Annual Report 2019

DELTICOM
Aktiengesellschaft

Profile

With the brand ReifenDirekt, Delticom AG is the leading company in Europe for the online distribution of tyres and complete wheels.

The product portfolio for private and business customers comprises an unparalleled range of more than 600 brands and around 18,000 tyre models for cars, motorcycles, trucks, commercial vehicles and buses. Complete wheels and rims complete the product range. The company operates 440 online shops and online distribution platforms in 75 countries, serving more than 14.9 million million customers.

As part of the service, the ordered products can be sent to one of Delticom's approximately 39,000 service partners worldwide for assembly at the customer's request.

Based in Hanover, Germany, the company operates primarily in Europe and the USA and has extensive expertise in the development and operation of online shops, internet customer acquisition, internet marketing and the establishment of partner networks.

Since its foundation in 1999, Delticom has built up comprehensive expertise in designing efficient and fully integrated ordering and logistics processes. The company's own warehouses are one of its most important assets.

In fiscal year 2019, Delticom AG generated revenues of around € 626 million. At the end of the last fiscal year, 242 were employed by the company.

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

Key Figures

		01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018	-/+ (%, %p)
Revenues	€ million	625.8	645.7	-3.1
Total income	€ million	663.4	683.8	-3.0
Gross margin[1]	%	21.6	21.8	-0.2
Gross profit[2]	€ million	172.7	178.7	-3.3
EBITDA	€ million	-6.6	9.0	-174.0
EBITDA-Marge	%	-1.1	1.4	-2.4
EBIT	€ million	-42.1	1.1	-3,944.3
Net income	€ million	-40.8	-1.7	-2,333.4
Earnings per share	€	-3.27	-0.13	-2,333.4
Total assets	€ million	188.2	232.5	-19.1
Inventories	€ million	62.9	99.6	-36.8
Investments[3]	€ million	6.6	10.7	-38.7
Equity	€ million	8.3	49.3	-83.2
Equity ratio	%	4.4	21.2	-16.8
Return on equity	%	-492.9	-3.4	-489.5
Liquidity position[4]	€ million	5.3	3.4	+56.8

(1) Gross profit ex other operating income in % of revenues
(2) Gross profit including other operating income
(3) Investments in tangible and intangible assets (without aquisitions)
(4) Liquidity position = cash and cash equivalents + liquidity reserve

Content

Letter to Our Shareholders

Dear shareholders, colleagues and friends,

for Delticom, the past year 2019 was a year of upheaval, refocusing, reflecting on old strengths and clear strategic decisions.

In the course of the first half of the past fiscal year, we recognised that a fundamental analysis and review of our strategic orientation after 20 successful years in the market had become necessary. In order to form the basis for a continued successful market positioning, we decided in the summer to carry out a systematic and comprehensive review of the current situation. To support this, we commissioned specialised consultants to prepare an expert report based on the IDW-S6 standard. At the same time, we started talks with our financing partners and entrusted an M&A advisor with the search for potential that could be used to strengthen our financial power.

The expert opinion showed a positive continuation prognosis and was discussed on 23 October 2019 with all partners involved. This process resulted in a financing commitment until the end of 2021, which is linked to the implementation of defined goals with a defined schedule for reaching the various milestones. The successes achieved so far in implementing the measures allow us to look positively into the future. Nevertheless, we are all aware that there is still a lot of work ahead of us and that we must concentrate on implementing the necessary steps. With the ongoing projects we are pursuing the goal of further optimizing Delticom's cost structure and the efficiency of our processes to return to a sustained profitable growth path. At the heart of the restructuring concept is the refocusing on our core business - the online trade with tyres and complete wheels in Europe.

We mandated the M&A advisory firm with two key objectives: On the one hand, it was to find buyers for subsidiaries and, on the other hand, to raise funds for Delticom AG in the form of debt and/or equity. This process is still being implemented. As we did not have any economically viable selling options for selected subsidiaries, we decided last year the close-down. This pertained in particular to the eFood division with the companies Gourmondo and Allyouneed Fresh. In the auto parts and oils divisions we also made a decision to close them by the end of the first quarter 2020. In the meantime, we have sold off the remaining inventory and as well as the domains of the online shops. We are currently still looking for potential interested parties at other subsidiaries. At present, the focus is particularly on our subsidiaries in the USA and our logistics subsidiary DeltiLog. We are currently looking for financing partners for our subsidiary Extor, which specializes in warehouse technologies, in order to be able to continue to drive forward the strategically relevant automation of the tyre business.

