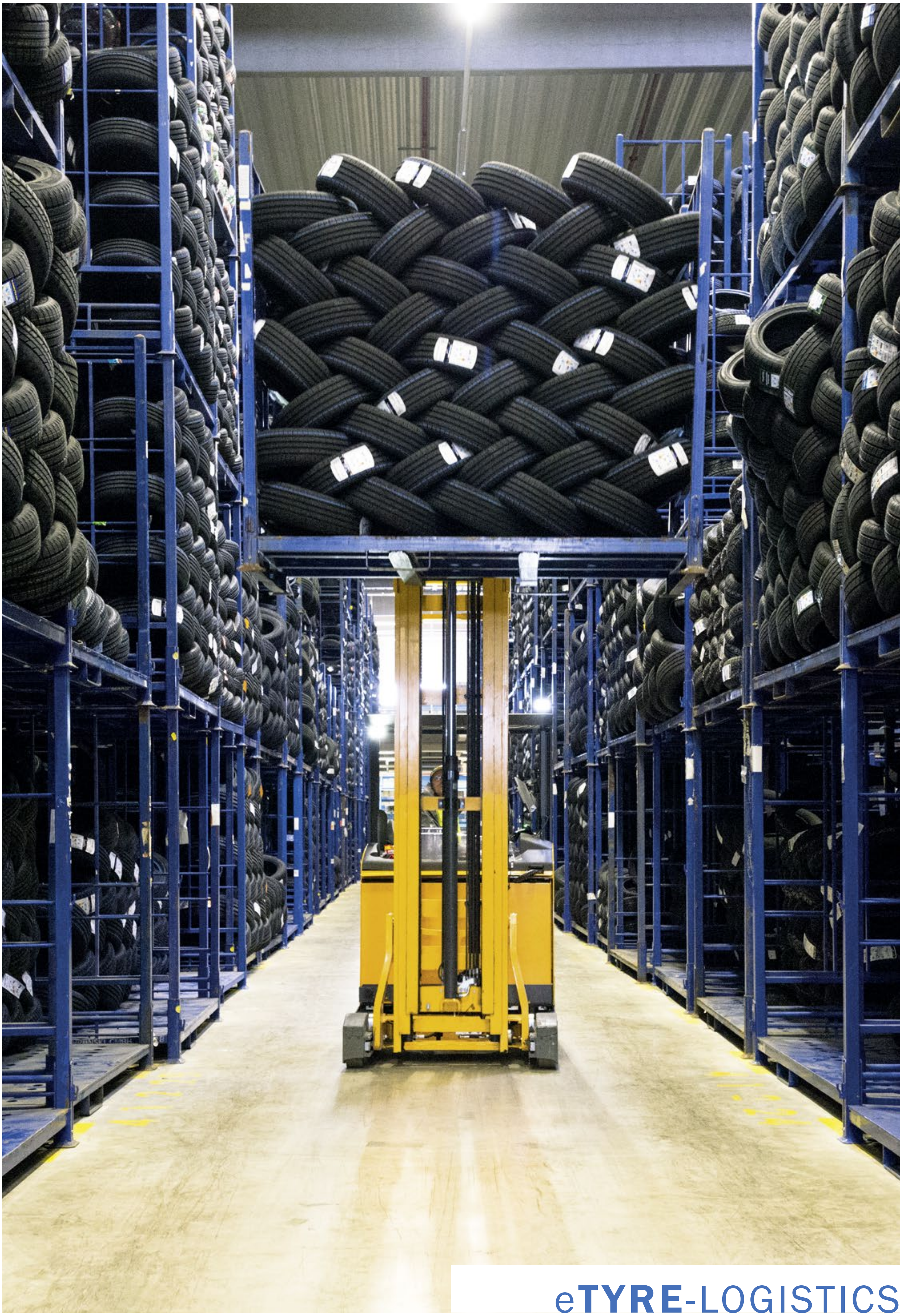
The Management Board is authorized to utilize the acquired treasury shares for all statutorily permissible purposes. In particular, it may withdraw and cancel the shares, sell them in return for non-cash payments, assign them for the purpose of fulfilling conversion or option rights attached to convertible or warrant-linked bonds, or use them in the course of settling conversion obligations arising from convertible bonds or, under certain circumstances, also sell them by means other than through the stock exchange. The subscription rights of shareholders to treasury shares may be excluded under certain conditions.

No. 8 Significant agreements by the company that are subject to a change of control following a takeover offer: Through resolutions passed by the Management Board on 25.12.2016, and by the Supervisory Board on 27.12.2016 a stock option plan for employees of the company and a stock option plan for members of the company's Management Board were introduced based on a resolution passed by the company's Supervisory Board on 28.12.2016.

Both these option plans provide for the following: in the event of a change of control of the company (defined in the option conditions as a direct or indirect purchase of at least 50 % of the voting rights in the company by a natural person or legal entity or a majority of natural persons or legal entities acting in accordance with one another) the stock options issued under these option plans may be exercised with immediate effect provided the holding period for these options has already expired and the share price target has been achieved. Options whose vesting period has not yet expired will lapse without compensation.

Based these plans, a total of 16,003 stock options were issued to employees of the company on 10.01.2017, and a total of 32,000 stock options were issued to members of the company's Management Board on 05.01.2017. Moreover, a total of 18,337 stock options were issued to employees of the company on 05.01.2018 and 32,000 stock options to members of the Management Board of the company on 05.01.2018. The vesting period for all options is four years, beginning on the respective issue date. None of the stock options can therefore be currently exercised.

No. 9 Compensation agreements with Management Board members or employees for the instance of a takeover offer: The company has not entered into such agreements.



eTYRE-LOGISTICS

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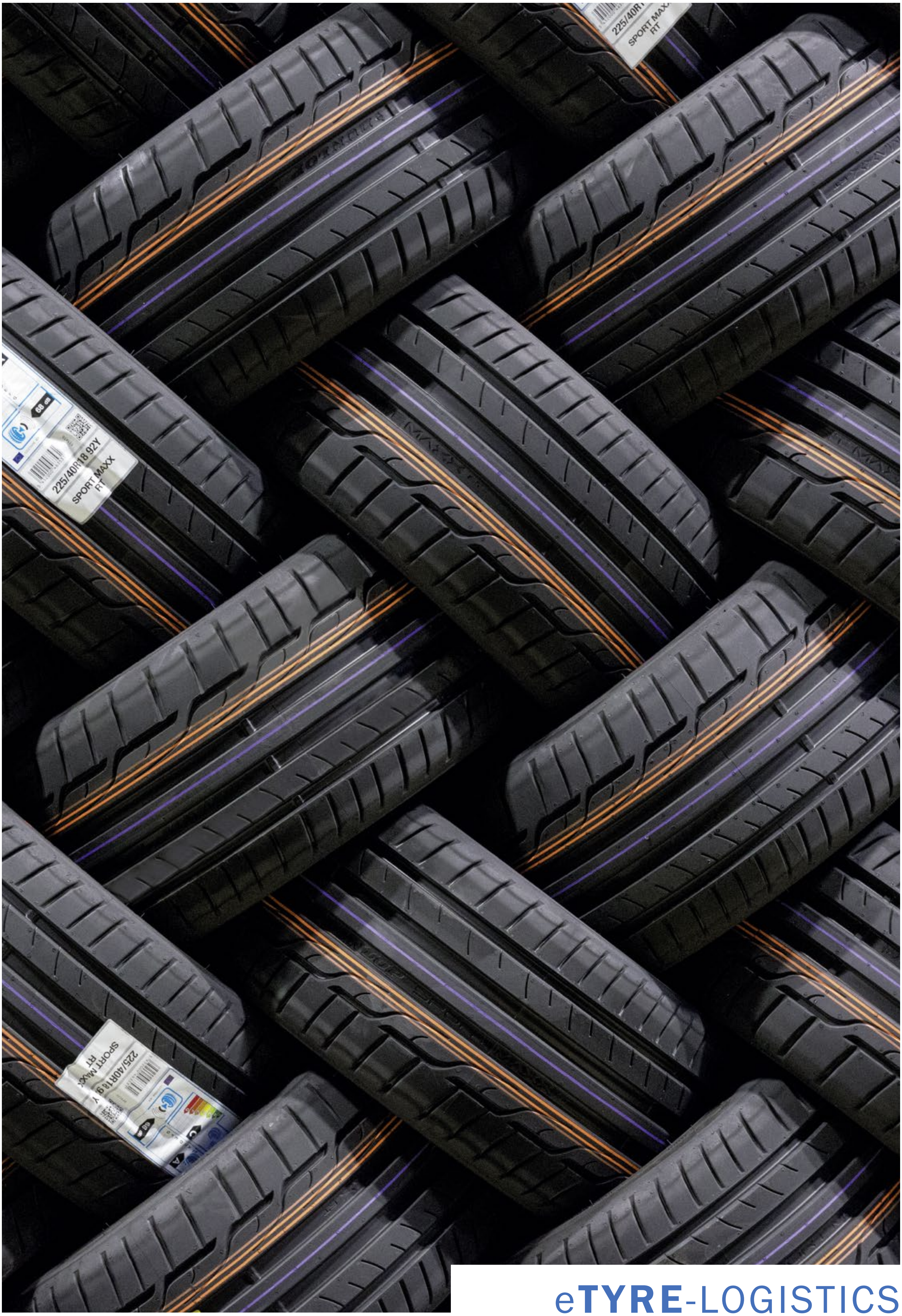

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Combined Management Report of Delticom AG

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Group fundamentals

Since it's foundation in 1999, Hanover-based Delticom has significantly grown in revenues and profits, both in Germany and abroad. Today, Delticom is Europe's leading E-Commerce company of tyres and automotive accessories as well as efood specialist and expert in the field of efficient warehouse logistics. The Delticom group operates 453 online shops and online distribution platforms in 72 countries.

Organisation

Delticom group is a highly efficient company with an average of 185 employees. We are supported by partners in the warehouses and transportation logistics. Manual routine work is passed to operation centre. The highly automated business processes form a company-wide, scalable value chain. Partnering with other companies allows us to fulfil the overall needs of our customers.

Legal Structure

The following section lists the subsidiaries that are fully consolidated in the consolidated financial statements as of 31.12.2017:

- DeltiCar SAS, Paris (France)
- Delticom North America Inc., Benicia (California, USA)
- Delticom OE S.R.L., Timisoara (Romania)
- Delticom TOV, Kiev (Ukraine)
- Deltiparts GmbH, Hanover (Germany)
- Delti-Vorrat-1 GmbH, Hanover (Germany)
- DeltiLog Ltd., Witney (United Kingdom) (formerly: DeltiTrade Ltd.)
- DeltiLog GmbH, Hanover (Germany) (formerly: DeltiTrade GmbH)
- Extor GmbH, Hanover (Germany)
- Giga GmbH, Hamburg (Germany)
- Gigatires LLC, Benicia (California, USA)
- Gourmondo Food GmbH, Munich (Germany)
- MobileMech GmbH, Hanover (Germany) (formerly: Reife tausend1 GmbH)
- Pnebo Gesellschaft für Reifengroßhandel und Logistik mbH, Hanover (Germany)
- Price Genie LLC, Benicia (California, USA)

- Ringway GmbH, Hanover (Germany)
- Tireseasy LLC, Benicia (California, USA)
- Tirendo Deutschland GmbH, Berlin (Germany)
- Tirendo Holding GmbH, Berlin (Germany)
- Toroleo Tyres GmbH, Gadebusch (Germany)
- Toroleo Tyres TT GmbH & Co.KG, Gadebusch (Germany)
- TyresNet GmbH, Munich (Germany)
- Wholesale Tire and Automotive Inc., Benicia (California, USA)

An overview of all subsidiaries can be found in the notes in the section *Group of consolidated companies*.

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.

Proportion of women

Delticom AG as a stock corporation without employee co-determination is not subject to any legal requirements as to a minimum target number for a quota of female members of the Supervisory Board or the Management Board. Having extensively discussed the issue, the Supervisory Board decided on 02.05.2017 to leave the target quota for women on the Supervisory Board unchanged at zero percent.

Moreover, the Supervisory Board was and is satisfied that the current Management Board of Delticom AG is working very successfully, and the Supervisory Board therefore does not intend to change the composition of the Management Board. The proportion of women in the Management Board was 25 percent in the period under review, which means that the company succeeded in exceeding the target figure of 20 percent set on 05.05.2015 within the first target attainment period up to 30.06.2017. The Supervisory Board of Delticom AG therefore resolved on 02.05.2017 to set the target for the proportion of women in the Management Board at 25 percent. 30.04.2022 was set as the deadline for achieving this.

External factors influencing the course of business

Business expansion

Delticom group expanded its business activity in the course of the fiscal year 2016. Thanks to AutoPink, a French online used-car dealership, Delticom completed its product offering in the automotive field. In addition, the company now also operates the online shops for Gourmondo, an online retailer of high-quality food products. With DeltiLog GmbH (formerly DeltiTrade GmbH), Delticom group enhanced its competence in high efficiency E-Commerce logistics. Owing to the high proportion of online tyre retailing in the Group’s revenues, the key factors of influence for the car tyre replacement business in particular are described in the following.

Increasing internet penetration

The growing importance of the internet as a sales channel is the key factor of our business success. The number of internet users is constantly increasing worldwide, and as a result, so is the number of online shoppers. According to a recent study, 90 % of Europeans already buy online at least once a year, while almost two thirds purchase products on the internet once a month. The retailer association Ecommerce Europe anticipates that revenues from European E-Commerce exceeded the € 600 billion mark for the first time in 2017, after coming in at € 530 billion in the previous year.

Vehicle stock, mileage, replacement cycle

Due to the high share of online tyre revenues Delticom Group is not fully independent of the tyre market's underlying volume growth. Currently there are more than 250 million cars on Europe's roads. According to the manufacturer association ACEA, the passenger vehicle stock in the EU has grown by 4.5 % over the last five years, which represents growth of around 11 million passenger vehicles.

The average age of the European vehicle stock is around 11 years. In Germany, the EU nation with the largest stock of passenger vehicles, these vehicles have an average age of 9 years – making them relatively young compared to the rest of Europe. Cars are becoming increasingly durable, which increases their lifespan accordingly. The result: Even in the case of falling numbers of new car registrations, the number of vehicles will continue to increase over the coming years.

In Europe, the average car and the tyres mounted on it travel 14,000 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 by limiting the use of their cars or changing to smaller, more economical models. At the same time, the demand for SUVs (sport utility vehicles) continues to grow worldwide. Industry experts anticipate that the current year 2018 will be a decisive turning point for the automotive industry: it is estimated that this year SUVs will account for more than 50 % of global vehicle production for the first time.

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 an E-Commerce company 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 in the tyre trade, 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 sell-in prices between manufacturers and traders and sell-out prices to 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 or rather after the Easter holidays 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 group is often able to at least partially compensate for weaker sales in some countries with growth in other markets. Extending its range of products and services will lead to a reduction in seasonality in the medium-term.

Regulatory effects

Legislation also influences tyre demand. In Germany, for instance, there has been a situational obligation to use winter tyres since 2006, and this legislation was revised once again in 2010. According to this regulation, only vehicles with properly labelled winter or all-weather tyres are permitted to drive in "black ice, hard-packed snow, slush, ice or frost" conditions.

For the benefit of the consumer and in an effort to enhance road safety, the fifty-second regulation amending road traffic regulations, which came into force on 01.06.2017, reformulated and clarified the definition of winter tyres. According to this, only tyres labelled with the snowflake symbol are considered as winter tyres. As a result, mandatory minimum requirements for the performance of winter tyres on snow-covered roads are now being defined for the first time. Tyres marked “M+S” (“mud and snow”) which were manufactured up to 31.12.2017 are permitted to be used until 30.09.2024 (including in wintery conditions). In the event of tyres being shown to be inadequate, the vehicle owner will now be held responsible in addition to the driver if he or she permits or even instructs that the vehicle is driven without winter tyres in snow or black ice conditions.

In parts of Scandinavia and the Alpine regions, motorists are generally obliged to use winter tyres during specific time periods.

EU tyre labelling

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

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

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

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

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

In many settings it might not be feasible for a tyre dealer to display the whole range of products in their showroom. In any case, though, dealers are obliged to provide consumers with the mere label information prior to purchasing. Additionally, the information shown on the label must be included on the invoice. Delticom group uses its online shops as well as the various other forms of communication with customers to provide extensive information about the tyre labels.

Tyre Pressure Monitoring System (TPMS)

A tyre pressure monitoring system (TPMS) is a system designed to monitor air pressure inside pneumatic tyres on vehicles. Since 01.11.2012, all new type-approved cars and camper vans that are sold within the EU must be equipped with a TPMS. Since 01.11.2014, all cars and camper vans with initial registrations must also have a TPMS. The aim of this EU regulation is to increase motoring safety, prevent excessive fuel consumption due to sub-optimal tyre pressure, and to reduce tyre wear due to higher rolling resistance, as well as CO2 emissions. Such systems are split into two different categories in relation to their functionality.

Indirect systems

Indirect systems are generally integrated within the vehicle's ABS/ESP controller, and derive tyre pressure or pressure loss from the wheels' revolutions. The system informs the driver of any fall in air pressure. Indirect systems have the advantage of utilizing existing vehicle technology to calculate the required information. Vehicle owners incur no additional costs and maintenance expenses, as no special sensors are required. Indirect systems cannot display pressure.

Direct systems

In direct-measurement TPM systems, sensors in the wheels gage the air pressure and air temperature of the tyre. These data are radioed to a vehicle controller device, and also within the car cockpit depending on display concept. The information is always displayed to the driver and give warning in case of a change in pressure.

Complete wheels

For vehicles with direct TPMS, additional sensors are required for complete wheel orders. Delticom group has many years of experience in the complete wheel business, and offers such complete wheel systems in its shops in an easy-to-understand presentation for consumers and specialist buyers. Our assembly specialists provide expert installation of the various sensor types, vehicle-specific programming and final controlling.

Hazard Analysis and Critical Control Points concept (HACCP)

Food retailing is subject to strict controls. The HACCP is a clearly structured concept aimed at implementing preventative measures to reduce risks involving food products that could result in illness or injury to consumers.

As Delticom does not trade open food products and does not process food, there are a limited number of control points. The latter essentially encompass controls involving sanitised transport vehicles (in the case of self-delivery), temperature measurements upon goods delivery (documented on the delivery notes), checking the best-before date, checking refrigeration cell temperatures, despatching fully packaged foods (random control sampling), trial deliveries of refrigerated and frozen goods with a temperature data logging device, pest monitoring and sanitising facilities according to the cleaning plan and with selected cleaning materials as per specifications. Delticom has a dedicated HACCP officer charged with ensuring the control points.

Competitive position

Low barriers to entry

With barriers to entry being low, Delticom competes with many smaller, regionally specialised online dealers. According to the "Global E-Commerce Report 2017"

E-Commerce now constitutes a 5 % share of Europe's overall gross domestic product. In the medium term, competition will become tougher, as the internet as a sales channel is gaining momentum.

Thanks to their multi-shop approach, Delticom group is able to fulfil the individual requirements of different customer groups and maintain its position in the face of increasing competition going forward. By continuing to expand the company's offerings, with the addition of services and new product groups, Delticom is strengthening its customer loyalty as well as offering additional cross selling potential in the years ahead.

First mover

As "first-mover", we have established good business relationships with manufacturers and wholesalers in Europe over recent years. In contrast to many other E-Commerce companies, Delticom group operates throughout Europe and beyond. 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 tyre demand fluctuations.

Cross-border

Many E-Commerce companies find the challenges of transnational business very daunting. Many activities play a decisive role in its success, such as adapting website design to local demands, describing products and providing customer service in the local language, processing payments in foreign currencies, offering the correct range of common and secure methods of payment as well as dealing with transnational shipping, customs regulations and local tax laws. Delticom group has many years of experience in transnational online trade and currently distributes its products in 72 countries.

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 43,000 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 highly efficient positioning provides us with the necessary scope to offer our customers a broad product range at attractive prices. Due to the strong balance sheet we can make purchases off-season and are able to deliver products at any time.

Even though competitive pressure is likely to rise, we expect Delticom group to remain one of Europe’s leading E-Commerce companies in its field, due to its economies of scale and competitive head start.

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 Group 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 replacement demand. More than a quarter is sold in North America, while Asian markets provide another 35 % of total world sales. Demand 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 for more than € 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 and the growing up of a more internet-savvy customer group further drive the growth of the E-Commerce as a sales channel.

However, the share of tyre sales made online is still relatively low. Experts estimate that online tyre sales have accounted for nearly 13 % of European sales to end customers in 2017.

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 at around 13 %. There is, however, striking potential, as it is evident from a study conducted by the German association of tyre dealers (BRV, Bundesverband Reifenhandel und Vulkaniseur-Handwerk e. V.). For the coming years the industry experts predict further growth potential: until 2020, the proportion of tyres sold online could rise up to 15 to 20 %.

Additionally, Delticom has a unique network of over 43,000 service partners that take customer requirements in terms of tyre changes into full consideration.

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.

Online replacement parts

Experts value the annual volume of the European replacement parts market at over € 100 billion. Nevertheless, at under 5 % internet penetration, this is still considerably lower than for the tyre trade. Delticom has been distributing selected automotive replacement parts and accessories in the online shops for many years. Thanks to our small parts warehouse we have been able to further optimise the replacement parts logistics processes and improve cost efficiency. This will allow us to profit from an increase in the online share in the coming years.

efood & logistics

The European retail food industry achieves annual sales of approximately € 1 trillion. In 2016, online grocery sales across Europe amounted to around € 9 billion, representing a penetration rate of almost 1 %. Growth rates and market penetration currently vary greatly between the various European countries. According to recent studies, Great Britain currently sits in first place on the EU food rankings with an online retail grocery share of around 8 %, closely followed by France with around 6 %. In Germany, the largest single grocery market in Europe, the online share of sales is currently less than 2 %, i.e. small in comparison.

Experts predict that there will be attractive opportunities in the European online retail food industry in the coming years. A major barrier for online food retailers is the cost-effective and efficient logistics process. Delticom operates a super modern and almost fully automated small item warehouse that fulfils these requirements to the highest degree, offering its services in this field to third parties as well.

Used passenger vehicle market

The used car market generates an annual market volume of approximately € 300 billion. Many car buyers have now come to use online sales platforms as an important source of information. In Germany, around 70 % of used car buyers already seek information on internet portals prior to purchase. At least one quarter of all car buyers in this country could imagine buying a car for personal use on the internet if the price represented value for money. This proportion is significantly higher in the case of the younger, internet-savvy target group.

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 online easily, securely and at a good price. Our PR department informs routinely about novelties in our shops and the safety aspects of the online purchase.

Customer Capital

Since the company's founding more than 12.2 million customers have made purchases in our online shops (previous year: 10.8 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.

Warehousing

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

Transportation logistics

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

Ordering process and order processing

At Delticom, the individual steps of the business processes are largely handled by internally developed software. Some of the order processing and responding to customer enquiries has been outsourced to operation centre, that are securely linked to our systems.

Products

Replacement tyres

Delticom group 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.

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.

High-quality groceries & logistic services

Delticom distributes high-quality gourmet and organic foods in selected countries through the Gourmondo online shops. Individual and business customers can find an extensive range of daily food products at Lebensmittel.de. The company has a cutting-edge, fully automated warehouse system for efficient logistics and product picking.

Used vehicles

The used vehicle market is one of the largest markets that has yet to penetrate the internet as a single comprehensive process. Every year around 28 million used vehicles are sold in Western Europe. As approximately half of all European used car sales are executed via advertisements - and therefore without dealers - not every vehicle vendor necessarily achieves the best outcome. In France Delticom operates the domain AutoPink.com.

Via these websites, potential buyers access high quality used vehicles from the fleets of large companies as well as private vehicles. Potential vendors profit from a comprehensive free valuation of the vehicle and receive a direct offer at a fair and market-based price immediately following the on-site inspection.

Business Model

Delticom Group sells tyres, automotive accessories, used vehicles and groceries to private and commercial end customers via online shops and online distribution platforms. The main focus of our business is online tyre sales. The online tyre shop with the greatest turnover is www.reifendirekt.de. Both ReifenDirekt and Tirendo are well-known brands in the German-speaking E-Commerce space. With the Gourmondo online shops, offering high quality gourmet and organic foods, Delticom is one of the leading online gourmet food retailers in Germany. In France the company operates one of the leading domains for online used vehicle sales for private and commercial customers.

Delticom Group 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 tyres from the warehouses of manufacturers and wholesalers: Either the goods are transported directly from the supplier to the customer, or Delticom commissions parcel services to carry out the delivery.

The online tyre 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 72 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.

Employees

204 employees

On 31.12.2017, the company employed a total of 204 employees (incl. trainees). In the reporting period on average 185 staff members were employed at Delticom (previous year: 156). This calculation is based on the number of employees taking into account the number of hours worked.

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. A total of 11 young people completed their apprenticeships in our company in the 2017 financial year. A total of 11 trainees were employed as of the end of 2017 (previous year: 7).

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 the operation centres.

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

According to Section 312 of the German Stock Corporation Act (AktG), Delticom has prepared a dependent company report and concluded this report with the following declaration by the Management Board: "We declare that Delticom AG has received reasonable compensation for all of the transactions 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."

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. In its meeting of 20 March 2012, the Supervisory Board of Delticom decided to adopt a new system for compensation of the members of the Management Board of Delticom AG, one which satisfies the requirements of the Act on the Appropriateness of Management Board Compensation (VorstAG). The Annual General Meeting on 30.04.2012 approved this new compensation system. The Management Board’s remuneration comprises three components:

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

The performance-related components for all the members of the Management Board are based on Delticom group’s revenue and operating results. Payments are made over an extended period of time in order to focus the compensation structure on sustainable corporate growth, and the delayed compensation components are subject to a bonus-malus system designed to be sustainable. As in the previous year, none of the members of the board were granted advances on their salaries or given loans during 2017.

One of the flexible components with a long-term motivational impact is the issue of rights options to Executive Board members (share options).

Taking into account the requirements contained in the resolution of the company's Annual General Meeting on 29.04.2014 regarding the main characteristics of the Stock Option Plan 2014, the company's Supervisory Board resolved on 28.12.2016 to invite the members of the company's Management Board to subscribe up to 135,000 no-par value shares in multiple tranches. On 05.01.2017, the Supervisory Board of Delticom AG resolved to issue the first tranche of the option rights for the subscription of new no-par value registered shares in the company equally among the members of the company's Management Board Susann Dörsel-Müller, Philip von Grolman, Thierry Delesalle and Andreas Prüfer.

Moreover, the company's Supervisory Board resolved on 21.11.2017 to invite the members of the company's Management Board to acquire option rights to subscribe no-par value shares in the second tranche. On 05.01.2018, the Supervisory Board of Delticom AG resolved to issue option rights from this second tranche equally among the members of the company's Management Board Susann Dörsel-Müller, Philip von Grolman, Thierry Delesalle and Andreas Prüfer.

The vesting period for all stock options is four years beginning on the respective issue date. As a result, the share options are currently not yet exercisable. The option rights have a respective term of a maximum of ten years from the day the respective option right was created.

The Board of Directors and the Supervisory Board will report in detail on the option rights issued and the exercising of the option rights for each financial year in accordance with the applicable rules in the appendix to the annual financial statements, in the consolidated financial accounts or in the business report.

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

Corporate Governance Statement

Further information on corporate governance as well as the disclosures required by Section 289f of the German Commercial Code (HGB) are contained within the *Corporate Governance Statement*, which is available for download on the website www.delti.com/CG.

Company Management and Strategy

Delticom Group is one of the leading E-Commerce companies in Europe in its market. Our customers benefit from a broad range of products and services at optimum prices. The focus of our distribution operations is the online sale of tyres and automotive accessories. The company does not maintain any outlets but solely sells online. We deliver goods from our own inventories and third party tyre warehouses. Revenues and EBITDA are key management indicators.

Management by Objectives

Financial objectives

The company as a whole is run using financial and non-financial objectives.

- Revenues and revenue growth are reported for the Group as a whole. 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, revenues and the EBITDA on group level are the key financial figures.

Along with these main management metrics, we also apply the following performance indicators.

Liquidity

Current and forward rolling budgeted liquidity measures additionally represent an important management metric in our day-to-day business. Liquidity management aims mainly to finance the inventories flexibly and at low costs.

Non-financial objectives

Apart from financial objectives, management and employees use non-financial objectives to manage the business. The development of new customer figures is the key non-financial performance indicator.

Customer numbers

The development of the customer numbers exert a significant impact on the company's revenues and earnings. Accordingly, the success and efficiency of marketing measures are closely controlled in our daily business. In 2017 the number of 1,350 thousand new customers was higher than in 2016 (1,264 thousand). In addition, customers who repeatedly come back contribute to the success of the business. In the past year 729 thousand of those customers (2016: 685 thousand) made repeat purchases at Delticom. Since the company was founded more than 12.2 million customers have made purchases in our online shops.

Ability to deliver

Delticom Group 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. Our strategy focuses on securing stocks well in advance, in dependence of the market situation. 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. Our drop-ship business, where our suppliers supply directly to our customers, completes our product range, and gives us the opportunity to respond quickly and flexibly to changes in market conditions.

Order processing

Order processing is largely automated. Most of the daily incoming orders are transferred within a few hours to warehousing or our suppliers in order to ensure rapid goods dispatch.

Efficient warehouse handling

Our aim is to transfer all orders that are ordered in one of the warehouses that we operate by the defined weekday cut-off time to the parcel services on the same day for dispatching to our customers. Warehousing processes are operationally controlled by respective departmental managers utilizing software-supported warehouse management systems. Full warehouse counterchecks are also regularly conducted (according to the "two sets of eyes" principle).

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.

Strategy

Delticom has many years of experience in international E-Commerce. The success of our company is largely underpinned by a well-established understanding of online marketing and our ultramodern IT infrastructure. Thanks to our multi-shop approach, we are not only able to fulfil the requirements of different customer groups in the best possible way, but also respond quickly and flexibly to changing market conditions and customer needs.

Focus

We focus on selling tyres and accessories to European private and business end customers. By continually expanding our range of products and services we are also expanding our core competencies to other spheres of business. This will contribute immensely to the success of the business in the medium term.

Online only

Delticom sells exclusively online, does not operate any bricks-and-mortar outlets, has few fixed assets and low personnel costs. 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. Using drop-ship fulfilment, the company also delivers from third party warehouses. Each method of delivery has its own advantages. Therefore we shall continue to use both.

Logistics

The core competencies of the company include our advanced automated and highly efficient product picking and distribution systems. Short delivery times and a low incorrect delivery rate are two of the major success factors when it comes to E-Commerce. Innovative product development and continual process optimisation are essential to ensure our future growth and extend our competitive advantage.

Liquidity management

Liquidity management aims mainly to finance the inventories flexibly and at low costs. 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. The treasury department uses a comprehensive set of instruments for liquidity management.

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 tenthousands of fitting partners who stand ready to mount the tyres. Hotline services and parts of order processing have been outsourced to operation centre.

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.

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.

Report on economic position

General conditions in 2017

Across the year as a whole, the global economy continued to gain momentum. On the one hand, the sustained dynamic economic development in Japan and the USA helped fuel the upwards trend. On the other hand, the growth prospects for the Eurozone also improved. The growth rate also grew in the emerging markets. While China once again recorded consistent economic development, Russia and Brazil were able to overcome their recessions.

Macroeconomic development

Europe

The upturn in the Eurozone continued last year primarily due to the positive development on the employment market. In France, in 2017 the economy saw its strongest growth in six years, posting the largest annual gain since 2011. Growth also picked up in Italy and the Netherlands, and in Great Britain the recession feared by experts following the Brexit vote failed to materialise. In Spain, in contrast, growth slowed slightly in the fourth quarter of 2017.

Germany

The German economy is currently enjoying dynamic upwards development. It is benefiting from strong demand for industrial goods from abroad. In addition, the upbeat situation on the employment market is driving private consumption and housing construction.

Sectoral developments

E-Commerce

The trend towards E-Commerce continues to grow. According to the global E-Commerce study by the technology provider Pitney Bowes, 94 % of all consumers worldwide now shop online – in Germany this figure is even 98 %. And consumers are buying with increasing regularity: More than a third of consumers worldwide order something on the internet at least once a week.

Replacement tyre business

After sales of passenger car winter tyres had recorded a declining tendency over the last four to five years domestically and the demand for passenger car vehicles had stagnated overall at best, 2017 failed to provide a turning point. Due to the increasing demand for all-weather tyres and 4x4 off-road tyres, sales in German passenger vehicle replacement tyres business were only slightly up on previous year by 0.6 % according to industry associations. In contrast to previous years, the 4x4 tyre segment, which was previously reported separately, is now also included in the market data for the German passenger car replacement tyre market.

Consolidation process on the replacement tyre market

Against the backdrop of a competitive market environment, the consolidation process on the European replacement tyre market continued in 2017, as it has for several years. Numerous takeovers, investments and insolvencies along the tyre trading chain influenced the overall picture in Europe over the past year. This consolidation was not only confined to small independent tyre dealers either.

Established tyre wholesalers in Europe also opted to completely sell up or at least sell off their tyre business in the past year. In addition, large garage chains joined together as part of cooperation agreements.

According to experts, the profit margins which can still be achieved with the sales of tyres are not ideal. Low margins therefore not only impact tyre retailers, who can at least still profit from the product through services for consumers, but particularly tyre wholesalers. Many wholesalers therefore hope to finance the logistical service by maximising the volume sold. But this is precisely the difficulty: Successful organic growth is only achieved by very few companies nowadays according to market experts.

Summer tyre sales

Several spring-like days in March ensured that the summer tyre season – in contrast to the previous year – enjoyed an early start in Germany. As a result, summer tyre business fell tangibly in the second quarter. After a fall in sales of 4.9 % was posted for domestic business with passenger vehicle summer tyres for the first half of 2017, the negative sales trend was sustained over the following months. Market experts estimate that in Germany 5.8 % lower summer tyres including 4x4 were sold from retailers to consumers compared to 2016.

Winter tyre sales

Cold temperatures at the start of October created favourable conditions for an early start to winter business domestically. In the second ten days of the month, however, a strong high pressure across Germany brought unusually mild temperatures. As a result, the sales decline in the sell-out for winter tyres in October alone was some 17.0 % (compared to the same month in the previous year) according to estimates by industry associations. In their preliminary estimates, market experts anticipate that tyre retailers sold overall 1.3 % more winter tyres including 4x4 to consumers last year.

Food

German retailing was able to increase revenues for the eighth year in succession in 2017. In total, around € 513 billion were generated in sales according to the Federal Statistical Office and the retail association HDE. This represents an increase of 4.1 % year on year. Revenues in food retailing grew by 3.6 % compared to 2016 to around € 184 billion according to the Gesellschaft für Konsumforschung research institute.

Business performance and earnings situation

Revenues

Group

Delticom group generates the bulk of its revenues through online sales of replacement tyres for cars, motorcycles, trucks and industrial vehicles. Automotive components and accessories, used cars, premium gourmet and organic food as well as services complete the product offering.

Over the course of 2017, Delticom group generated revenues of € 667.7 million, an increase of 10.1 % from prior-year's € 606.6 million.

Regional split

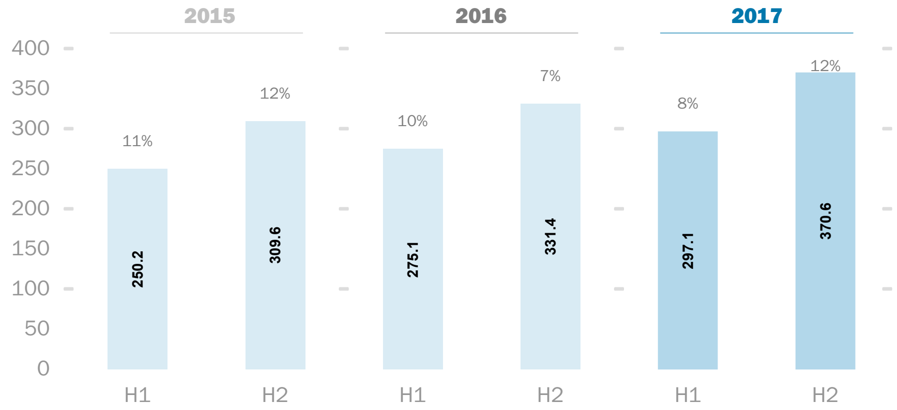
The group offers its product range in 72 countries, with the majority of sales in EU countries. Revenues in those countries totalled € 518.4 million (2016: € 470.3 million, +10.2 %). Operations in Europe are not restricted to EU member states but also include European non-EU countries and the USA. Across all countries outside the EU the revenue contribution for 2017 was € 149.3 million (2016: € 136.3 million, +9.6 %). The company increased its revenues in the USA in a year-on-year comparison by nearly 50 %. The increase in revenues in non-EU countries is mainly attributable to the positive development of business in the USA.

Seasonality

The chart *Revenues trend* summarises the development of the revenues per half year.

Revenues trend

semi annual revenues in € million



1st half year

In contrast to the previous year, a number of spring-like days in March favored an early start to the summer tyre season in Germany. However, a renewed cold spell arrived in April which saw temperatures plunge back below freezing. Then, after a cool and wet start to the month, summer temperatures arrived in most places from the end of May onwards. In the first six months of the fiscal year elapsed, the company generated revenues of € 297.1 million, reflecting an increase of 8.0 % compared to the prior year period (H1 16: € 275.1 million).

2nd half year

Summer 2017 differed considerably in different parts of Europe. While Scandinavia recorded the coolest and most unsettled summer since records began, Southern Europe suffered from relentless heat and dry weather. The summer weather also differed between the north and south of Germany. The last month of the third quarter 2017 brought relatively autumnal weather, after 2016 saw

Germany experience the warmest September since overall measurements began. The cold temperatures at the start of October were favourable for an early start into winter tyre business before a strong high pressure in the second ten days of October brought unusually warm temperatures. The winter tyre business reached its seasonal peak on the back of cooler temperatures in the second third of November. In December, there was a mix of mild and cold weather spells with snowfall down to lower levels. The group managed sales in its online shops during the second half of the year in accordance with its shipments planning for the 2017 financial year. Revenues came in at € 370.6 million in the second half of the year, up 11.8 % year on year (H2 16: € 331.4 million).

Key expense positions

Cost of goods sold

The cost of goods sold (COGS) is the largest expense item; it considers the purchase price of sold goods. Group COGS increased by 13.8 % from € 466.1 million in 2016 to € 530.3 million in 2017. Compared with the prior-year period, the ratio of cost of goods sold to revenues increased from 76.8 % to 79.4 %.

Personnel expenses

On 31.12.2017, the group had a total of 204 employees (including trainees). In the reporting period on average 185 staff members were employed at Delticom group (previous year: 156). Personnel expenses amounted to € 10.9 million (2016: € 10.1 million). The company hired additional staff in the past year due to the expansion of business activities and the high number of strategic projects within the Delticom Group. The personnel expenses ratio (staff expenditures as percentage of revenues) remained with 1.6 % nearly unchanged compared to the previous year (2016: 1.7 %).

Transportation costs

Among the other operating expenses, transportation costs is the largest line item. The 3.9 % increase in transportation costs from € 60.4 million to € 62.7 million reflects the higher business volumes and the country-mix. The share of transportation costs against revenues went down from 9.9 % in 2016 to 9.4 % in 2017.

Rents and overheads

Rents and overheads increased by 10.2 % in 2017, from € 6.0 million to € 6.6 million. This rise largely resulted from the rental of an additional warehouse from mid-2017 which temporarily stores the tyres purchased before the season until their sale. In addition, the ancillary expenses for the properties rented by the company increased year on year. The company is planning to cease renting a warehouse outside of Hanover from the middle of the current fiscal year.