The measures we have initiated to close or sell loss-making business units underline that we are resolutely and consistently implementing a return to our successful business roots - selling tyres online in Europe. We have already achieved very good results in selected sub-areas last year and, for example, improved warehouse logistics in order to be able to deliver tyres to our customers faster. In addition to this optimization success, we were able to increase efficiency in the area of marketing through extensive restructuring. We are confident that with this clear focus and the return to our old strengths we will continue to be successful in a changed market situation.

The European market environment in our core business 2019 was also affected by the consolidation process that has been ongoing for several years. Various market players in Europe discontinued their online shops last year, and takeovers and insolvencies shaped and continue to shape the picture in the European tyre trade. In terms of the number of units sold, we can also speak of a market consolidation. In Germany, the tyre trade was confronted with a further 4.1 % decline in sales of replacement car tyres. While sales of summer tyres again declined (-7.7 %), demand for all-season tyres rose by a double-digit 13 %. Due to the mild winter, the volume of winter tyres sold was 7.5 % lower than in the previous year.

As a result of the weather-related lower demand for winter tyres and, to some extent, also because of the focus on profitability revenues last year came in at € 625.8 million and are thus about € 20 million or 3.1 % below the previous year's figure. This means that we have unfortunately missed the revenue targets formulated in our November forecast within a revenue corridor of between € 640 million and € 660 million. In particular, the weak winter tyre business combined with very low demand at the peak of the tyre season contributed to the fact that we fell below the forecasted revenue range.

In addition to market-related factors, the restructuring and realignment in particular had a significant impact on our earnings before interest, taxes, depreciation and amortization (EBITDA) in the past fiscal year. In the period under review, it decreased to € –6.6 million and is thus € 15.6 million below the value for 2018 of € 9.0 million. As a result, we were able to maintain our EBITDA forecast from November of the past fiscal year in a range of € -5 to -8 million. This was mainly due to the rapid implementation of the agreed measures. Despite the decline in revenues, we were able to exceed our forecast of an operating EBITDA in a range between € +5 and +8 million by € 2.0 million to a total of € 10.0 million.

The consolidated financial statements 2019 show consolidated net income of € –40.8 million or € –3.27 per share. Compared to the previous year, earnings have thus decreased significantly by € 39.1 million. In addition to the operating performance, the consolidation measures already mentioned as well as the restructuring costs contributed significantly to this result. These are mainly one-time special effects in the amount of € 38.8 million. The effect resulting from impairments amounts to € 22.1 million. The negative annual result leads to an opposite positive effect from the valuation of deferred taxes in the amount of € 2.7 million. As a result of the first-time application of the IFRS 16 standard in the reporting period with regard to operating leases, rental expenses are largely shifted to depreciation, which is € 4.8 million higher as a result of this effect.

In view of the development of earnings and the continued need to invest in our core business of online tyre retailing in Europe, we will not pay a dividend for the past financial year. This decision is in line with our clear objective of reinforcing Delticom AG's earnings power and consistently using the next two years to realign the company, in order to allow shareholders to participate in our business success again in future.

The Delticom group is forecasting revenues of between € 600 million and € 630 million for the current fiscal year 2020. The resulting EBITDA is forecast in a range of € 1 million to € 5 million. Our main focus in the current year is on implementing the necessary agreed projects and measures and strengthening our financial power by raising debt and/or equity. At the same time, we will consistently implement the strategic return to our strengths and the associated necessary adjustment steps in a market environment that continues to be characterised by consolidation processes. At present, the novel corona virus (COVID-19) and its increasing spread in Europe are shaping the overall economic situation. In order to slow down the speed of its spread, some European economies, including Germany, have imposed a so-called shutdown. According to experts, the corona pandemic basically poses a risk of recession. Statements as to whether and to what extent our business development in the current year will be negatively affected by the consequences of the infection can only be made at this time with a high degree of uncertainty. In the short term, the measures taken by governments to date and the associated restrictions on stationary trading could lead to increased online demand. In addition, the purchase of tyres can only be postponed to a limited extent, so that a catch-up effect is likely even if demand for replacement tyres declines due to the pandemic. However, medium- and long-term forecasts are not possible at this time due to the high dynamics of change and the high degree of volatility of the events surrounding the virus.

We would like to thank you, dear shareholders, for your confidence in a particularly challenging situation that is characterized by risks but also by opportunities. We firmly believe in a successful path of reorientation and in coping with the two transitional years. We look forward to continuing to walk the path into this future together with you.