Direct warehousing costs

Stocking costs increased in the reporting period from € 7.2 million to € 8.0 million (+12.1 %). This increase was mainly attributable to higher turnover in the tyre warehouses and the small item warehouse. The ratio of stocking costs against revenues of 1.2 % was almost unchanged compared with the previous year (2016: 1.2 %).

Marketing costs

In the reporting period, costs for advertising totalled € 28.2 million, after € 26.0 million in 2016. This represents a marketing expense ratio (marketing expenses as a percentage of revenues) of 4.2 % (2016: 4.3 %). In addition to the online shops, Delticom is increasingly making use of other online sales channels. Part of the increased costs resulted from corresponding sale commissions and listing fees from the various portals used. In addition, the company invested in establishing the brands of start-ups within the Delticom Group last year.

Financial and Legal

Expenses for finance and legal fees amounted to € 4.7 million in the period under review (2016: € 4.8 million), a decrease of 4.0 %. Increased insurance costs and external consulting costs in connection with setting up and aligning the start-ups were offset by the discontinuation of legal and consulting costs which were incurred in 2016 as part of the acquisitions.

Depreciation

Depreciation for 2017 fell by 7.8 % from € 7.8 million to € 7.2 million. Amortization of intangible assets totalled € 5.0 million (2016: € € 5.4 million). This largely encompasses the scheduled amortization of the acquired intangible assets from the efood and logistics companies as well as from Tirendo. The amortization of intangible assets from the latter will cease at the end of the current financial year. Depreciation on property, plant and equipment totalled € 2.2 million in the period under review (2016: € 2.4 million).

Earnings position

Gross margin

The gross margin (trade margin ex other operating expenses) for the full year was 20.6 % after 23.2 % in the prior-year period. Since 2016, the company has been testing the interdependencies between growth and earnings contribution at the different online shops. The reduced gross margin in the past financial year primarily resulted from an active pricing policy. In contrast to the previous year, the company did not increase prices in the online shops in the final quarter during the course of winter business. This was done in an effort to further expand its market leadership position in European online tyre retailing. According to experts, the price and discount focus of consumers is increasingly being replaced by a demand for the right value for money. Delticom already laid the foundations for keeping step with this trend over the past few years.

Other operating income

Other operating income increased in 2017 by 25.3 % to € 25.8 million (2016: € 20.6 million), thereof gains from exchange rate differences to the order of € 2.6 million (2016: € 3.2 million). FX losses have been accounted for as line item in the other operating expenses (2017: € 3.6 million, 2016: € 3.0 million).

In the reporting period the balance of FX income and losses totalled € –1.0 million (2016: € 0.2 million).

Gross profit

Altogether, the gross profit increased in the reporting period by 1.3 % year-on-year, from € 161.1 million to € 163.2 million. Gross profit in relation to total income of € 693.5 million (2016: € 627.2 million) amounted to 23.5 % (2016: 25.7 %).

EBITDA

EBITDA for the reporting period decreased from € 15.1 million to € 9.3 million. The EBITDA margin for the fiscal year stood at 1.4 % (2016: 2.5 %).

The substantial fall in EBITDA of 38.4 % during the reporting period comes largely on the back of the approach increasingly pursued in 2017 of gaining market shares in European tyre retailing by implementing varying levels of value for money in the different online shops operated by the company.

The increase in sales volume which went hand in hand with revenues growth from this corresponding value for money approach not only impacts the gross margin, but directly brings about an increase in the volume-dependent costs, such as transport costs, warehouse handling and customer service.

In addition, Delticom is increasingly tapping additional online sales channels and therefore new customer groups with a view to expanding business. In addition to a negative currency effect, the start-ups within the Delticom Group which are still being established also impact earnings.

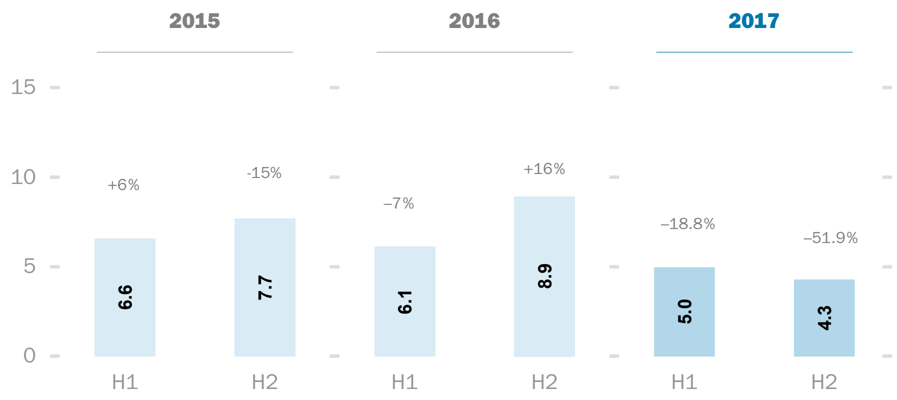
In the first six months of the year, EBITDA of € 5.0 million was generated, some 18.8 % down on the same period in the previous year (H1 16: € 6.1 million). The EBITDA margin for H1 17 totalled 1.7 %. (H1 16: 2.2 %). In the second half of the year, EBITDA of € 4.3 million was achieved, following € 8.9 million in H2 16 (–51.9 %). As a result, the EBITDA margin achieved in the second half of the year came in at 1.2 % compared to 2.7 % in the same period of the previous year.

EBIT

EBIT decreased in the reporting period by 71.8 % to € 2.0 million (2016: € 7.2 million). This equates to an EBIT margin of 0.3 % (2016: 1.2 %).

EBITDA

per half year, in € million



Financial income

Financial income for the reporting period amounted to € 160 thousand (2016: € 22 thousand). Financial expenses decreased to € 539 thousand (2016: € 632 thousand), leading to a financial result of € –379 thousand (2016: € –610 thousand).

Income taxes

In 2017 the expenditure for income taxes was € 0.5 million (2016: € 2.1 million). This equates to a tax rate of 32.5 % (2016: 32.5 %).

Net income and dividend

Consolidated net income in the financial year 2017 decreased from € 4.5 million to € 1.1 million. This corresponds to earnings per share (EPS) of € 0.09 (diluted and undiluted, 2016: € 0.36), a decrease of 75.1 %.

At Delticom's Annual General Meeting on 08.05.2018, the Management Board and the Supervisory Board will propose a dividend of € 0.10 per share (2016 of € 0.50 per share) - less than in the previous year. By rounding up to the next full 10 cents, the dividend distributed is slightly higher than the consolidated net income achieved in 2017. The for the dividend payout relevant earnings of Delticom AG for the past financial year came in at € 5.2 million, which represents earnings per share of € 0.42, substantially higher than the Group consolidated net income. In addition, the Group recorded a free cash flow of € 8.0 million in the past financial year. The dividend proposal is based on the finance and investment planning for the current fiscal year.

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

Abridged profit and loss statement

in € thousand

	2017	%	+%	2016	%	+%	2015	%
Revenues	**667,711**	100.0	10.1	**606,586**	100.0	8.4	**559,792**	100.0
Other operating income	25,827	3.9	25.3	20,619	3.4	48.9	13,843	2.5
Total operating income	**693,539**	103.9	10.6	**627,205**	103.4	9.3	**573,635**	102.5
Cost of goods sold	–530,311	–79.4	13.8	–466,106	–76.8	9.0	–427,567	–76.4
Gross profit	**163,228**	24.4	1.3	**161,099**	26.6	10.3	**146,068**	26.1
Personnel expenses	–10,916	–1.6	8.5	–10,057	–1.7	6.4	–9,453	–1.7
Other operating expenses	–143,039	–21.4	5.2	–135,982	–22.4	11.2	–122,336	–21.9
EBITDA	**9,273**	1.4	–38.4	**15,060**	2.5	5.5	**14,279**	2.6
Depreciation	–7,237	–1.1	–7.8	–7,847	–1.3	–9.6	–8,685	–1.6
EBIT	**2,036**	0.3	–71.8	**7,213**	1.2	28.9	**5,595**	1.0
Net financial result	–379	–0.1	–37.8	–610	–0.1	49.5	–408	–0.1
EBT	**1,657**	0.2	–74.9	**6,604**	1.1	27.3	**5,187**	0.9
Income taxes	–539	–0.1	–74.9	–2,149	–0.4	18.0	–1,822	–0.3
Consolidated net income	**1,118**	0.2	–74.9	**4,455**	0.7	32.4	**3,365**	0.6

Overall statement on the earnings position

At € 667.7 million, an increase of € 61.1 million or 10.1 % year on year, we not only exceeded our original revenues forecast of € 650 million, but also achieved the highest revenues figure in company history. In a market environment characterized by consolidation, Delticom was able to draw on its flexibility, long-term market and E-Commerce knowledge and solid earnings situation to further expand its market leading position in European online tyre retailing. Thanks to the international orientation of the business and the expansion of our product and service range, we are able to increasingly offset specific market developments in individual countries.

Over the course of the year, EBITDA came down from € 15.1 million to € 9.3 million. On the one hand, this decrease resulted from the strategic alignment of the company in the past financial year. On the other hand, this figure was influenced by the start-ups within the Delticom Group which are impacting earnings in the short term, but will significantly contribute to the company's success in the medium term. In total, the consolidated net profit amounted to € 1.1 million – a decrease of 74.9 % after a prior-year result of € 4.5 million.

Experts are in agreement that the move to interconnect people, machines, logistics and products digitally – an approach also known as Industry 4.0 – has now become an unstoppable trend. Thanks to our start-ups, such as MobileMech, DeltiCar, Ringway, DeltiLog and Extor, we are not only able to offer additional services to our customers, but also to focus at an early stage on the increasing importance of interconnected shopping channels in order to optimally meet customer requirements in future.

Given the measures already taken for strategically positioning the Group, we consider ourselves ideally equipped for further profitable growth.

Financial and assets position

Delticom group has a solid balance sheet. The low capital intensity of the E-Commerce business model ensures a good financial position for future growth.

Investments

Property, plant and equipment

The investments made in property, plant and equipment in 2017 totalling € 4.8 million (2016: € 10.7 million) mainly relate to equipping MobileMech vehicles (mobile tyre service), warehouse equipment and machines as well as technical equipment under construction for our warehouses. The investments made in property, plant and equipment in 2016 largely consisted of the automated warehouse system for efficient order picking and storage of individual items and small items gained as part of the acquisition of the efood and logistics companies.

Intangible Assets

Delticom also invested € 3.1 million in intangible assets (2016: € 20.8 million). The investments made in 2017 largely related to software. The high figure in the previous year resulted from the intangible assets gained as part of the acquisition in February 2016.

The total investment of € 7.9 million made in 2017 is therefore slightly higher than the depreciation and amortization during the period under review (€ 7.2 million).

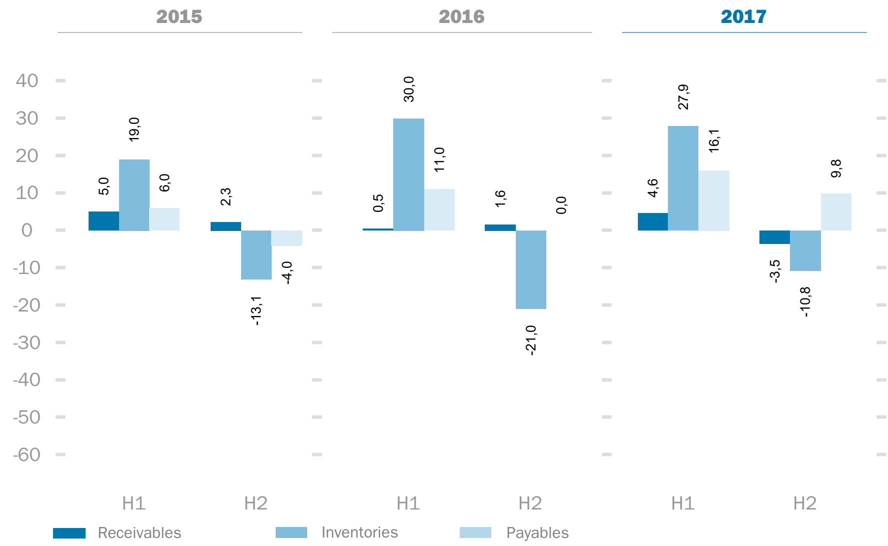
Working Capital

Working Capital

We define Net Working Capital as the balance of funds tied-up in inventories, receivables and payables from our main trading activities. Prepayment received from customers as well as the liability position of customer credits have been deducted from the receivables. In 2017 the Net Working Capital decreased from € –9.6 million by € 7.8 million to € –17.4 million.

The chart *Working Capital* illustrates the changes in the components of Net Working Capital half-year-to-half-year for the last three years.

Working Capital
in € million



Receivables

Usually the receivables follow the seasonal pattern quite closely. Still, owing to the reporting date distorting effects are unavoidable. The accounts receivable stood at € 24.4 million on the reporting date (31.12.2016: € 20.4 million). Due to the weather conditions at the end of the year, December saw a higher proportion of the winter business than in the year before. In contrast to 2016, less orders paid for by customers were already fulfilled as of 31.12.2017. This led to an increase of prepayments received, amounting to € 7.0 million (31.12.2016: € 3.4 million). Compared to the previous year, a lower proportion of orders paid in December were cancelled in January. Refunds for those orders were consequently postponed to the new year. The liability position of customer credits on the reporting date amounted to € 0.3 million (31.12.2016: € 0.9 million).

In total, working capital commitment in receivables - reduced by prepayments received from customers as well as customer credits - increased from € 16.1 million as of 31.12.2016 to € 17.1 million as of 31.12.2017. Average Days Sales Outstanding (DSO, average receivables divided by average revenue per day) remained with 9.1 unchanged compared to the previous year.

Inventories

Among the current assets, inventories is the biggest line item. Since the beginning of the year their value went up by € 17.1 million to € 79.8 million (31.12.2016: € 62.7 million). This increase is mainly attributable to an earlier stockpiling for the upcoming summer season compared to the previous year.

At the onset of the winter quarter the inventory value totalled € 107.4 million, € 10.0 million higher than the previous year's figure of € 97.5 million. Thanks to the strong winter season we were able to sell most of the tyres bought in the preceding quarters.

Due to higher inventory levels during the year, average Days Inventory Outstanding for 2017 (DIO, average inventory level divided by average cost of sales) increased slightly over the course of the past financial year, from 48.9 days in 2016 to 49.1 days in 2017.

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). This balance of accounts payable reduced by credit with suppliers was with € 114.3 million by € 25.9 million higher than the previous year (31.12.2016: € 88.4 million).

Cash flow

Operating cash flow

Due to the EBIT decline, the 2017 cash flow from operating business activities (operating cash flow) of € 15.4 million was lower than in the comparison period (2016: € 19.7 million).

Investing activities

From the Investments into property, plant and equipment of € 4.8 million, an amount of € 4.3 million was cash relevant (2016: € 0.6 million). In the reporting period, Delticom also invested € 3.1 million in intangible assets (2016: € 2.5 million). As a result, the cash flow from investment activities totalled € –7.4 million (previous year: € –22.9 million). The group paid € 19.9 million in cash for consolidated subsidiaries in 2016 as part of the acquisition.

Financing activities

In the reporting period, Delticom group recorded a cash flow from financing activities amounting to € –10.8 million (2016: € –1.5 million), thereof the dividend payout for the last financial year of € 6.2 million and disbursements due to redemption of loans of € 9.6 million. The cash outflow was offset by inflows from a mid-term loan of € 5.0 million.

Liquidity according cash flow

The starting point is the liquidity position as of 31.12.2016 amounting to € 6.7 million. The balance of effective changes in cash funds during the reporting period totalled € –2.8 million. On 31.12.2017 liquidity totalled € 3.9 million. On 31.12.2017, the group's net cash position (liquidity less liabilities from current accounts) amounted to € –4.4 million (31.12.2016: € –6.2 million).

Free cash flow

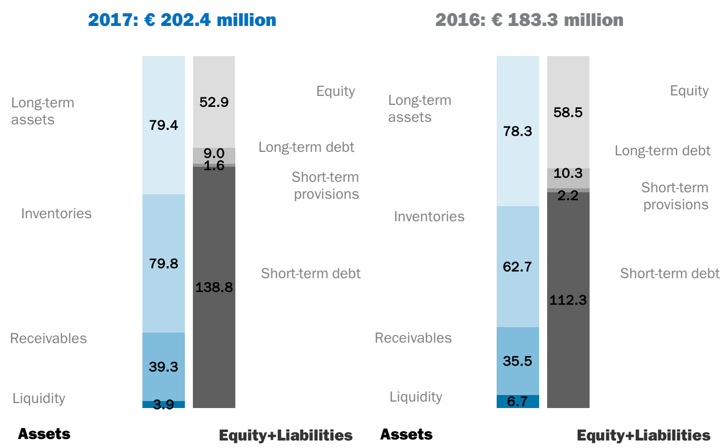
The free cash flow (operating cash flow less cash flow from investing activities) increased from € –3.2 million to € 8.0 million.

Balance sheet structure

As of 31.12.2017 the balance sheet total amounted to € 202.4 million (31.12.2016: € 183.3 million, +10.4 %). The chart *Balance Sheet Structure* illustrates the capital intensity of the business model.

Balance Sheet Structure

in million €



Abgridged Balance Sheet

in thousand €

	31.12.17	%	+%	31.12.16	%	30.06.16	%
Assets							
Non-current assets	79,364	39.2	1.4	78,298	42.7	87,256	38.7
Fixed assets	74,619	36.9	0.8	74,003	40.4	84,429	37.4
Other non-current assets	4,745	2.3	10.5	4,295	2.3	2,827	1.3
Current assets	122,991	60.8	17.2	104,967	57.3	138,269	61.3
Inventories	79,811	39.4	27.2	62,746	34.2	91,870	40.7
Receivables	39,300	19.4	10.6	35,535	19.4	38,287	17.0
Liquidity	3,881	1.9	–41.9	6,686	3.6	8,363	3.7
Assets	**202,356**	**100.0**	**10.4**	**183,264**	**100.0**	**225,525**	**100.0**
Equity and Liabilities							
Long-term funds	61,947	30.6	–10.0	68,811	37.5	70,249	31.1
Equity	52,940	26.2	–9.5	58,471	31.9	55,830	24.8
Long-term debt	9,007	4.5	–12.9	10,340	5.6	14,419	6.4
Provisions	317	0.2	–7.1	341	0.2	355	0.2
Liabilities	8,274	4.1	–17.3	9,999	5.5	14,064	6.2
Other Non Current Liabilities	416	0.2	0.0	0	0	0	0
Short-term debt	140,408	69.4	22.7	114,453	62.5	155,276	68.9
Provisions	1,639	0.8	–24.0	2,156	1.2	2,899	1.3
Liabilities	138,769	68.6	23.6	112,297	61.3	152,377	67.6
Equity and Liabilities	**202,356**	**100.0**	**10.4**	**183,264**	**100.0**	**225,525**	**100.0**

Non-current assets

On the assets side of the balance sheet, the non-current assets increased from € 78.3 million to € 79.4 million. The increase in fixed assets from € 74.0 million to € 74.6 million is mainly due to the increase of € 2.6 million in property, plant and equipment from € 14.8 million at the beginning of the year to € 17.3 million as of 31.12.2017. On 31.12.2017 property, plant and equipment were 8.6 % of the balance sheet total (previous year: 8.1 %).

An important single line item in the other non-current assets (31.12.2017: € 4.7 million, 31.12.2016: € 4.3 million) were deferred taxes of € 4.3 million (31.12.2016: € 3.8 million). These tax assets mainly result from losses carried forward in the subsidiaries of Delticom.

Inventories

Among the current assets, the inventories are the biggest line item. They were increased by € 17.1 million or 27.2 % to € 79.8 million. The chapter *Financial and assets position – Working Capital* presents the reasons for the increase in detail.

Receivables

At year-end the accounts receivable amounted to € 24.4 million, up from last-year € 20.4 million by 19.3 %. As part of the other current assets of € 14.8 million (2016: € 12.6 million) the refund claims from taxes increased by 17.5 %, from € 10.1 million to € 11.9 million. This change arises from a higher VAT surplus as of the year-end. Tax receivables were € 2.4 million lower compared to the previous year (31.12.2017: € 0.1 million, 31.12.2016: € 2.5 million). In total, the receivables position increased by 10.6 % to € 39.3 million (previous year: € 35.5 million).

Liquidity position

Cash and cash equivalents registered net outflows of € 2.8 million. On 31.12.2017 liquidity totalled € 3.9 million (prior year: € 6.7 million). Owing to the seasonal nature and the payment terms and conditions in tyre retailing, liquidity is subject to significant fluctuations over the course of the year.

In total, current assets went up from € 105.0 million by 17.2 % to € 123.0 million. The increase of € 18.0 million is mainly attributable to higher inventories on the reporting date. The share of current assets of balance sheet total increased from 57.3 % to 60.8 %.

Current liabilities

On the liabilities side of the balance sheet, the short-term credit instruments increased by € 26.0 million or 22.7 % to € 140.4 million (31.12.2016: € 114.5 million). Provisions decreased by € 0.5 million or 24.0 % to € 1.6 million (prior-year: € 2.2 million), thereof provisions for taxes valuing € 1.0 million (previous year: € 1.5 million).

As part of the € 138.8 million in short-term liabilities as of 31.12.2017, € 114.4 million were recorded as accounts payable, corresponding to a share of 56.5 % of balance sheet total. Compared to the position of € 89.0 million from the prior-year period, accounts payable increased by 28.5 %.

In the other current liabilities of € 16.4 million (previous year: € 10.6 million) € 7.0 million are attributable to payments received on account of orders (previous year: € 3.4 million) and € 0.3 million to customer credits (previous year: € 0.9 million).

Long-term liabilities

The long-term debt of € 9.0 million (previous year: € 10.3 million) is composed of long-term interest-bearing debts of € 7.3 million (31.12.2016: € 7.2 million), non-current provisions to the order of € 0.3 million (31.12.2016: € 0.3 million), other non current liabilities of € 0.4 million (31.12.2016: € 0.0 million) and deferred tax liabilities of € 1.0 million (31.12.2016: € 2.8 million).

During the reporting period, Delticom reduced short-term financial liabilities by € 4.7 million. Long-term financial liabilities were increased by € 0.1 million.

The sum total of non-current and current financial liabilities amounted to € 15.3 million on the reporting date, reflecting a decrease of € 4.6 million in a balance sheet date comparison (31.12.2016: € 19.9 million). The comparatively low proportion of interest-bearing financial liabilities in the total assets (31.12.2017: 7.6 %, 31.12.2016: 10.9 %) underscores the company's strong internal financing capability.

Equity and equity ratio

On the liabilities side of the balance sheet the equity position went down by € 5.5 million or 9.5 % from € 58.5 million to € 52.9 million. The reduction is mainly attributable to the lower goup net income. The structure of the liabilities and shareholders' equity shows a decrease in the equity ratio, from 31.9 % to 26.2 %. As of 31.12.2017 the coverage ratio of property, plant and equipment, intangible assets, financial assets and inventories totalling € 154.4 million to long-term funding was 40.1 % (prior year: 50.3 %).

Off-balance-sheet items

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

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

Overall statement on the financial and assets position

Significant financial flexibility

Delticom can rely on its healthy financial and assets position. Payment terms granted to Delticom by its suppliers are in line with market conditions. Additionally, the company can make use of credit lines during the year to help funding the inventory.

Solid balance sheet as basis for further growth

Delticom Group has a solid balance sheet. This sends an important signal to our partners. With its scalable business model, the company is well structured financially for its future growth.

Financial Statements of Delticom AG

Financial statements according to the German Commercial Code (HGB) (abridged)

By way of addition to reporting on the Delticom Group, the following section presents trends at Delticom AG as a separate entity.

The separate annual financial statements of Delticom AG are prepared according to the provisions of the German Commercial Code (HGB) and the supplementary regulations of the German Stock.

The management of the separate entity is subject to the same principles as those of the Group, and occurs on the basis of IFRS. Due to its high share in Group value creation, the statements in the "Company Management and Strategy" section that refer to the Delticom Group also apply to Delticom AG.

Results of operations of Delticom AG

Revenues

In the 2017 financial year, Delticom continued to purchase merchandise goods from third-party suppliers, selling them to Pnebo on the date on which they are shipped to the warehouse. The resultant revenues amounted to € 297.9 million (2016: € 273.0 million). In order to provide a more realistic presentation of the progression of business and of the results of operations, the following section utilizes sales revenues figures that have been reduced to reflect the amount of € 297.9 million. These figures are referred to as "adjusted revenues" below.

In the financial year elapsed, Delticom generated total revenues of € 862.8 million (2016: € 796.1 million), adjusted revenues amounted to € 564.9 million (2016: € 523.1 million).

Other operating income

Other operating income registered a sharp decrease of 39.5 % in the period under review to € 2.7 million (2016: € 4.4 million). The largest items in the other operating income are gains from currency exchange rate differences in an amount of € 2.1 million (2016: € 2.5 million). Delticom reports currency losses within other operating expenses (2017: € 2.9 million, 2016: € 2.3 million). The net balance of currency gains and currency losses stood at € –0.8 million in the period under review (2016: € 0.2 million).

Key expense positions

Revenues related to the sale of merchandise from Delticom to Pnebo in an amount of € 297.9 million (2016: € 273.0 million) were incurred at no sales margin. Cost of materials adjusted for the cost of sales to Pnebo is subsequently referred to as "adjusted cost of materials", and is also utilized in all calculations based on the cost of materials, such as gross margin.

Cost of goods sold

The largest expense item is the cost of materials, which comprises input prices for the tyres that are sold. The adjusted cost of materials amounted to € 427.5 million in the period under review (2016: € 377.4 million, +13.3 %). Compared with the previous year, the cost of materials ratio increased from 72.2 % to 75.7 %.

Transportation costs

Transportation costs comprise the largest individual item within other operating expenses. The 1.5 % increase in transportation costs from € 54.8 million to € 55.7 million reflects the higher business volumes. The transportation costs' share of adjusted revenues amounted to 9.9 % (2016: 10.5 %).

Warehousing costs

Expenses for warehousing increased by 10.8 % in the period under review, from € 6.4 million in the previous year to € 7.1 million. The ratio of warehousing costs to adjusted revenues was 1.3 % (2016: 1.2 %).

Personnel expenses

The company employed an average of 117 staff in the period under review (2016: 109). Personnel expenses amounted to € 7.4 million (2016: € 7.2 million). The personnel expense ratio (ratio between personnel expenses and adjusted revenues) amounted to 1.3 % in the period under review (2016: 1.4 %).

Marketing

Marketing costs amounted to € 20.4 million in the reporting period, compared with € 19.0 million in 2016. This corresponds to a ratio of 3.6 % in relation to adjusted revenues (2016: 3.6 %).

Depreciation

Depreciation and amortization of intangible assets and property, plant and equipment decreased by 9.1 % in the period under review from € 4.1 million to € 3.7 million. The decrease is mainly attributable to lower depreciation of low-value assets.

Earnings position

Gross margin

The gross margin (trading margin, excluding other operating income) amounted to 24.3 % in the financial year elapsed, compared with 23.6 % million in the prior-year period.

Gross profit

Gross profit decreased by 6.7 % in the period under review, from € 150.1 million in the comparable prior-year period to € 140.1 million. Gross profit in relation to adjusted total operating income of € 567.6 million (2016: € 527.5 million) amounted to 24.7 % (2016: 28.5 %).

EBITDA

EBITDA decreased by 44.1 % in the period under review, from € 28.0 million to € 15.7 million.

EBIT

EBIT amounted to € 12.0 million in the period under review (2016: € 23.9 million, –50.0 %). This is equivalent to a return on sales of 2.1 % (2016: 4.6 %).

Financial income

Income from participating interests decreased by 33.4 % to € 1.4 million in the period under review (2016: € 2.1 million). The income from profit transfer agreements increased by 42.0 % from € 1.2 million in 2016 to € 1.7 million in 2017. The amount of losses assumed was € 5.3 million (2016: € 13.0 million).

Income taxes

The income tax expense amounted to € 2.6 million in the reporting period (2016: € 4.4 million). This corresponds to a tax rate of 33.2 % (2016: 31.9 %).

Income and dividend

Earnings in 2017 amounted to € 5.2 million, compared with € 9.5 million in the previous year. This corresponds to earnings per share of € 0.42 for the financial year under review (2016: € 0.76).

in € thousand	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Revenues	**862,771**	**796,098**
Other operating income	2,670	4,413
Cost of materials	–725,333	–650,418
Personnel expenses	–7,434	–7,223
Depreciation	–3,719	–4,092
Other operating expenses	–116,999	–114,844
Income from participating interests	1,414	2,122
Other interest received and similar income	277	62
Expenses from loss transfers	–5,306	–12,872
Paid interest and similar expenses	–2,280	–573
Income from profit transfer agreements	1,732	1,220
Expenses from loss transfers	–2,591	–4,427
Earnings after taxes	5,201	9,465
Profit carried forward	15,347	12,113
Balance sheet profit	**20,548**	**21,578**

Financial and assets position Delticom AG

Delticom has a very solid balance sheet. In connection with a business model of little capital intensity, the company is well positioned in terms of its balance sheet for further growth.

Investments

In order to exploit as best as possible economies of scale and learning effects in warehousing logistics, we invest constantly in expanding information, conveying and packaging technology in the warehouses that we rent. The reported investments in property, plant and equipment of € 3.9 million in 2017 (2016: € 0.2 million) relate mainly to investments into the MobileMech fleets including technical equipment as well as warehouse and operating business equipment. In addition, Delticom invested a total of € 2.8 million in intangible assets in the period under review. These investments relate mainly to expansions of software licenses.

Investments of € 12.9 million in financial assets in 2017 (2016: € 32.6 million) represent mainly intercompany loans granted (€ 12.8 million).

Balance sheet structure

Total assets of € 238.2 million as of 31.12.2017 were 9.1 % above the previous year's € 218.3 million.

Non-current assets

On the assets side of the balance sheet, long-term assets increased from € 92.7 million to € 108.5 million. The 17.0 % rise is almost exclusively attributable to the investments made as well as granted intercompany loans to subsidiaries.

Inventories

Inventories amounted to € 9.3 million in the reporting period (2016: € 7.5 million). These consist almost exclusively of merchandise in transit.

Receivables

The largest item within short-term assets comprise receivables due from associated companies in an amount of € 93.4 million (2016: € 99.3 million). Receivables against Pnebo GmbH amount to € 89.9 million (2016: € 82.9 million), and comprise the largest item within receivables. Trade receivables of € 14.1 million are 15.7 % higher than the previous year (2016: € 12.2 million).

Within other assets of € 10.7 million (2016: € 4.8 million), tax refund claims increased by 297.0 %, from € 2.4 million to € 9.3 million. This change results mainly from the increased VAT surplus of the year-end.

Liquidity

Liquid assets recorded a net increase of € 0.2 million. "Balance sheet liquidity" amounted to € 1.3 million as of 31.12.2017 (2016: € 1.1 million, +19.7 %).

Overall, total current assets increased by 3.2 % from € 124.9 million to € 128.9 million. This increase mainly results from higher receivables and inventories at year-end.

Deferred tax assets

Delticom utilizes the capitalization option pursuant to Section 274 (1) Clause 2 of the German Commercial Code (HGB), and has capitalized a net surplus of

€ 0.2 million of tax assets after offsetting with deferred tax liabilities (2016: € 0.1 million).

Provisions and liabilities

On the equity and liabilities side of the balance sheet, provisions and liabilities increased by 14.1 % or € 21.0 million, from € 148.4 million to € 169.3 million. Provisions decreased by 19.4 % or € 0.7 million to € 2.9 million (previous year: € 3.6 million).

Within the € 166.4 million of liabilities as of 31.12.2017 (2016: € 144.8 million), € 98.8 million, equivalent to 41.5 % of total equity and liabilities, was attributable to trade payables. Compared with the previous year's € 78.9 million this amount went up by € 19.8 million or 25.1 %.

Liabilities due to banks

The reduced liabilities due to banks of € 15.3 million (2016: € 19.9 million) include long-term financial debts of € 7.3 million (2016: € 7.2 million). The remaining part of the financial liabilities are of a current nature.

Equity

On the equity and liabilities side of the balance sheet, equity decreased by € 1.0 million or 1.5 % to € 68.9 million (2016: € 69.9 million). The structure of equity and liabilities reflects a year-on-year decrease in the equity ratio from 32.0 % to 28.9 %.

Assets that cannot be recognized

Besides the assets recognized on the balance sheet, Delticom also makes recourse to assets that cannot be recognized on the balance sheet. These relate primarily to certain leased or rented goods. More information on this topic is presented in the notes to the separate financial statements in section D Supplementary disclosures – Other financial obligations.

in € thousand	31.12.2017	31.12.2016
Fixed Assets	**108,549**	**92,743**
Intagible assets	6,567	6,568
Property, plant and equipment	6,441	3,486
Financial assets	95,541	82,690
Current Assets	**128,905**	**124,864**
Inventories	9,307	7,455
Accounts receivables	14,138	12,222
Receivables from affiliated companies	93,428	99,324
Other receivables and other assets	10,748	4,790
Cash and cash equivalents	1,283	1,072
Deffered item	**567**	**538**
Deffered taxes	**195**	**148**
Assets	**238,215**	**218,293**

in € thousand	31.12.2017	31.12.2016
Equity	**68,907**	**69,938**
Subscribed capital	12,463	12,463
Share premium	35,696	35,696
Retained earnings	200	200
Balance sheet profit	20,548	21,578
Provisions	**2,868**	**3,559**
Provisions for taxes	971	1,068
Other Provisions	1,896	2,490
Liabilities	**166,441**	**144,794**
Liabilities to banks	15,278	19,888
Payments received on account of orders	4,267	2,568
Accounts payable	98,816	78,966
Payables to affiliated companies	44,115	38,939
Other liabilities	3,965	4,433
Deferred item	**0**	**2**
Shareholders' Equity and Liabilities	**238,215**	**218,293**

Overall statement on the financial and assets position

Significant financial flexibility

Delticom's financial position and net assets are strong. The company shows a high level of self-financing power and receives standard market payment targets from its suppliers. Delticom has access to credit lines that are extended over the course of the year to finance some of the inventories at Pnebo.

Solid balance sheet as basis for further growth

Delticom has a solid balance sheet – an important signal to our partners. With a scalable business model, the company is well positioned in terms of its balance sheet for further growth.

Risk Report

The business development of Delticom AG is essentially subject to the same risks and opportunities as those of the Delticom Group.

Forecast

Due to the intermeshing of Delticom AG with its Group companies, and its weight within the Group, please refer to our remarks in the Outlook section (Forecast report), which in particular reflects expectations for the parent company.

Significant events after the reporting date

Events after the balance sheet date are presented below.

Granting stock options

Taking account of the instructions on the key features of the Stock Option Plan 2014 in the resolution passed by the company's Annual General Meeting on April 29, 2014, the company's Management Board, with the consent of the Supervisory Board, introduced a stock option plan for employees of the company and, based on a resolution approved by the Supervisory Board, a stock option plan for members of the company's Management Board.

Based on these plans, 8,000 stock options were issued to Susann Dörsel-Müller, Philip von Grolman, Thierry Delesalle and Andreas Prüfer as members of the company's Management Board on January 5, 2018, and a total of 18,337 stock options were issued to the company's employees.

The vesting period for all stock options is four years, starting with the respective date of issue. The stock options are therefore currently not yet exercisable. The option rights have a maximum life of ten years as from the day when the respective option right originated.

There were no further events of particular importance after the end of the period under review.

Termination of control and profit and loss transfer agreement

The control and profit and loss transfer agreement with DeltiLog GmbH was terminated by DeltiLog GmbH on March 15, 2018 with effect from December 31, 2021.

Risk and Opportunity 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.

As we regard missed opportunities as risks, 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 if opportunities outweigh related risks, and the potential damage or loss does not carry any going concern risks.

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

12-month observation horizon

The classification and measurement of risk is derived from comparisons of current operating activities with our business targets. We regularly create targets as part of our strategic planning (five-year timeframe) and budget planning (current and following year). We apply a standard 12-month observation horizon for risk management.

Reporting thresholds

The company's equity is used as the calculation basis for reporting thresholds. As of 31.12.2017, we differentiated between going-concern risks (€ 20 million), significant risks (€ 2.5 million), and low risks (€ 0.2 million).

Gross/net 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 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.

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 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, collaborating 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.

Expanded risk consolidation scope

No significant risks that could threaten the existence of Delticom AG could be identified with respect to any subsidiaries. The parent company is responsible for controlling risks. As the subsidiaries are mainly sales organisations, no separate risk consideration is undertaken for the subsidiaries. This decision is reassessed annually by the risk manager. The significant risks are essentially attributable to our core business due to the higher proportion of sales achieved by the online tyre business. The operational risks for the business areas newly acquired in 2016 do not differ in essence from the risks found in the tyre business. The subsidiaries are included under the risk management process via the directors.

Communication and reporting

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

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 and opportunities

The significant individual risks and opportunities with a reporting threshold between € 2.5 million and € 20 million are given below in decreasing order based on anticipated losses.

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 eurozone. 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.

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 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, our partners in Germany and abroad as well as our product and service offering.

The international orientation of our business, the development of additional geographical regions and the expansion of the range of products and services constitute an opportunity to further reduce dependency on developments in individual local markets and develop additional sales and profit potential.

Customers could find themselves with payment difficulties. The payment behaviour of our customers is usually good but can deteriorate in difficult times. If the economic situation of consumers in Europe worsens, this development could result in a decline in end customers' willingness to pay. We have stringent receivables management system and work together with industry specialists to assess risks and facilitate debt collection. In the Wholesale division, we try to limit default risk as far as possible by means of credit insurances.

Other key individual risks and opportunities grouped by risk category

Strategic risks

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.

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. During times of lower revenues, Delticom will continue to both hone its cost structure and penetrate business segments less affected by seasonal factors.

Delticom is continually developing its product portfolio. Our modular, easily scalable infrastructure allows us to implement additional online shops quickly that are tailored specifically to different customer groups. Furthermore, as an E-Commerce company Delticom has an opportunity to provide services.

Regional or global excess inventories along the supply chain might burden price levels. Weather-related demand fluctuations can result in overstocks along the supply chain. 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.

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 and can make use of short-term credit lines to be able to make payment even during periods of high inventory levels.

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.

Demand for wear-resistant tyres may increase. Thanks to innovations and novel forms of technology, an increasing number of tyres boast lower wear capabilities, granting tyres a longer lifespan and increasing the time between replacements. However, on wet or snowy and icy roads, the right mixture of rubber is still the key to providing optimum road safety. As in the past we expect motorists to continue to be unwilling to skimp on safety.

The demand for electric cars could increase. In the financial year 2017, 1.2 million electric cars were registered worldwide. According to the Electric Vehicle Index, this figure therefore exceeded the million mark for the first time. Around half of the newly registered electric cars were in the Chinese market. In Europe, the demand for electric cars in 2017 rose by 39 % to 306,000 newly registered cars. Although this number remains comparatively low, experts assume that the proportion of cars with alternative drive systems will continue to increase in the medium to long term. However, even in the case of increasing numbers of new registrations of vehicles with alternative drive systems, combustion engine vehicles will remain in the majority in the medium term in Europe.

Nevertheless, the automotive aftermarket will change in the long term. The trend towards electric cars therefore yields the risk that demand for products which relate directly or indirectly to the combustion engine – such as motor oils, brakes and exhaust systems – will decrease. At the same time, this trend may also offer the opportunity to sell specialist parts for electric cars going forward. Experts are not currently in agreement with regards to the issue of how the trend towards electric cars will influence replacement tyre demand in the long term. While some assume that electric cars will result in friction and therefore tyre wear increasing, others believe it is just as likely that control systems will be developed which optimise acceleration and braking to minimise wear.