We would also like to thank the long-standing Supervisory Board members Rainer Binder and Alan Revie, who retired at the end of February this year for personal reasons. Together with Michael Thöne-Flöge, they have supported the Management Board with great energy in concluding the turnaround concept and advised it on key issues. Subject to their election by the Annual General Meeting on May 5, 2020, we look forward to the successful cooperation with the new Supervisory Board. It will consist of Alexander Gebler, Karl Otto Lang and Michael Thöne-Flöge.

from left: Thomas Loock, Philip von Grolman, Andreas Prüfer, Susann Dörsel-Müller

Hanover, 24th March 2020

Thomas Loock   Susann Dörsel-Müller   Philip v. Grolman   Andreas Prüfer

Report of the Supervisory Board

Dear Shareholders,

In the 2019 financial year, the Supervisory Board performed the duties incumbent upon it under the law and the Articles of Association with particular intensity - due to the challenges facing the Company - and made the related decisions. The 2019 financial year was characterized by an increasingly difficult business environment, measures to secure short- and medium-term liquidity and the initiation of a turnaround program to return to profitability on a sustainable basis. In view of these challenges, the Supervisory Board voted and passed resolutions more frequently than usual in 2019. For its analyses, it was able to make full use of the company's internal control system and the reports of the respective functionaries.

We regularly and extensively dealt with the financial, asset and earnings position and the risk management of our company. We obtained reports on all significant factors of influence for the business and the main business transactions. We received monthly written reports from the Executive Board with the scope and content we requested. In addition, there was a lively exchange of information and ideas on current events and developments between the Supervisory Board and the Management Board, in particular through regular telephone calls and meetings between individual members of the Management Board and individual members of the Supervisory Board. In particular, we were always informed promptly and in detail by the Management Board about significant developments in discussions with the lending banks and the turnaround concept.

In justified individual cases, the Supervisory Board called in external experts for advice. We were also always on hand to advise the members of the Board of Management outside the meetings. Urgent decisions were made by written procedure. All resolutions were passed unanimously in the period under review. No member of the Supervisory Board attended less than half of the meetings of the Supervisory Board 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 was Chairman of the Supervisory Board until 29.02.2020, Mr Michael ThöneFlöge is Vice Chairman as well as financial expert in the sense of Section Section 100 Paragraph 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 Section 107 Paragraph 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

The Supervisory Board's deliberations focused on the delays in the preparation and review of the accounting documents for the 2018 financial year, the insourcing of the Company's accounting, the strategic orientation of the Company and the securing of short and medium-term liquidity. With regard to the latter, the Supervisory Board assisted the Management Board in word and deed in the successful negotiation of a restructuring agreement with the financing banks, which secured the Company's financing until the end of 2021. In view of an increasingly difficult business environment, the Management Board also worked with specialised consultants to develop a comprehensive turnaround concept for a sustainable return to profitability, increase profitability and focus on the core business "Tyres Europe", and took sustainable implementation measures. Here, too, we have closely supported the Management Board and are fully committed to the measures planned in the turnaround concept. Among other things, the discontinuation of the unprofitable business units was decided and implemented with the approval of the Supervisory Board. This concerned in particular the trade in automotive spare parts and lubricants as well as the company portfolio in the eFood segment. The direction is clear: Delticom aims to generate positive operating EBIT in its core business as early as 2020.

Meetings and written resolutions of the Supervisory Board

In order to do justice to the scope of the issues at hand, the Supervisory Board held in the year 2019 an extraordinary meeting on October 18, 2019, in addition to the four ordinary meetings, as well as numerous conference calls and meetings of the Supervisory Board members with the Management Board, the Chief Performance Manager and other external consultants in exercise of its information and auditing rights (September 25, 2019; October 2, 2019; October 17, 2019; October 25, 2019; November 4, 2019; November 8, 2019; November 13, 2019 and December 19, 2019). The aim of this exchange was to continuously monitor and inform about the current status of negotiations with the financing banks, the liquidity development of the company and its plans for measures with regard to the turnaround concept.

At our first ordinary meeting on 19.03.2019, due to delays in the preparation and audit of the annual financial statements as of 31 December 2018, we postponed the usual agenda topics for this meeting to a later Supervisory Board meeting and accordingly approved the necessary declaration of a deviation from the recommendation in section 7.1.2 of the Corporate Governance Code, (as amended until 20 March 2020; complies with recommendation F.2 of the Code as amended on 20 March 2020), according to which the consolidated financial statements and the Group management report should be publicly accessible within 90 days of the end of the financial year.

Finally, the auditor reported to the Supervisory Board on the main results of his audit at the 19.06.2019 meeting and was available to answer questions from the Supervisory Board. Due to the reason that the audit reports were not available in the original at 19.06.2019, this meeting was interrupted and continued on 25.06.2019. In this meeting, the Supervisory Board also discussed Delticom AG's annual financial statements and management report as well as the consolidated financial statements and group management report for fiscal year 2018, the Managing Board's proposal for the appropriation of net retained profits for fiscal year 2018 and approved the annual financial statements and consolidated financial statements. At this meeting we also decided to change the auditor. The meeting also dealt with the agenda and the Supervisory Board's proposed resolutions for the Annual General Meeting on 12.08.2019.