Procurement risks

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 wake of difficult developments on the market, prices could come under pressure over a period of several quarters. We routinely monitor the input factors to this situation and adjust our purchasing policies to be able to respond to probable price changes. In addition, we can turn more towards drop-ship in order to lower the risk of price deflation in our stocks.

Permanent process optimisation and increasing automation of business procedures provide Delticom with an ongoing opportunity to reduce costs. In order to best utilize these opportunities, the company has established a separate process management section and acquired the supporting software system that allows current tasks to be prioritised across the various sectors.

Suppliers may run into commercial and financial difficulties. 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 goods from other parties.

Competition 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.

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. Delticom has an extensive safety net and sufficient cash at its disposal to be able to resist a sustained downturn in prices.

Macroeconomic risks

Maintaining a vehicle is often a major expense item for a private household. Private saving efforts could lead to a decrease in mileage driven, thus causing car owners to put off their next tyre purchase. On the other hand, the low number of new-vehicle registrations could have a positive medium-term effect on replacement tyre demand for used cars. In future, car owners may decide to use public transport or share their cars, at least in well-developed metropolitan areas.

Increasing numbers of consumers use the internet to search for inexpensive alternatives. Thanks to the excellent position of Delticom shops in search engines and our competitive product range, we see an opportunity for Delticom to profit in future from the increasing trend toward E-Commerce.

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 operation centre. 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 and service providers are set up in a redundant fashion. If systems or service providers suffer IT breakdowns, at least one alternative is available to 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 unauthorized access, and operate essential fire prevention measures. Firewalls and other technical measures safeguard internet access to our systems. We orientate ourselves on most up-to-date standards.

As the result of 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 comprehensive 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 lawyers in the internal legal department and works together with well-known domestic and non-domestic law firms. We are pursuing a reasonable provisioning policy to cover those risks.

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 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 4 and § 315 Paragraph 4 HGB – German Commercial Code)

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

Organisation

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

Role of the Management and Supervisory Boards

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

Group accounting

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

- IT-supported work processes
- general accounting principles and methods
- regulations relating to balance sheet, income statement, statement of comprehensive income, notes to the financial statements, management report, cash flow statement and shareholders' equity
- 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 authorization 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 utilize an integrated bookkeeping and consolidation system for the actual calculations.

Outlook

For the current financial year, the Delticom Group anticipates annual revenues of € 690 million as well as an increase in EBITDA up to around € 14 million. Our aim for the current year is to strike the right balance between revenues growth and profitability against the backdrop of the current market environment and based on the experience of the last few years. In addition, in 2018, we will push forward the process of setting up and establishing the market position of the start-ups in the company portfolio in order to offer customers additional services in future.

Forecast report

Full-year guidance 2017 – reasons for deviations

A growing number of consumers are no longer only looking for the cheapest offers but are increasingly basing their shopping decisions on getting the right value for money. In the last two years, we have built the foundations for keeping step with this trend online in future. While we actively managed our pricing in the 2016 financial year, particularly in the final quarter, with a view to achieving our earnings target for the full year, in the past financial year we adjusted the prices in the online shops in line with our aim of increasing revenues and sales in an effort to gain market shares in European tyre retailing.

In addition to a fall in the gross margin, the volume effect in revenues last year led to a rise in volume-dependent costs, such as transport costs, warehouse handling and customer service. The impacts on the income statement can, however, only be forecasted with great deal of uncertainty in advance as the weather in the different countries, local competitive situations and market developments can significantly influence demand for tyres. This and other external influencing factors impact the country mix of revenues and therefore also influence cost development.

With revenues of € 667.7 million, an increase of 10.1 % year on year, we succeeded in exceeding the € 650 million revenues target we set at the start of the financial year under review. This increase in revenues went hand in hand with a rise in sales volume within a market environment characterised by consolidation. Primarily due to the active pricing policy, particularly in the final quarter, EBITDA came in at € 9.3 million in the financial year 2017, some 38.4 % down on the previous year (2016: € 15.1 million). As a result, we fell substantially short of our original EBITDA target of € 16 million set at the start of 2017. In addition to the effects presented, currency loses of € 1 million additionally impacted the operating result of the Delticom Group, as did expenses in the start-ups currently being established.

Future macroeconomic environment

Against the backdrop of the recently improved economic conditions in the industrialised and most emerging nations, global economic growth is set to be sustained in 2018 according to experts. Leading economic research institutes raised their growth forecasts for the global economy in January. In addition to the current upturn in Europe and Asia, the tax reform in the USA is also expected to stimulate positive growth.

For the Eurozone, the robust growth is anticipated to remain stable in the current year given the falling unemployment, decreasing budget deficits as well as increasing investments in the member states. The open outcome of Brexit negotiations, the possible intensification of geopolitical conflicts as well as the future shape of US trade policy with possible protectionist tendencies could, however, create uncertainty and impact consumer sentiment in future.

After the German economy was able to sustain the momentum of the past year and start the year with a strong upwards trend, economists are also expecting an economic boom in Germany for 2018. The domestic economy will remain an important pillar of overall economic development in future. Thanks to falling unemployment levels and rising wages, private consumption is also likely to be an important driver of growth once again.

Future sector-specific development

E-Commerce

The trend towards E-Commerce will continue to grow in future. A third of the global population already has access to the internet. In Europe alone, internet penetration has grown by 13.0 % in the past 5 years. Although currently almost all product groups are growing in online retailing, there are also differences with regards to the pace of growth. While experts believe that the first saturation tendencies are already visible in specific industries, particularly latecomers which still have a low online market share are currently recording high growth rates.

For domestic online retailing, Germany's E-Commerce and Distance Selling Trade Association (bevh) currently anticipates growth of 9.3 % to around € 63.9 billion in 2018. The market research institute IFH Köln expects domestic online revenues to increase to € 80.4 billion by 2021.

Automotive

The replacement tyre market in Germany posted a slight increase in sales of 0.6 % in 2017. For the current year, the German Tyre Trade and Vulcanizing Trade Association (BRV) also expects a slight increase of 0.7 %. The online penetration in the replacement tyre business is currently estimated at approximately 13 %, though market experts expect that this proportion could increase to 15 to 20 % by 2020.

The willingness to acquire products online is also increasing in the automotive replacement parts and accessories sector. According to a recent study, the proportion of online sales in this area in Germany alone increased by around 10 % compared to the previous year. According to the latest AutoTeileOnlineMonitor, which researchers have used for years to observe the development of E-Commerce in automotive aftersales, the increasing digitisation and sustained E-Commerce trend is bringing about lasting changes to the long-standing customer relationships in automotive aftersales. An increasing number of car owners are separating the process of acquiring parts from visiting the garage and are shopping for required car parts themselves.

Overall revenues with used passenger vehicles in 2017 domestically were € 82.1 million according to a report by Deutsche Automobil Treuhand (DAT). The internet will also grow increasingly in importance as a source of information and shopping in this area too: Around 70 % of the domestic used car buyers inform themselves online in advance before buying a car.

efood & logistics

In Germany, revenues in retailing are set to rise by 2 % to € 523.1 billion in 2018 according to the German Retail Association (HDE). Although revenues in food account for almost € 200 billion, the online proportion of these revenues domestically is currently still less than 2 %. Thanks to the increasing acceptance among consumers, experts believe that growth in online food retailing is very likely in the coming years. According to a recent study, 40 % of German consumers are planning to buy food online in the next 12 months.

At present, online food providers are still facing difficulties relating to the logistics of deliveries and the related costs. Industry experts assume that the race to gain favour with customers will be won by providers which optimally combine distribution and data expertise. Delticom is able to draw on long-standing E-Commerce knowledge. In addition, the company operates a largely automated and highly efficient warehouse for small items and provides a comprehensive product and service range for its customers in the field of efficient E-Commerce logistics.

2018 forecast

Net sales

Delticom – Europe’s leading online retailer for tyres and automotive accessories as well as efood specialist and expert in the field of efficient warehouse logistics – will also benefit from the increasing importance of the internet as a sales channel in future. Based on the current market environment and experience over the last two years, in the current financial year, we are aiming to fine-tune the balance between revenues growth and profitability. We are also focusing on continuing to establish the start-ups in the company portfolio within the market in an effort to offer our customers additional services in future. At the current point in time, we are forecasting consolidated revenues of € 690 million for the current year.

Positive customer acquisition trend

Thanks to its multi-shop approach, the Delticom Group addresses different customer groups, fulfilling the various demands of online shoppers. Furthermore, we increasingly tap further online sales channels in order to gain additional groups of buyers. With our extended range of products and services and our international orientation we expect to be able to convince more than one million new customers of the value of our products and price and service offerings in the current financial year.

Repeat Customers

More than 12.2 million customers have bought products in one of our online shops since the company was established. In the current financial year, we expect that a proportion of the new customers from last year will return to our online shops. Consequently, this year we are anticipating a positive development in the number of repeat customers.

EBITDA

The process of building up and establishing the start-ups in the market will again impact the earnings of the Delticom Group this year. However, in the current financial year, we will focus more strongly than in 2017 on our earnings targets in our core automotive business and at the same time continue to increase the automation within the company with the aim of reducing costs. For the current financial year, the Delticom Group therefore anticipates an increase in EBITDA of up to around € 14 million.

Investments

For the current year, we are planning to invest in the expansion and technical equipment of our warehouse infrastructure. Moreover, we will also make software investments. The level of investments over the full year is set to remain on a par with the previous year.

Liquidity

We will manage the process of building up and reducing our inventory in line with our revenues forecast over the coming quarters. By the end of the year, cash flow and liquidity will likely develop similarly to the past financial year.

Medium term outlook

Interconnections

Experts are in agreement that the move to interconnect people, machines, logistics and products digitally – an approach also known as Industry 4.0 – has now become an unstoppable trend. Thanks to our start-ups, we are not only able to offer our customers additional services, but also focus at an early stage on the increasing importance of interconnected shopping channels in order to best deliver on customer requirements in future.

Digitisation

As a result of increasing digitisation, a significant part of procuring information on car-related products is being shifted online. As a result, the online acquisition of car-related products will continue to grow. In the coming 5-10 years, experts believe various trends will significantly change the automotive aftermarket. As part of this, industry experts assume that the ongoing consolidation process will continue. Suppliers in the automotive aftermarket are striving to achieve critical mass both in terms of access to customers and purchasing volume in order to continue to benefit from economies of scale in the future. Big data and modern analysis methods are growing ever more important as a result.

Delticom prepared for the pending changes in its automotive core business at an early stage. In order to benefit from economies of scale in future, we will further expand our market position in the European online automotive aftermarket in the coming years. We are constantly monitoring the changing online shopping behaviour of consumers and current market trends.

New business areas

In addition, Delticom will cement and further expand its market position in the efood and logistics sectors in the coming years in order to accelerate the increasing interconnections between people, machines, logistics and products, as well as establish itself ahead of time in product areas of E-Commerce which still have a comparably low online penetration. Due to its solid balance sheet, long-standing experience in E-Commerce and market-leading position in European online tyre retailing, Delticom is ideally equipped for further growth.

Consolidated Financial Statements of Delticom AG

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Consolidated Income Statement

in € thousand	Notes	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Revenues	(1)	**667,712**	**606,586**
Other operating income	(2)	25,827	20,619
Total operating income		**693,539**	**627,205**
Cost of goods sold	(3)	–530,311	–466,106
Gross profit		**163,228**	**161,099**
Personnel expenses	(4)	–10,916	–10,057
Depreciation of intangible assets and property, plant and equipment	(5)	–7,237	–7,847
Other operating expenses	(6)	–143,039	–135,982
Earnings before interest and taxes (EBIT)		**2,036**	**7,213**
Financial expenses		–539	–632
Financial income		160	22
Net financial result	(7)	**–379**	**–610**
Earnings before taxes (EBT)		**1,657**	**6,604**
Income taxes	(8)	–539	–2,149
Consolidated net income		**1,118**	**4,455**
Thereof allocable to:			
Non-controlling interests		–342	–278
Shareholders of Delticom AG		1,460	4,733
Earnings per share (basic)	(9)	0.09	0.36
Earnings per share (diluted)	(9)	0.09	0.36

Statement of Recognized Income and Expenses

in € thousand	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Consolidated Net Income	**1,118**	**4,455**
Changes in the financial year recorded directly in equity		
Income and expense that will be reclassified to the statement of income at a later date		
Changes in currency translation	–391	56
Net Investment Hedge Reserve		
Changes in current value recorded directly in equity	–37	53
Deferred taxes relating to Net Investment Hedge Reserve	11	–17
Other comprehensive income for the period	**–413**	**92**
Total comprehensive income for the period	**705**	**4,547**
Attributable to non-controlling interests	–451	–236
Attributable to shareholders of the parant	1,156	4,783

Consolidated Balance Sheet

Assets

in € thousand	Notes	31.12.2017	31.12.2016
Non-current assets		**79,364**	**78,298**
Intangible assets	(10)	57,073	58,998
Property, plant and equipment	(11)	17,346	14,758
Financial assets		201	247
Investments using equity method		197	246
Other financial assets		4	2
Deferred taxes	(12)	4,303	3,796
Other receivables	(13)	441	499
Current assets		**122,992**	**104,967**
Inventories	(14)	79,811	62,746
Accounts receivable	(15)	24,364	20,425
Other current assets	(16)	14,786	12,567
Income tax receivables	(17)	150	2,543
Cash and cash equivalents	(18)	3,881	6,686
Assets		**202,356**	**183,264**

Shareholders' Equity and Liabilities

in € thousand	Notes	31.12.2017	31.12.2016
Equity		**52,940**	**58,471**
Equity attributable to Delticom AG shareholders		**52,355**	**57,351**
Subscribed capital	(19)	12,463	12,463
Share premium	(20)	33,739	33,739
Stock option plan	(19)	71	0
Other components of equity	(21)	231	647
Retained earnings	(22)	200	200
Net retained profits	(23)	5,651	10,302
Non-controlling interests		**585**	**1,120**
Liabilities		**149,415**	**124,793**
Non-current liabilities		**9,006**	**10,340**
Long-term borrowings	(24)	7,312	7,188
Non-current provisions	(25)	317	341
Deferred tax liabilities	(26)	961	2,811
Other Non Current Liabilities		416	0
Current liabilities		**140,408**	**114,453**
Provisions for taxes	(25)	1,041	1,516
Other current provisions	(25)	599	641
Accounts payable	(27)	114,392	89,003
Short-term borrowings	(24)	8,009	12,700
Other current liabilities	(29)	16,367	10,594
Shareholders' equity and liabilities		**202,356**	**183,264**

Consolidated Cash Flow Statement

in € thousand	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Earnings before interest and taxes (EBIT)	**2,036**	**7,213**
Depreciation of intangible assets and property, plant and equipment	7,237	7,847
Changes in other provisions	–66	–455
Net gain on the disposal of assets	0	11
Changes in inventories	–17,065	1,460
Changes in receivables and other assets not allocated to investing or financing activity	–4,600	148
Changes in payables and other liabilities not allocated to investing or financing activity	31,659	7,506
Interest received	160	22
Interest paid	–539	–632
Income tax paid	–3,438	–3,396
Cash flow from operating activities	**15,384**	**19,724**
Proceeds from the disposal of property, plant and equipment	0	22
Payments for investments in property, plant and equipment	–4,312	–551
Payments for investments in intangible assets	–3,086	–2,533
Payments for the acquisition of consolidated subsidiaries (less acquired cash and cash equivalents)	0	–19,858
Cash flow from investing activities	**–7,398**	**–22,920**
Dividends paid by Delticom AG	–6,232	–6,232
Cash inflow of financial liabilities	5,000	8,500
Cash outflow of financial liabilities	–9,567	–3,754
Cash flow from financing activities	**–10,799**	**–1,486**
Changes in cash and cash equivalents due to currency translation	8	–116
Cash and cash equivalents at the start of the period	6,686	11,484
Changes in cash and cash equivalents	–2,813	–4,682
Cash and cash equivalents - end of period	**3,881**	**6,686**

Statement of Changes in Shareholders' Equity

in € thousand	Subscribed capital	Share premium	Reserve from currency translation	Net Investment Hedge Reserve	Stock option plan	Retained earnings	Net retained profits	Total	Non-controlling interests	Total equity
as of 1 January 2016	**11,945**	**25,372**	**550**	**5**	**0**	**200**	**11,844**	**49,916**	**1,355**	**51,271**
Shares of capital increase	518							518		518
Capital increase of issue new shares		8,367						8,367		8,367
Dividends paid							–6,232	–6,232		–6,232
Net income							4,733	4,733	–278	4,455
Other comprehensive income			56	36			–42	50	42	92
Total comprehensive income			**56**	**36**			**4,691**	**4,783**	**–236**	**4,547**
as of 31 December 2016	**12,463**	**33,739**	**606**	**41**	**0**	**200**	**10,303**	**57,352**	**1,119**	**58,471**
as of 1 January 2017	**12,463**	**33,739**	**606**	**41**		**200**	**10,303**	**57,352**	**1,119**	**58,471**
Dividends paid							–6,232	–6,232		–6,232
Stock option plan	0				71			71	0	71
Compensation of differences from purchase of non-controlling interests							8	8	–83	–75
Net income							1,460	1,460	–342	1,118
Other comprehensive income			–391	–25			112	–304	–109	–413
Total comprehensive income			**–391**	**–25**			**1,572**	**1,156**	**–451**	**705**
as of 31 December 2017	**12,463**	**33,739**	**215**	**16**	**71**	**200**	**5,651**	**52,355**	**585**	**52,940**

see also Notes 19-23

Notes to the Consolidated Financial Statements of Delticom AG

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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 with register number HRB58026. Delticom's address is Brühlstrasse 11, 30169 Hanover, Germany.

Delticom is Europe's leading online retailer of tyres and automotive accessories as well as efood specialist and expert in the field of efficient warehouse logistics. The range of tyres offered to retail and commercial customers includes over 100 brands and more than 25,000 models of sedans, motorbikes, trucks, utility vehicles, buses and complete wheel sets. Customers are also able to have the ordered products sent to one of the 43,000 service partners of Delticom AG around the world. Our range also encompasses over 300,000 automotive parts and accessories, including motor oils, snow chains and batteries. Entry into the business of online used car selling has rounded off the automotive offering. In this sense, Delticom AG has developed from a classic online retailer to an online solutions provider. Delticom AG also now offers a comprehensive range of around 20,000 different food items.

The group offers its product range in 72 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 goods 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.

The Management Board had authorized these consolidated financial statements on 20.03.2018. 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 315e of the Handelsgesetzbuch (HGB – German Commercial Code). Delticom's consolidated financial statements for the fiscal year 2017 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 recognized in income. The requirements of the standards and interpretations (SIC/IFRIC) applied were fulfilled without exception and lead to the financial statements providing a true and fair view of the Delticom's financial position and results of operations.

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

Standards that were applied for the first time in the fiscal year under review (mandatory disclosure pursuant to IAS 8.28):

Amendments to IAS 12: Recognition of deferred tax assets for unrealized losses

The amendments published by the IASB have been adopted by EU with promulgation in the Official Journal of the EU on 6 November 2017 and are mandatory for annual periods beginning on or after 1 January 2017. The amendments to IAS 12 include clarifications on the issue of the recognition of deferred tax assets on temporary differences from unrealized losses.

Amendments to IAS 7: Cash Flow Statement – Disclosure Initiative

The amendments published by the IASB have been adopted by EU with promulgation in the Official Journal of the EU on 6 November 2017 and are mandatory for annual periods beginning on or after 1 January 2017. The amendments to IAS 7 require companies to provide more detailed information on the development of debt items in the balance sheet during the reporting period where related payments in the cash flow statement have been or will be reported in cash flow from financing activities. Information must also be provided on the development of the carrying amount of financial assets for which related payments are to be reported in cash flow from financing activities.

Annual improvements to IFRSs 2014 - 2016

The annual improvement project published by the IASB in December 2016 was adopted by EU with promulgation in the Official Journal of the EU on 8 February 2018 and are effective for annual periods beginning on or after 1 January 2017 (IFRS 12) respectively 1 January 2018 (IFRS 1 and IAS 28). The amendments to IFRS 1, IFRS 12 and IAS 28 are included in the amendments to the annual improvement project. The amendments will be used to adapt wording to clarify existing regulations. In addition, there are changes affecting the accounting, recognition, measurement and disclosures in the notes.

The adoption of these amendments did not have any impact on the amounts recognized in prior periods.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see *Other notes*.

Standards that were not yet adopted by EU:

Standard / interpretation		Mandatory application	EU commissions use on 31.12.17	Impact
	Annual improvements to IFRS (period 2015-2017)	01.01.19	none	no major impact
IAS 28	Long Term Interest in associates and Joint Ventures	01.01.19	none	no major impact
IFRIC 22	Foreign currency Transactions and Advance Consideration	01.01.18	none	no major impact
IAS 40	Transfer of Investment Property	01.01.18	none	no major impact
IFRS 17	Insurance contracts	01.01.21	none	no major impact
IFRIC 23	Uncertainty over Income Tax Treatments	01.01.19	none	no major impact

New or amended standards not applied

Standard – IFRS 9 Financial Instruments

The Standard issued by the IASB on 24 July 2014 is a three-phase project to replace "IAS 39 – Financial Instruments: Recognition and Measurement" and was adopted by EU with promulgation in the Official Journal of the EU on 22 November 2016 and is mandatory for financial years on or after 1 January 2018. The standard governs the classification and measurement of financial instruments, the accounting for impairment of financial assets and the accounting for hedging relationships.

Delticom has reviewed its financial assets and liabilities and anticipates the impact of the introduction of the new standard as of January 1, 2018:

Delticom does not expect any effects from the classification regulations. Trade receivables are initially recognized at fair value and subsequently measured at amortized cost. Likewise on the liabilities side are the trade payables. Forward contracts and options used to hedge price risks have previously been classified as held-for-trading and measured at fair value through profit or loss. In the future, these will be classified in the fair value through profit and loss category and continue to be measured at fair value through profit or loss.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The new impairment model in accordance with IFRS 9 is particularly relevant for trade receivables, which are generally short-term and consequently do not contain any significant interest component. Accordingly, the simplified impairment method under IFRS 9 may apply, in which the expected loss for a receivables maturity of less than 12 months is equal to the expected loss.

The application of IFRS 9 will result in extended disclosures in the notes. The new standard is mandatory for financial years beginning on or after January 1, 2018.

They are applied retrospectively for the first time.

Standard - IFRS 15 Revenue from Contracts with Customers

The new standard for the recognition of revenue will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. According to the new standard the revenue is recognized when control of a good or service transfers to a customer.

The decisive factor is no longer the transfer of significant rewards and risks, as under the old regulations of IAS 18 "Revenues". The new model provides for a five-level plan to determine revenue recognition, which first identifies the customer contract and the separate performance obligations it contains. Subsequently, the transaction price of the customer contract is to be determined and apportioned to the individual performance obligations.

Finally, according to the new model, revenue for each performance obligation is to be realized as a percentage of the associated transaction price as soon as the agreed service has been provided or the customer has obtained the right to use. In this case, it is necessary to differentiate between date-related and time-related performance fulfilments on the basis of predetermined criteria. Additional disclosures are required in the notes, which provide the users of the financial statements with more informative and relevant information.

Management has determined that Delticom's business model will not be materially impacted by the application of the new standard. The new standard is mandatory for financial years beginning on or after January 1, 2018.

Delticom will implement the initial application as follows: Maintain the previous amounts reported in accordance with the previously applicable standards and recognize the cumulative effect of applying IFRS 15 as an adjustment to the opening balance of equity at the time of first application (beginning of the current reporting period).

Standard - IFRS 16 Leases

The standard issued by the IASB on 13 January 2016 replaces the previous standards and interpretations on leases "IAS 17", "IFRIC 4", "SIC-15" and "SIC-27" and was adopted by EU with promulgation in the Official Journal of the EU on 31 October 2017. It is mandatory for financial years beginning on or after 1 January 2019.

For lessees in particular, the new standard requires a completely new approach to the accounting treatment of leases. If, in accordance with IAS 17, the transfer of material risks and rewards of the leased object was decisive for recognizing a lease to the lessee, in the future every leasing relationship with the lessee is to be recognized as a financing transaction in the balance sheet. For lessors, on the other hand, the accounting rules have largely remained unchanged, especially with regard to the continued need for classification of leases. In detail, however, differences arise e.g. for subleases and sale and leaseback transactions.

Management is currently analyzing the impact of the new standards. The Group has extensive contracts under operating leases, which is why Delticom is assuming a significant impact on total assets and EBITDA. The new standard is mandatory for annual periods beginning on or after 1 January 2019.

Delticom will recognize the cumulative adjustment effect at the time of initial application as an entry in equity at the beginning of the fiscal year of initial application.

Group of consolidated companies

The group of consolidated companies comprises Delticom AG as controlling company, fourteen domestic and nine foreign subsidiaries, all fully consolidated in the annual financial accounts.

The group of fully consolidated companies has not changed in the reporting period 2017.

In addition, Delticom holds a stake of 49 % in OOO Delticom Russia (Moscow, Russia), which was newly established in 2015. This company was included in the group of consolidated company using the equity method. Summarized financial information are not presented for reason of immateriality.

Due to its negligible impact on Delticom's net assets, financial position and results of operations, the following companies were not consolidated, but instead recognized as a financial instrument pursuant to IAS 39.

- Tirendo Netherlands B.V., Den Haag (Netherlands)
- Tirendo Switzerland GmbH, Zug (Switzerland)
- Tirendo Poland Sp.z.o.o., Warsaw (Poland)

During 2017, all of the above mentioned subsidiaries were liquidated.

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. Minority interests in equity and the earnings of subsidiaries that are not controlled by the parent company are shown separately.

Business combinations in accordance with IFRS 3

Identifiable and recognisable assets, liabilities and contingent liabilities of an acquired business are always reported at their fair value at the transaction date. Any remaining differences between the acquisition costs and the acquired net assets are recognized as goodwill.

Acquisition of the efood and logistic companies in 2016

The efood and logistics companies acquired in 2016 have been fully integrated into the Group's E-Commerce activities.

The acquisition of the companies is part of our E-Commerce development strategy, through which Delticom has enhanced its logistics expertise. Delticom is now able to efficiently market small goods and thanks to Gourmondo, also gains new product groups for its e-commerce business. The companies are operating in Germany, Austria and the Netherlands, and further internationalization in course.

In the reporting period, revenues in the business with efood and logistics was extended by 26.2 %.

Acquisition AutoPink in 2016

AutoPink is an online-dealer for used cars located in France. In 2017, Autopink's first full year of activity within the Delticom group, the company contributed a single-digit million euro amount to consolidated revenues.

Segment reporting

Delticom is a one-segment company: The company focuses on selling tyres, automotive accessories as well as efood online and also provides logistics services to third parties. In the E-Commerce field, goods are sold to dealers, workshops and end users via 453 onlineshops and online distribution plattformes in 72 countries. Revenues and EBITDA are key parameters for management and control at group level. There are no other divisions that could constitute segments with a separate reporting requirement.

The economic indicators which are assessed by the management are aggregated in the group accounts due to the similar economic characteristics of the online trade.

Currency translation

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

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

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

Country	Mid rate on the reporting date € 1 =	Weighted yearly average rate € 1 =
UK	0.8879 GBP	0.8765 GBP
USA	1.1980 USD	1.1296 USD
Romania	4.6570 RON	4.5690 RON
Russia	69.1565 RUB	65.8922 RUB

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 recognized in income when they come to light.

Accounting and valuation principles

Accounting treatment of acquisitions

As a potential consequence of acquisitions, goodwill is reported in the consolidated balance sheet, when an acquisition is first consolidated, all identifiable assets, liabilities and contingent liabilities are recognized at their respective fair values on the acquisition date. One of the most significant assumptions in this context relates to the determination of the respective fair values of these assets and liabilities on the acquisition date. Land, buildings and operating equipment are generally measured on the basis of independent valuation surveys, while marketable securities are recognized at their stock market price. If intangible assets are identified, recourse is made to external valuers' independent surveys depending on the type of intangible asset and the complexity of determining fair value. Such valuations are closely connected with assumptions that the management has made relating to the future value trend of the respective assets, and imputed changes to the applicable discounting rate.

In 2017, no acquisition occured.

Goodwill

The Group conducts annual impairment tests to gauge whether recognized goodwill has been impaired, or more frequently if an event occurs that might cause such impairment. The recoverable amount of the cash-generating unit is then estimated. This corresponds to the higher of fair value less costs to sell, and value in use. Determining value in use requires adjustments and estimates relating to the forecasting and discounting future cash flows.

For the determination of the recoverable amount Delticom takes the fair value less costs to sell as a basis. The planning for the Delticom core business as prepared by the management forms the basis to measure fair value less costs of disposal. This planning is based on the assumption that E-Commerce in tyre trading will gain further importance over the coming years. The possibility of a further increase in competition was also taken into consideration for the expectations in relation to revenues and earnings growth.

The planning is also based on the assumptions that Delticom will continue to defend its position as Europe's leading online tyre retailer, and that the cost structure will remain streamlined as a result of further automation and outsourcing. The planning spans a 5-year period. Plausible assumptions about future trends have been made for the subsequent years. All planning assumptions are adapted to reflect current status of knowledge.

Management believes that the assumptions used to calculate the recoverable amount – especially with regard to economic influences, margins and revenues growth – are appropriate. The input factors used are derived from market data (level 2 of the fair value hierarchy). Changes in these assumptions could lead to an impairment loss that would negatively affect net assets, the financial position and results of operations.

A discount rate after tax of 7.2 % and a growth rate discount of 1.0 % are applied to measure the acquired goodwill.

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. Internally generated intangible assets are recognized at production cost. They are also amortized straight-line over their useful lives. Borrowing costs are not capitalized, but are instead expensed in the period in which they are incurred. Costs that are associated with the maintenance of software are recognized as expenses when these are incurred. The scheduled straight-line depreciation is mostly based on the following useful lives:

	Useful life in years
Internet domains	3-20
Software	3-10
Customer Relationship	5-10
Trademarks	5-10
Sales of similar rights	2

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

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

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

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

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

	Useful life years
Warehouse equipment	12–33
Machinery	4–14
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 recognized over the term of the lease using the annuity method. Delticom did not enter into any such leases.

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

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

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

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.

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

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

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

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

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

The amount of the impairment is the difference between the book value of the receivable and the 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 recognized as expense. Items denominated in foreign currency are measured at the mean rate of exchange on the balance sheet date.

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

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

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

Deferred taxes are measured using the tax rates and tax regulations that apply on the balance sheet date or which have mostly been passed by law and which are expected to apply on the date the deferred taxes are realized or the deferred tax liability is expected to be paid. Deferred taxes for German companies are measured at a tax rate of 32.54 % (previous year: 32.54 %). The effects of the changed tax rate are immaterial.

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 15.4 % (previous year: 16.7 %) 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. The best possible estimate is applied when measuring potential tax risks and uncertain tax claims.

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 measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

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

Income is recognized if it is probable that the economic benefits associated with the corresponding transaction will accrue to the enterprise and the amount of the revenues can be reliably measured. As a rule, income from services is recognized 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 realized 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 recognized in income.

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

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

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

If the recoverable amount for an individual asset cannot be estimated, the estimate is performed at the level of the cash-generating unit to which the asset belongs. Extraordinary amortization/depreciation is performed if the benefits accruing from the asset are lower than its carrying amount. The benefit accruing from an asset is the higher of the net selling price less costs of sale. 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.

A net investment hedge uses derivative or non-derivative financial instruments to hedge exchange rate-related fluctuations in the net assets of foreign business operations by recognizing the effective portion of the exchange rate-related fluctuations of the hedging instruments within equity in the **net investment hedge reserve** and thus compensating the exchange rate-related fluctuations in the net assets of the foreign business operations.

In the case of the sale of part or all of the foreign operation, the amount previously shown in the net investment hedge reserve is recognized in profit or loss.

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 management board of the headquarter 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

Revenues relate almost exclusively to the "sale of goods" category (IAS 18.35).

For the period from 01.01.2017 to 31.12.2017:

in € thousand	EU Countries	USA and others	Total
Revenue	518,372	149,340	667,711

For the period from 01.01.2016 to 31.12.2016:

in € thousand	EU Countries	USA and others	Total
Revenue	470,321	136,265	606,586

(2) Other operating income

in € thousand	2017	2016
Income from exchange rate differences	2,564	3,157
Insurance compensation	40	164
Book gains from the disposal of assets	0	22
Other	23,223	17,275
Total	**25,826**	**20,619**

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. The increase in miscellaneous other operating income arises mainly from higher marketing subsidies, income from transportation losses and other income.

(3) Cost of sales

The cost of sales amounted to € 530.3 million (previous year: € 466.1 million) result exclusively from the sale of trading goods.

(4) Personnel expenses

in € thousand	2017	2016
Wages and salaries	9,223	8,676
Social security contributions	1,392	1,309
Share-based compensation with equity instruments	103	0
Expenses for pensions and other benefits	198	71
Total	**10,916**	**10,057**

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, € 627 thousand (previous year: € 397 thousand) were recognized under personnel expenses when due.

Details of stock option plan are presented in equity.

In 2017, Delticom had an average of 185 employees (previous year: 156 employees).

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

in € thousand	2017	2016
Intangible assets	5,011	5,449
Property, plant and equipment	2,226	2,398
Total	**7,237**	**7,847**

No extraordinary amortization or depreciation was required in 2017 from applying impairment tests (IAS 36).

(6) Other operating expenses

in € thousand	2017	2016
Transportation costs	62,699	60,355
Warehousing costs	8,046	7,180
Credit card fees	5,719	5,307
Bad debt losses and one-off loan provisions	2,833	2,395
Marketing costs	28,244	25,955
Operations centre costs	10,239	8,992
Rents and overheads	6,566	5,959
Financial and legal costs	4,651	4,846
IT and telecommunications	3,959	4,618
Expenses from exchange rate differences	3,558	2,950
Other	6,524	7,425
Total	**143,039**	**135,982**

The rental payments carried stem from a rental agreement for office premises and parking spaces in 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	2017	2016
Financial expenses	539	632
Financial income	160	22
Total	**–379**	**–610**

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

Financial expenses mainly represent interest expenses related to loans.

(8) Income taxes

The income taxes result from:

in € thousand	2017 Germany	2017 Abroad	2017 Total	2016 Germany	2016 Abroad	2016 Total
Current income taxes	2,975	22	2,997	4,711	7	4,718
Deferred income taxes	–2,335	–123	–2,458	–2,002	–567	–2,569
Total	**640**	**–101**	**539**	**2,709**	**–560**	**2,149**
thereof out-of-period	–16	–10	–26	194	–457	–263

In the year under review, income taxes of € –7 thousand (previous year: € –19 thousand) were carried directly under equity.

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

in € thousand	2017 Deferred tax assets	2017 Deferred tax liabilities	2016 Deferred tax assets	2016 Deferred tax liabilities
Loss carryforwards	5,536	0	4,071	0
Intangible assets	45	2,391	27	2,669
Property, plant and equipment	6	86	16	61
Inventories	8	0	8	71
Receivables	0	0	0	654
Other assets	0	6	205	0
Long term Provisions	1	0	0	0
Short Term Provisions	63	0	74	0
Liabilities	31	0	20	0
Other equity and liabilities	135	0	142	123
Total	**5,825**	**2,483**	**4,563**	**3,578**
Balancing	–1,522	–1,522	–767	–767
Value on the balance sheet	**4,303**	**961**	**3,796**	**2,811**

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

in € thousand	2017	2016
Profit before income taxes	1,657	6,604
Delticom AG income tax rate	32.54%	32.54%
Expected tax expense	**539**	**2,149**
Differences from anticipated income tax expense		
Adjustment to different tax rate	4	0
Non-deductible operating expenses	155	146
Non-period ongoing taxation	–26	–263
Effect from tax loss carry forwards	–117	0
Other tax effects	16	–117
Total adjustments	**0**	**0**
Actual tax expense	**539**	**2,149**

The adjustment to the divergent tax rate reflects the lower corporation income tax rates at German and foreign subsidiaries. In the reporting period, a profit and loss transfer agreement (PLTA) was signed between Delticom AG and DeltiLog GmbH. The PLTA during the current period included the following companies: Tirendo Holding GmbH, Pnebo GmbH, Giga GmbH and Deltiparts GmbH.

As in the previous year, no deferred tax assets were formed for non-lapsable corporation and trade tax loss carryforwards amounting to € 5.7 million as their status is legally uncertain, and is still being clarified. Due to the considerable legal doubts prevailing on the balance sheet date, the deferred tax assets attributable to these loss carryforwards remained unrecognized.

Deferred tax assets of € 4.7 million (previous year: € 3.1 million) are capitalized for companies that have incurred tax losses in the current financial year or in the previous year due to positive tax planning. The basis for the positive earnings forecast is the further diversification of Delticom in E-Commerce.

(9) Earnings per share

Basic earnings per share totalled € 0.09 (previous year: € 0.36). The diluted earnings per share totalled € 0.09 (previous year: € 0.36).

Pursuant to IAS 33, undiluted (basic) earnings per share are calculated by dividing the consolidated net income of € 1,117,760.32 (previous year: € 4,454,802.83) by the 12,463,331 weighted average number of ordinary shares in circulation during the financial year (previous year: 12,389,319 shares).

No stock options were exercised in the reporting period. The vesting period for all granted stock options is four years starting on the respective day of issue. In principle, all issued shares must be taken into account for the calculation of the diluted EPS, provided that the stock options have a dilutive effect. This is the case if the issue price of the new shares is below the average market price of the common shares in circulation in the period under consideration. There is no dilutive effect in 2017.

Notes to the balance sheet

Non-current assets

(10) Intangible assets

in € thousand	Goodwill	Customer Relationships	Trademarks	Generated software
Acquisition costs				
as of 1 January 2017	35,338	4,343	11,151	356
Additions from business combinations	0	0	0	0
Other additions	0	0	0	2,549
Disposals	0	0	0	0
Reclassifications	0	0	11	–350
as of 31 December 2017	35,338	4,343	11,162	2,555
Accumulated depreciation				
as of 1 January 2017	0	847	5,657	155
Additions	0	578	1,939	0
Disposals	0	0	0	0
Reclassifications	0	0	0	0
as of 31 December 2017	0	1,425	7,596	155
Residual carrying amounts as of 31 December 2017	35,338	2,918	3,566	2,400

in € thousand	Rights of sale	Domains	Software	Total
Acquisition costs				
as of 1 January 2017	6,539	5,011	16,018	78,756
Additions from business combinations	0	0	0	0
Other additions	0	63	474	3,086
Disposals	0	0	0	0
Reclassifications	0	0	341	2
as of 31 December 2017	6,539	5,074	16,833	81,844
Accumulated depreciation				
as of 1 January 2017	6,539	822	5,741	19,761
Additions	0	243	2,251	5,011
Disposals	0	0	0	0
Reclassifications	0	2	–3	–1
as of 31 December 2017	6,539	1,067	7,989	24,771
Residual carrying amounts as of 31 December 2017	0	4,007	8,844	57,073

in € thousand	Goodwill	Customer Relationships	Trademarks	Generated software
Acquisition costs				
as of 1 January 2016	35,338	615	8,223	356
Additions from business combinations	0	3,728	2,928	0
Other additions	0	0	0	0
Disposals	0	0	0	0
Reclassifications	0	0	0	0
as of 31 December 2016	35,338	4,343	11,151	356
Accumulated depreciation				
as of 1 January 2016	0	282	3,773	155
Additions	0	565	1,884	0
Disposals	0	0	0	0
Reclassifications	0	0	0	0
as of 31 December 2016	0	847	5,657	155
Residual carrying amounts as of 31 December 2016	35,338	3,496	5,494	201

in € thousand	Rights of sale	Domains	Software	Total
Acquisition costs				
as of 1 January 2016	6,539	1,273	5,588	57,933
Additions from business combinations	0	3,723	7,927	18,307
Other additions	0	16	2,503	2,518
Disposals	0	0	0	0
Reclassifications	0	0	0	0
as of 31 December 2016	6,539	5,011	16,018	78,756
Accumulated depreciation				
as of 1 January 2016	6,486	603	3,027	14,326
Additions	53	220	2,714	5,435
Disposals	0	0	0	0
Reclassifications	0	0	0	0
as of 31 December 2016	6,539	822	5,741	19,761
Residual carrying amounts as of 31 December 2016	**0**	**4,189**	**10,277**	**58,998**

The software additions are mainly advanced payments.

(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 2017	1,183	15,591	14,594	0	31,368
Additions from business combinations	0	0	0	0	0
Additions	42	260	4,572	0	4,874
Disposals	0	–40	0	0	–40
Reclassifications	0	0	0	0	0
Foreign currency translation	–21	–197	181	0	–37
as of 31 December 2017	1,204	15,614	19,347	0	36,165
Accumulated depreciation					
as of 1 January 2017	231	4,266	12,113	0	16,610
Additions	27	1,367	832	0	2,226
Disposals	0	–41	0	0	–41
Reclassifications	0	0	0	0	0
Foreign currency translation	0	9	15	0	24
as of 31 December 2017	258	5,601	12,960	0	18,819
Amortised cost as of 31 December 2017	**946**	**10,013**	**6,387**	**0**	**17,346**

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 2016	1,183	5,821	13,730	0	20,734
Additions from business combinations	0	9,501	646	0	10,147
Additions	0	269	282	0	551
Disposals	0	0	–64	0	–64
Foreign currency translation	0	0	0	0	0
Reclassifications	0	0	0	0	0
as of 31 December 2016	1,183	15,591	14,594	0	31,368
Accumulated depreciation					
as of 1 January 2016	204	3,207	10,849	0	14,260
Additions	21	1,040	1,336	0	2,397
Disposals	0	0	0	0	0
Reclassifications	0	0	–34	0	–34
currency translation	5	19	–37	0	–13
as of 31 December 2016	231	4,266	12,113	0	16,611
Amortised cost as of 31 December 2016	**952**	**11,325**	**2,481**	**0**	**14,758**

Property, plant and equipment includes mainly office equipment for the leased offices as well as packaging machines and warehouse equipment.

(12) Deferred taxes

Deferred tax assets amounting to € 4,065 thousand (previous year: € 3,041 thousand) will be realized 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	2017	2016
Tyres and Accessories	63,427	52,382
Goods in Transit	9,773	7,517
Other	6,610	2,847
Total	**79,811**	**62,746**

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

During fiscal year 2017, € 219,355 thousand of inventories were carried as expenses (previous year: € 264,532 thousand). There were no write-downs and no write-ups during the fiscal year. All inventories are free of pledges.

(15) Accounts receivable

in € thousand	2017	2016
Accounts receivable	24,364	20,425
thereof receivables with associated companies and related parties (category: persons in key positions)	0	0
thereof receivables with associated companies and related parties (category: not consolidated subsidiary companies)	0	0

in € thousand			Not written down and overdue since the following periods					
Trade receivables	Carrying amount	Overdue on balance sheet date and not written down	< 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Written down
as of 31.12.2017	24,364	10,052	6,671	1,855	1,521	4	1	2,240
as of 31.12.2016	20,425	9,075	6,706	1,633	726	6	4	2,350

The write-downs for trade receivables were as follows:

in € thousand	2017	2016
Write-downs – balance on January 1	2,350	2,596
Changes in the consolidated companies	0	–19
Additions (expenses for write-downs)	2,328	2,364
Reversals	–221	–30
Use of write-downs	–2,217	–2,560
Write-downs – balance on December 31	2,240	2,350

in € thousand	2017	2016
Expenses for full write-off of receivables	–505	–30
Income from the receipt of written-off receivables	46	20

(16) Other current receivables

in € thousand	2017	2016
Refund claims from taxes	11,864	10,093
Credits with suppliers	64	617
Deferrals	625	522
Other current receivables	2,233	1,335
Total	**14,786**	**12,567**

The other current receivables comprise € 1 thousand receivables from derivative financial instruments (previous year: € 242 thousand).

(17) Income tax receiveables

Income tax receivables mainly concern tax reimbursements anticipated from former years.

(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	2017	2016
Cash	3	5
Bank balances	3,878	6,681
Total	**3,881**	**6,686**

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 (fully paid). The subscribed capital tripled to 11,839,440 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.

On 06.05.2011, the subscribed capital increased to EUR 11,847,440 through exercising 8,000 option rights that entitled subscription for 8,000 new no-par value ordinary registered shares in the company, on 02.05.2013 to EUR 11,859,440 through the exercising of a further 12,000 option rights that entitled subscription for 12,000 new no-par value ordinary registered shares in the company, and on 30.04.2014 to EUR 11,945,250 through the exercising of a further 85,810 option rights that entitled subscription for 85,810 new no-par value ordinary registered shares in the company. Former Management Board member Frank Schuhardt exercised the aforementioned option rights. On 01.03.2016, subscribed capital rose owing to an increase in the capital stock from € 518,081 to € 12,463,331 partly by way of using Authorized Capital I/2011.

Authorized Capital

Authorized Capital 2011 under Article 5 (5) of the Articles of Association expired at midnight on 02.05.2016.

The Management Board is authorized, with the consent of the Supervisory Board, to increase the share capital by one or more issues of up to 6,231,665 (in words: six million, two hundred and thirty-one and six hundred and sixty-five) by May 1, 2022, at no-par value or non-cash contributions to raise a total of up to € 6,231,665 (authorized capital 2017).

Contingent capital

The Annual General Meeting of 29.04.2014 authorized the Management Board, with Supervisory Board assent (respectively the Supervisory Board instead of the Management Board to the extent that option rights are granted to Management Board members), to grant until 28.04.2019, once or on several occasions, option rights to subscribe for a total of up to 540,000 of the company's new no-par registered shares to members of the company's Management Board, employees of the company, as well as to employees and management members of companies associated with the company.

The company's share capital is conditionally increased by up to EUR 540,000.00 through issuing up to 540,000 new no-par registered shares (Contingent Capital I/2014). Contingent Capital I/2014 serves exclusively to grant new shares to the holders of conversion or warrant rights that are issued pursuant to the aforementioned authorization resolution by Delticom AG. Contingent Capital I/2014 was entered in the commercial register on 11.06.2014.

Stock option plan

The Annual General Meeting on 29.04.2014 authorized the Management Board having the approval of the Supervisory Board (respectively the Supervisory Board in place of the Management Board, insofar as option rights are granted to members of the Management Board), to issue option rights until 28.04.2019 (once or several times), to subscribe for a total of up to 540,000 new no-par value registered shares of the Compa-ny to members of the Company's Executive Board, to employees of the Company as well as to employees and members of the management of companies affiliated with the Company using the contingent capital I/2014.

By resolution of the Executive Board of the Company dated 25.12.2016 and the Supervisory Board of the Company dated 27.12.2016, a stock option plan for employees of the Company was introduced and by resolution of the Supervisory Board of the Company from 28.12.2016 a stock option plan for members of the Board of the Company was introduced, taking into account the requirements for the key features con-tained in the resolution of the Company's Annual General Meeting on April 29, 2014.

Based on these plans, a total of 16,003 stock options were issued to employees of the Company on January 10, 2017 and a total of 32,000 stock options were issued to members of the Company's Executive Board on January 5, 2017. The members of the board of the company Susann Dörsel-Müller, Philip von Grolman, Thierry Delesalle and PhD. Andreas Prüfer accepted the stock options with a subscription dated 06.01.2017, which each entitle them to subscribe to 8,000 new, no-par bearer shares in the company.

The waiting period for all stock options is four years starting on the respective issue date. The stock options are therefore currently not exercisable. The option rights have a maximum term of ten years from the date of the formation of the respective option right. The beneficiaries may exercise the option rights at the earliest after expiry of a waiting period of four years, starting on the day of issue. The Management Board and the Supervisory Board will report in detail on the option rights granted and the exercise of option rights for each financial year in accordance with the applicable provisions in the notes to the annual financial state-ments, in the notes to the consolidated financial statements or in the annual report. The term of the stock option program ends on April 28, 2019. After this date, stock option options from this stock option plan are no longer permitted.

The fair value at the grant date is determined independently using an adjusted form of the Black-Scholes model that includes a Monte Carlo simulation model that considers the exercise price, the term of the option, the dilution effect (if material), the stock price at that time the granting and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the option and the correlations and volatilities of the peer companies.

The following assumptions were made in order to determine the fair share options:

- Dividend yield: 3 %
- Volatility of stocks, based on historical data: 30 %
- Risk-free interest rate: –0.04 %

Based on the above, a fair value of € 3.75 per share option was considered. This amount is recognized directly in equity together with a corresponding expense. The total expense for all equity options granted in consideration of deferred taxes amounts to € 103 thousand in the reporting year.

Treasury shares

With an Annual General Meeting resolution of 11.05.2010, the company was authorized to acquire its own shares up to 10 % of the share capital existing when the resolution was passed. The authorization was valid until 10.05.2015 and was rescinded by a resolution passed by the Annual General Meeting on 05.05.2015, as no use had been made of the authorization by this date.

In so far, a new authorization was created by way of resolution passed by the Annual General Meeting on 05.05.2015. Under this authorization, the company is authorized to acquire its own shares in an amount of up to 10 % of its capital stock existing at the time of an approved resolution or, if this percentage is less, of the capital stock existing at the time when this authorization is exercised. The authorization is valid until 04.05.2020. It can be exercised in its entirety or in partial amounts, once or several times, for one or several purposes by the company, its Group companies or by third parties on its or their behalf. At the discretion of the Management Board, the purchase of these shares may take place via the stock exchange or by way of a public offer to buy directed to all shareholders.

The compensation per share paid for the acquisition of shares via the stock exchange (excluding incidental acquisition costs) may not be more than 10 % above or below the average of the closing prices on the three trading days preceding the commitment to acquire ("reference days").

The "closing price" is defined as the closing price determined by the closing auction on each individual stock market trading day or, if a closing price is not determined on the respective trading day, the last price of the company’s share calculated during current trading. In the case of all three reference days, reference is made to the closing price in Xetra trading (or a comparable successor system) of the Frankfurt Securities Exchange, or the closing price formed in floor trading at a German securities exchange, or the last price formed in current trading which reflected the highest level of turnover in the ten preceding trading days preceding the first of the three reference days.

If shares are acquired by way of a public tender offer, the purchase price (not including incidental acquisition costs) per share may not be more than 10 % above or below the average of the closing prices quoted on the three trading days prior to the reference date.

"Reference date" is the day when the company’s decision to submit a public offer is published or, in the event of an amendment concerning the purchase price, the day of the Management Board’s final decision on the amendment to the offer.

The purchase offer may provide for conditions. If more shares are tendered to the Company for repurchase than the total number offered by the Company to the shareholders for repurchase, the purchase of shares by the company is carried out based on the ratio of the number of company shares tendered The Company can provide for a preferential acceptance of small numbers of up to 100 shares tendered per shareholder.

The Management Board is authorized to utilize 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, assign them for the purpose of fulfilling conversion or option rights attached to convertible or warrant-linked bonds, or use them in the course of settling conversion obligations arising from convertible bonds or, under certain circumstances, also sell them by means other than through the stock exchange. The subscription rights of shareholders to treasury shares may 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. Following the purchase of the efood and logistics companies in the previous year, the capital reserve increased through the issuing of 518,081 shares at a share price of € 17.15 (€ 8.4 million) on the date of acquisition.

(21) Gains and losses recognized directly in equity

The accounting currency translation differences for the foreign subsidiaries and its subsidiaries were transferred to the adjustment item for currency translation. This item also includes the change in the net investment hedge reserve.

(22) Retained earnings

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

(23) Net retained profits

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

The voting rights attributable to minority shareholders are shown in the list of shareholdings. The minority interest in the consolidated net income amounts to € –342 thousand. In the financial year, the outstanding minority interests in TyresNet GmbH were acquired by Delticom AG. The presentation of summarized financial information for subsidiaries is waived for reasons of immateriality.

Liabilities

(24) Finanical liabilities

Liabilities due to banks are composed as follows as at 31 December 2016:

in € thousand	31.12.2017	31.12.2016
Long term Financial Loans	7,312	7,188
Short term financial liabilities	8,009	12,700
Total	**15,321**	**19,888**

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

The maturity analyses of long-term borrowings is presented below:

in € thousand	31.12.2017	31.12.2016
Less than one year	4,458	3,750
Less than 5 years	2,854	3,438
Total	**7,312**	**7,188**

(25) Provisions

Provisions had the following breakdown:

in € thousand	01.01.2017	Taken up	Reversal	Additions	31.12.2017
Provisions for taxes	1,515	879	636	1,041	1,041
Other non-current provisions	342	156	0	131	317
Other provisions	640	350	290	599	599
Total	**2,497**	**1,385**	**926**	**1,771**	**1,957**

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. Further to this the longterm portions of the performance-based pay for the managing board are stated there. Provisions are discounted by means of runtime-specific discount rates.

Provisions for taxes relate to income taxes for the year under review as well as the previous year and are not discounted.

(26) Deferred tax liabilities

Deferred tax liabilities are realized after more than 12 months in the amount of € 684 thousand (previous year: € 2,252 thousand)

(27) Trade accounts payable

in € thousand	31.12.2017	31.12.2016
Accounts payable	114,392	89,003
thereof liabilities with associated companies and related parties (category: persons in key positions)	0	0
thereof liabilities with associated companies and related parties (category: not consolidated subsidiary companies)	31	37

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

(28) Additional notes concerning financial instruments

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

in € thousand	Valuation categories acc. to IAS 39	Book Value 31.12.16	Balance sheet valuation according to IAS 39 amortized cost	Fair value not affecting income	Fair value – affecting income	Book Value 31.12.16
Assets						
Cash and cash equivalents	LaR	6,686	6,686			6,686
Accounts receivable	LaR	20,425	20,425			20,425
Other receivables	LaR	2,473	2,473			2,473
Other original financial assets						
Available for Sale Financial Assets	AfS	2		2		2
Derivative financial assets						
Derivates not used for hedging (Held for Trading)	FAHfT	242			242	242
Liabilities						
Accounts payable	FLAC	89,003	89,003			89,003
Other current liabilities	FLAC	4,545	4,545			4,545
Other original financial liabilities	FLAC	19,888	19,888			20,369
Derivative financial liabilities						
Derivates not used for hedging (Held for Trading)	FLHfT	31			31	31
Thereof cumulated according valuation categories IAS 39						
Loans and receivables (LaR)		29,584	29,584			29,584
Available for Sale Financial Assets (AfS)		2		2		2
Financial Assets Held for Trading (FAHfT)		242			242	242
Financial liabilities measured at amortised cost (FLAC)		113,436	113,436			113,917
Financial Liabilities Held for Trading (FLHfT)		31			31	31

in € thousand		**Book Value 31.12.17**				**Book Value 31.12.17**
Assets						
Cash and cash equivalents	LaR	3,881	3,881			3,881
Accounts receivable	LaR	24,364	24,364			24,364
Other receivables	LaR	2,922	2,922			2,922
Other original financial assets						
Available for Sale Financial Assets	AfS	0		0		0
Derivative financial assets						
Derivates not used for hedging (Held for Trading)	FAHfT	1			1	1
Liabilities						
Accounts payable	FLAC	114,392	114,392			114,392
Other current liabilities	FLAC	3,697	3,697			3,697
Other original financial liabilities	FLAC	15,321	15,321			15,603
Derivative financial liabilities						
Derivates not used for hedging (Held for Trading)	FLHfT	240			240	240
Thereof cumulated according valuation categories IAS 39						
Loans and receivables (LaR)		31,167	31,167			31,167
Available for Sale Financial Assets (AfS)		0		0		0
Financial Assets Held for Trading (FAHfT)		1			1	1
Financial liabilities measured at amortised cost (FLAC)		133,410	133,410			133,692
Financial Liabilities Held for Trading (FLHfT)		240			240	240

Net profits and losses from financial instruments are as follows:

in € thousand	2017	2016
Loans and receivables (LaR)	–424	119
Financial Assets and Liabilities Held for Trading (FAHfT + FLHfT)	196	204
Financial liabilities measured at amortised cost (FLAC)	–1,546	–998
thereof interests	–201	–567
Sum	–1,773	–675

The fair value of other non-derivative financial liabilities relates to short-term and long-term bank loans. Due to the short term and the partial adjustment of interest rates during the year, the carrying amount of short-term bank loans corresponds to their fair value. The fair value of long-term bank loans amounts to € 12,052 thousand (previous year: € 11,507 thousand).

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 non-consolidated companies as of the balance sheet date corresponds to the cost to acquire these investments. The carrying amount of derivative financial instruments corresponds to their fair value.

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

The financial instruments in in category *assets held for trading* total € 1 thousand (2016: € 242 thousand) and those designated to the category *liabilities held for trading* total € 251 thousand (2016: € 31 thousand). We have classified this in the fair value hierarchy level 2.

Level 2 requires that the stock market or market price exists for a similar financial instrument, or that the calculation parameters are based on data from observable, regulated markets. Fair value is calculated by discounting the future cash flows applying the congruent market interest rate. As the Group's financial position and the interest terms on which it can borrow have not changed significantly, the carrying amount of financial liabilities approximates their fair value (Level 2 of the fair value hierarchy).

Financial instruments to which measurement methods are applied for which the significant inputs do not result from data derived from observable markets (Level 3 of the fair value hierarchy) do not exist.

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 recognized in profit or loss of the loands and receivables, as well as effects from currency translation.

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 currency translation.

(29) Other current liabilities

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

This balance sheet item also contains € 240 thousand of liabilities arising from derivative financial instruments (previous year: € 31 thousand) within due date of less than one year.

All current liabilities are due within one year.

in € thousand	2017	2016
Sales tax (VAT)	5,715	3,452
Payments received on account of orders	6,957	3,419
Customer credits	288	946
Social security contributions	122	37
Income and church tax	125	59
Other current liabilities	3,160	2,671
Total	**16,367**	**10,594**

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	2017	2016
Order commitments for goods	17,201	6,709
Other financial commitments	46,315	36,636
Total	**63,516**	**43,345**

Delticom rents office premises and parking spaces as well as warehouses for trading goods in 3 locations. The rental agreement meet the definition of an operating lease according IAS 17.3. The agreements for the office premises in Hanover run until 31.12.2020 and 22.03.2023. The agreements for the warehouses run until 30.06.2018, 31.07.2023, 29.02.2028 and 30.06.2029.

In addition, there is operating leases for one car. The car lease end in July 2018 after a 35-month term.

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

in € thousand	2017	2016
up to one year	5,901	3,882
2 years to 5 years	22,838	12,123
more than 5 years	2,874	4,531
Total	**31,613**	**20,536**

The amount of lease payments, which was recognized as an expense, amounted to € 5.2 million in the financial year.

Accounting for derivative financial instruments

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

The remaining maturities of the forward exchange transactions were all less than 6 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 these risks Delticom uses derivative financial instruments. The company hedges purchase agreements in foreign exchange (mostly USD). These contracts are either used to stock up the company's own warehouses or to match a corresponding sale transaction in EUR. If needed, the Wholesale division hedges sales contracts in foreign currencies. Purchase contracts denominated in foreign exchange which match sales contracts in the same currency are not hedged. Sales contracts in foreign exchange from operations in the E-Commerce division are not hedged.

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

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

Currency	1 Euro = unit FX (as of 31.12.2017)	Result +10% in €	Result -10% in €
CHF	1.1705	–1,796	1,796
DKK	7.4451	–49	49
GBP	0.8883	–1,773	1,773
NOK	9.8280	–893	893
PLN	4.1786	465	–465
RON	4.6597	–14	14
RUB	69.1006	184	–184
SEK	9.8196	1,851	–1,851
USD	1.2010	–96,785	96,785
Others	n/a	65	–65

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 10 basis points. For the scenario of an increase of the interest rates by 10 basis points the holdings would loss € 37 thousand, for a downward move of 10 basis points they would earn € 37 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. In addition to the account balances the investment loan is factored into the sensitivity analysis.

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. Liquidity is mostly held in the form of call money. In addition, bank credit lines are also available.

Credit risk

Delticom supplies goods 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 amounted to € 1,998 thousand (previous year: € 1,110 thousand). The deductibles for credit-insured receivables lie between 10 % and 15 %.

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 *Shareholdings*. Transactions between the company and its full consolidation subsidiaries were eliminated during consolidation and are not discussed in these notes.

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

- Binder GmbH (number of shares 2,196,061, 17.62 % interest)
- Prüfer GmbH (number of shares 4,302,410, 34.52 % interest)

The interest in Delticom AG in terms of Section 34 I S. 1 Nr. 1 WpHG (Securities Act) for Binder GmbH can be attributed to Rainer Binder (Chairman of the Supervisory Board), Hanover, and for Prüfer GmbH and Seguti GmbH to Andreas Prüfer (Board member), Hanover. In addition, Binder GmbH and Prüfer GmbH have entered in a pool contract in terms of Section 34 II S. 1 WpHG.

Sale of goods

in € thousand	2017	2016
to associated companies and related parties (category: persons in key positions)	9	4
to associated companies and related parties (category: not consolidated subsidiary companies)	6	1

Purchase of goods and services

in € thousand	2017	2016
from associated companies and related parties (category: persons in key positions)	1,091	709
from associated companies and related parties (category: not consolidated subsidiary companies)	0	0

The item relating to the purchasing of goods and services from key management individuals includes € 2 thousand (2016: € 22 thousand) for consultancy services rendered by a company. This company is wholly-owned by Rainer Binder. All transactions with related parties are agreed contractually, and conducted on terms as would also be usual with third parties.

Executive bodies

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

2017 the **Management Board** had the following members:

- Susann Dörsel-Müller, Peine: Retail customers (B2B) passenger car tyres Europe/Food, Fleets, Fitting partners, Consumers transaction B2C/B2B tyres, Special tyres, Commercial vehicle, Two-wheel, Legal, Human Resources
- Philip von Grolman, Hemmingen: North Amrica, Purchasing passenger car and special tyres, Transport/Logistic services
- Andreas Prüfer, Hanover: Logistic central warehouse, Consumer business (B2C) passenger car tyres East Europe with Austria, Finance, IT, Corporate Communications, Risk management
- Thierry Delesalle, Wunstorf: Consumer business (B2C) West Europe, Online Marketing and Pricing West Europe, Category management

The Management Board's remuneration consists of the following:

Susann Dörsel-Müller
Retail customers (B2B) passenger car tyres Europe/ Food/ Fleets/ Fitting partners/ Consumers transaction B2C/B2B Special tyres and Commercial vehicle/ Two-Wheels/ Großhandel/ Wheel Storage/ Mobile Fitting/ Legal/ Human Recources/ PNEBO

	Inflows		Donations			
in € thousand	2016	2017	2016	2017	2017 (Min)	2017 (Max)
Fixed compensation	195	240	195	240	240	240
Additional compensation	0	0	0	0	0	0
Total	195	240	195	240	240	240
One-year compensation	0	0	0	0	0	0
Multi-year compensation	10	16	30	60	0	530
Components with long-term incentive effect	10	16	30	30	0	500
Garanted stock options	0	0	0	30	0	30
Total	205	256	225	300	240	770
Pension expense	0	0	0	0	0	0
Total compensation	205	256	225	300	240	770

Philip von Grolman
North America/ Purchasing Passenger, Commercial and Special Tyres/ Transport/ Logistic services/ Warehouse Z

	Inflows		Donations			
in € thousand	2016	2017	2016	2017	2017 (Min)	2017 (Max)
Fixed compensation	243	243	243	243	243	243
Additional compensation	0	0	0	0	0	0
Total	243	243	243	243	243	243
One-year compensation	0	0	0	0	0	0
Multi-year compensation	70	68	156	98	0	530
Components with long-term incentive effect	70	68	156	68	0	500
Garanted stock options	0	0	0	30	0	30
Total	313	311	399	341	243	773
Pension expense	0	0	0	0	0	0
Total compensation	313	311	399	341	243	773

Thierry Delesalle
Consumer business (B2C) West Europe excl. B2C Two-Wheel/ Online Marketing and Pricing West Europe/ Category management/ TyresNET/ ReifenTEST

	Inflows		Donations			
in € thousand	2016	2017	2016	2017	2017 (Min)	2017 (Max)
Fixed compensation	210	240	210	240	240	240
Additional compensation	0	0	0	0	0	0
Total	210	240	210	240	240	240
One-year compensation	30	0	30	0	0	0
Multi-year compensation	3	13	30	60	0	530
Components with long-term incentive effect	3	13	30	30	0	500
Garanted stock options	0	0	0	30	0	30
Total	243	253	270	300	240	770
Pension expense	1	1	1	1	1	1
Total compensation	244	254	271	301	241	771

Sascha Jürgensen until 31.03.2016
DeltiParts/ Business Development

	Inflows		Donations			
in € thousand	2016	2017	2016	2017	2017 (Min)	2017 (Max)
Fixed compensation	44	0	44	0	0	0
Severance payment	540	0	0	0	0	0
Additional compensation	2	0	2	0	0	0
Total	46	0	46	0	0	0
One-year compensation	0	0	0	0	0	0
Multi-year compensation	0	0	0	0	0	0
Components with long-term incentive effect	0	0	0	0	0	0
Garanted stock options	0	0	0	0	0	0
Total	586	0	46	0	0	0
Pension expense	1	0	1	0	0	0
Total compensation	587	0	47	0	0	0

Andreas Prüfer
Logistic central warehouse/ Toroleo/ Consumer business (B2C) passenger car tyres East Europe with Austria/ Finance/ IT/ Corporate Communications/ Business Development/ Operation Center/ Supply Chain (B2B/B2C)

	Inflows		Donations			
in € thousand	2016	2017	2016	2017	2017 (Min)	2017 (Max)
Fixed compensation	475	475	475	475	475	475
Additional compensation	0	0	0	0	0	0
Total	475	475	475	475	475	475
One-year compensation	0	0	0	0	0	0
Multi-year compensation	86	137	313	166	0	780
Components with long-term incentive effect	86	137	313	136	0	750
Garanted stock options	0	0	0	30	0	30
Total	561	612	788	641	475	1,255
Pension expense	0	0	0	0	0	0
Total compensation	561	612	788	641	475	1,255

In the financial year 2017, short-term benefits due to members of the Executive Board of € 1,198 thousand (previous year: € 1,123 thousand) and other long-term benefits of € 261 thousand (previous year: € 529 thousand) were incurred. The share-based payment totals € 120 thousand (previous year: € 0 thousand).

During fiscal year 2017, the **Supervisory Board** was composed as follows:

- Rainer Binder, entrepreneur, Hanover: Member of the Supervisory Board and Chairman.
- Alan Revie, entrepreneur, Hamilton / UK: Member of the Supervisory Board

- Michael Thöne-Flöge, entrepreneur, Hanover: Deputy Chairman of the Supervisory Board

In fiscal year 2017, remuneration totalled € 50 thousand (previous year: € 50 thousand) for Rainer Binder, € 20 thousand (previous year: € 15 thousand) for Michael Thöne-Flöge and € 10 thousand (previous year: € 5 thousand) for Alan Revie.

Dividend

The General Meeting on 02.05.2017 resolved to pay a dividend in the amount of € 6,231,665.50 from Delticom AG's 2016 net retained profits (€ 0.50 per share, previous year € 0.50 per share) and to carry forward the remaining amount of € 4,070,512.00 to new account.

Proposal for the appropriation of profits

The Management Board proposes to distribute an amount of € 1,246,333.10 or € 0.10 per share from Delticom AG's net retained profits of € 20,547,608.82, carrying € 19,301,275.72 forward to new account.

Exempting Consolidated Financial Statements

Tirendo Deutschland GmbH and Gourmondo Food GmbH make use of the exemption provision of § 264 (3) HGB as far as possible.

Shareholdings

Consolidated subsidiaries:

Name, registered office, country	Fixed capital interest % 2017	2016
DeltiLog Ltd., Oxford, United Kingdom (formerly DeltiTrade Ltd.)	100	100
DeltiLog GmbH, Hanover, Germany (formerly DeltiTrade GmbH)	100	100
Delticom O.E. S.R.L., Timisoara, Romania	100	100
DeltiCar SAS, Paris, France	100	100
Extor GmbH, Hanover, Germany - 60 % subsidiary of DeltiLog GmbH	60	60
Gourmondo Food GmbH, Munich, Germany	90	90
Delticom South Africa, Durban, South Africa – 100% subsidiary of Delticom OE S.R.L	0	100
Toroleo Tyres GmbH, Gadebusch, Germany	100	100
Ringway GmbH, Hanover, Germany - 80 % subsidiary of DeltiLog GmbH	80	80
Toroleo Tyres TT GmbH & Co. KG, Gadebusch, Germany	100	100
Delticom North America Inc., Benicia, California, USA	75	75
Wholesale Tire and Automotive Inc., Benicia, California, USA - 100 % subsidiary of Delticom North America Inc.	100	100
Tyreseasy LLC, Wilmington Delaware, USA –100% subsidiary of Delticom North America Inc	100	100
Price Genie LLC, Benicia, California, USA – 100% subsidiary of Delticom North America Inc.	100	100
Giga Tyres LLC, Benicia, California, USA – 100% subsidiary of Delticom North America Inc.	100	100
Pnebo Gesellschaft für Reifengroßhandel und Logistik mbH, Hanover, Germany	100	100
Tirendo Holding GmbH, Berlin, Germany	100	100
Delticom TOV, Lviv, Ukraine- 99 % subsidiary of Delticom O.E. S.R.L.	99	0
Deltiparts GmbH, Hanover, Germany	100	100
MobileMech GmbH, Hanover, Germany	100	100
Tirendo Deutschland GmbH, Berlin, Germany – 100 % subsidiary of Tirendo Holding GmbH	100	100
TyresNET GmbH, Munich, Germany	100	90
Delti-Vorrat-1 GmbH, Hanover, Germany	100	100
Giga GmbH, Hanover, Germany	100	100

At equity consolidated subsidiaries:

Name, Based, Country	Fixed capital in % 31.12.2017	31.12.2016	Equity in thousand	Currency	Result of the last year in thousand	Record day from the information
Delticom Russland, Moscow, Russia	49	49	19,570	RUB	–14,920	31.12.2017

Through being included in the consolidated financial statements, Pnebo Gesellschaft für Reifengroßhandel und Logistik mbH, Tirendo Holding GmbH, Giga GmbH and Deltiparts GmbH have complied with the provisions of Section 264 (3) of the German Commercial Code (HGB), and utilize the related exemption as far as possible.

Supplementary report

Granting stock options

Taking account of the instructions on the key features of the Stock Option Plan 2014 in the resolution passed by the company's Annual General Meeting on April 29, 2014, the company's Management Board, with the consent of the Supervisory Board, introduced a stock option plan for employees of the company and, based on a resolution approved by the Supervisory Board, a stock option plan for members of the company's Management Board.

Based on these plans, 8,000 stock options were issued to Susann Dörsel-Müller, Philip von Grolman, Thierry Delesalle and Andreas Prüfer as members of the company's Management Board on January 5, 2018, and a total of 18,337 stock options were issued to the company's employees.

The vesting period for all stock options is four years, starting with the respective date of issue. The stock options are therefore currently not yet exercisable. The option rights have a maximum life of ten years as from the day when the respective option right originated.

Termination of control and profit and loss transfer agreement

The control and profit and loss transfer agreement with DeltiLog GmbH was terminated by DeltiLog GmbH on March 15, 2018 with effect from December 31, 2021.

There were no further events of particular importance after the end of the period under review.

Auditor's fees

In fiscal years 2017 and 2016, the following fees were recorded for the auditor Pricewaterhouse Coopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover:

in € thousand	2017	2016
Audits of the financial statements	204	209
Other confirmation and valuation services	8	2
Tax consultancy services	0	2
Other services	0	0
Total	**212**	**213**

The audit services primarily include the fees for the audit of the consolidated financial statements and the statutory audits of Delticom AG and of the subsidiaries included in the consolidated financial statements. In addition, statutory and voluntary certification services were provided for Delticom AG and the companies it controls.

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

The Managing and Supervisory Boards issued the declaration required by Section 161 of the German Stock Corporation Act (AktG) on 20.03.2018, 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 € thousand	31.12.2016	Cash changes	Non-cash changes			31.12.2017
			Acquisitions	Exchange rate changes	Changes in the fair value	
Long term bank loans	7,188	124	0	0	0	7,312
Short term bank loans	12,700	–4,691	0	0	0	8,009
Leasing liabilities	0	0	0	0	0	0
Assets held to secure long-term loans	0	0	0	0	0	0
Total	**19,888**	**–4,567**	**0**	**0**	**0**	**15,321**

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, 20 March 2018

(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.

To Delticom AG, Hanover

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Delticom AG, Hanover, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of profit or loss consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 01, 2017 to December 31, 2017 and notes to the consolidated financial statements, including a summary of significant accounting policies.

In addition, we have audited the group management report of Delticom AG, Hanover, which is which is combined with the Company's management report, for the financial year from January 1, 2017 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315e Abs. (paragraph) 1 HGB (Handelsgesetzbuch: German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017 and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz (sentence) 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

(1) Recoverability of goodwill for Tirendo

(2) Accounting of revenues

Our presentation of these key audit matters has been structured in each case as follows:

(1) Matter and issue

(2) Audit approach and findings

(3) Reference to further information

Hereinafter we present the key audit matters:

(1) Recoverability of goodwill for Tirendo

(1) Matter and issue

In the consolidated financial statements of the company, goodwill totalling € 35.3 million (17.5 % of the balance sheet total) is shown under the balance sheet item "Intangible assets". Goodwill is subjected to a recoverability test by the company once a year or on a case-by-case basis in order to determine a possible need for depreciation. The recoverability test is performed at the level of the groups of cash-generating units to which the respective goodwill is allocated. As part of the recoverability test, the carrying amount of the respective cash-generating units, including goodwill, is compared to the corresponding recoverable amount. The recoverable amount is generally determined on the basis of the value in use. The basis for measurement is regularly the present value of future cash flows of the respective group of cash-generating units. The present values are determined using discounted cash flow models. The Group's approved medium-term planning forms the starting point, which is updated with assumptions on long-term growth rates. This also takes into account expectations about future market developments and assumptions about the development of macroeconomic factors. The discounting is based on the weighted average capital costs of the respective group of cash-generating units. Delticom found no need for impairment as a result of the recoverability test.

The result of this valuation is highly dependent on the estimates of the legal representatives regarding the future cash inflows of the respective group of cash-generating units, the discount rate used, the growth rate and other assumptions and is therefore subject to considerable uncertainty. Against this background and due to the complexity of the evaluation, this matter was of particular importance in the context of our audit.

(2) Audit approach and findings

In the course of our audit, we have, among other things, followed the methodical procedure for carrying out the recoverability test. After comparing the future cash flows used in the calculation with the Group's approved medium-term planning, we assessed the adequacy of the calculation, in particular by coordinating it with general and industry-specific market expectations. In addition, we have also assessed the proper consideration of the costs of Group functions. Knowing that even relatively small changes in the discount rate used can have a significant impact on the amount of the enterprise value determined in this way, we dealt intensively with the parameters used to determine the discount rate used and followed the calculation scheme.

In order to take account of the existing forecast uncertainties, we have reviewed the sensitivity analyses prepared by the company. We have determined that the carrying amounts of the cash-generating units, including the allocated goodwill, are sufficiently covered by the discounted future cash surpluses, taking into account the available information.

The valuation parameters and assumptions applied by the legal representatives are generally in line with our expectations and are also within what we believe are reasonable ranges.

(3) Reference to further information

The company's information on the recoverability test is included in the section "Accounting and valuation principles - Goodwill" of the notes to the consolidated financial statements.

(2) Accounting of revenues

(1) Matter and issue:

Delticom is an E-Commerce company with expertise in the fields of tyres and car accessories, efood as well as warehouse logistics. The Group generates the bulk of its revenues from sales of tyres to private customers and commercial customers via the internet, with the majority of the revenues generated being generated with private individuals. The revenues generated represent mass transactions and shape the earnings situation of the Group. The processing and monitoring of these mass transactions is made computer-assisted.

The sales are classic delivery transactions that provide for a transfer of opportunities and risks to the customer on receipt of the goods, whereby Delticom uses various logistics service providers for deliveries.

The revenues of Delticom AG and Tirendo Deutschland GmbH are decisive for the earnings position of the Group in view of the amounts involved. Due to the mass transactions, there are increased requirements on the IT systems and on the processes for ensuring the accrual recognition of sales. Against this background, the accounting for revenues is a particularly important audit issue.

(2) Audit approach and findings

In the course of our audit we examined, among other things, the appropriateness and effectiveness of the internal control system set up for the processing and realization of revenues, including the IT systems used. The focus was on the revenues generated by Delticom AG and Tirendo Deutschland GmbH.

The sales of goods have also been examined on a test basis on a case-by-case basis. In addition, analytical audit procedures were performed for other subsidiaries included in the consolidated financial statements with regard to the distribution of the sales of goods to customer groups as well as the time distribution over the course of the year.

(3) Reference to further information

Further information on revenues can be found in the section "Notes to the income statement - Revenues" of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report, which we obtained prior to the date of our auditor’s report:

- the statement on corporate governance pursuant to § 315d HGB included in section Group fundamentals of the group management report

- the statement on corporate governance in accordance with No. 3.10 of the German Corporate Governance Code included in section Group fundamentals of the group management report

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 2, 2017. We were engaged by the Supervisory Board on June 1, 2017. We have been the group auditor of Delticom AG, Hanover, without interruption since the financial year 2005.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Martin Schröder.

Hanover, 20 March 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Martin Schröder
German Public Auditor

ppa. Hanno Karlheim
German Public Auditor

Year	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Group revenues (€ million)	667.70	606.60	559.79	501.70	505.54	456.38	480.01	419.58	311.26	258.98	215.50	173.13
Group EBITDA (€ million)	9.30	15.10	14.28	15.29	22.18	35.31	55.05	48.91	30.44	16.93	12.60	10.43
EPS (€/share)	0.09	0.36	0.28	0.24	0.97	1.87	3.04	2.77	17.71	0.99	0.71	0.66
Number of outstanding shares (million)	12.46	12.46	11.95	11.95	11.86	11.85	11.85	11.84	11.84	11.84	11.84	11.84
Dividend per share (€/share)**	0.10	0.50	0.50	0.25	0.50	1.90	2.95	2.72	1.70	1.00	0.67	0.40
Number of employees	185	156	129	247	179	144	116	101	87	81	75	62
Number of fitting partners (thousand)*	43.00	43.90	41.90	39.30	36.00	33.30	29.70	25.70	21.90	17.80	13.30	9.10
Number of shops*	453	387	245	163	137	128	126	120	105	100	88	78
Number of customers (customer base, thousand)*	12,230	10,879	9,583	8,319	7,314	6,160	5,310	4,389	3,431	2,626	1,930	1,305

* Number at the closing date 31.12.

** Dividend per share paid for fiscal year

Financial Calendar

08.05.2018	Annual General Meeting
14.05.2018	3-monthly notification 2018
14.08.2018	6-monthly report 2018
13.11.2018	9-monthly notification 2018
26.–28.11.2018	German Equity Forum Frankfurt

Imprint

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