In the meeting on 12.08.2019, the Management Board informed the Supervisory Board about the Group's business development and measures taken to increase efficiency, mainly in marketing and warehouse logistics, with the aim of reducing costs. At this meeting, the Supervisory Board also discussed with the Executive Board the course of a meeting with financing banks and commercial credit insurers. At this meeting, Delticom and the banks and commercial credit insurers agreed certain measures. Among other things, Delticom AG undertook to fill the position of Chief Performance Manager and to grant her a general power of attorney. In this meeting, the Supervisory Board approved the granting of a corresponding general power of attorney for the new Chief Performance Manager Ms. Monika Dussen from Struktur Management Partner GmbH. At the same meeting, the Supervisory Board also appointed Thomas Loock as Chief Financial Officer of the Company with effect from August 15, 2019. By expanding the Managing Board, the Supervisory Board has taken account of the increased demands on Delticom AG's management in view of the difficult market and declining business.

At the meeting on 7.10.2019, the Management Board together with the Chief Performance Manager reported on the status of the turnaround process and the status of negotiations with the financing banks on securing financing until the end of 2021.

At the extraordinary meeting on 18.10.2019, the Management Board informed us about the status of the preparation of the restructuring report by Struktur Management Partner GmbH and the discontinuation of the business unit Carparts and Oil.

At the last ordinary meeting on 03.12.2019, the Management Board reported to us on the course of business. In addition, we discussed and approved the Managing Board's medium-term and investment planning for Delticom AG. At the same meeting we took note of the full risk report and convinced ourselves of the effectiveness of the risk management system.

In addition, 14 resolutions were adopted by written procedure.

These related to:

- the issuance of option rights to beneficiaries together with the determination of exercise prices as well as the invitation to tender for the services of the auditor (March 1, 2019),
- approval of the medium-term and investment planning for the financial years from 2019 onwards (08.03.2019),
- the approval of the logistics project Ensisheim (15.03.2019)
- Approval of the issue of option rights to entitled employees together with determination of the exercise prices (11.04.2019)
- the approval of a letter of comfort in favour of DS Road GmbH (17.04.2019)
- the approval of the current status of the standstill agreement with the financing banks (09.10.2019)
- Approval of the engagement of PricewaterhouseCoopers GmbH to provide support services in connection with the audit conducted by the German Financial Reporting Enforcement Panel (FREP) (10.10.2019)

- the approval of the discontinuation of the Carparts and Oil division (10/12/2019)
- the supplement to the service contract with the member of the Management Board Mr Thomas Loock (13 November 2019)
- the approval of the discontinuation of the business operations of All you need GmbH (03.12.2019)
- the approval of a collateral pool agreement with the financing banks (12.12.2019)
- the approval of a recourse agreement between Delticom AG and Mr. Andreas Prüfer, Prüfer GmbH and Seguti GmbH (December 17, 2019)
- the approval of the discontinuation of the business operations of Gourmondo Food GmbH (18.12.2019)
- approval of the granting of a general power of attorney to Dr. Blania as Chief Performance Manager in succession to Ms Dussen (19 December 2019).

Corporate Governance

On March 19, 2019, together with the Managing Board, we issued a declaration of conformity with the recommendations of the Government Commission for the German Corporate Governance Code within the meaning of Section 161 of the *AktG* and made this declaration permanently available on Delticom AG's website (www.delti.com/CG). The declaration of conformity is updated annually after the Supervisory Board's balance sheet meeting, otherwise as required. We approved this update on March 19, 2019 (see above).

In addition, Delticom AG's corporate governance is also reported as part of the corporate governance report within the meaning of Item 3.10 of the German Corporate Governance Code (in the version dated March 20, 2020). In future, the central document for the corporate governance report in line with Principle 22 of the German Corporate Governance Code in the version dated 20 March 2020 will be the declaration on corporate governance.

Audit of annual and consolidated financial statements

In the presence of the auditor, the Supervisory Board dealt intensively with the annual financial statement documents and audit reports for the 2019 financial year, in particular the annual financial statements in accordance with German commercial law and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), both as at 31.12.2019, as well as the management report for the Company and the Group and the dependent company report for the 2019 financial year. representatives of the auditor reported on the main results of the audits and were available to the Supervisory Board for additional information.

The auditor's reports, the annual financial statements prepared by the Managing Board, the dependent company report and the management report for Delticom AG and the Group for fiscal year 2019 were submitted to us in good time, thus providing us with sufficient opportunity to review them. The auditor

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover, had previously audited the financial statements. There are no doubts as to the independence of the auditor.

In the opinion of the auditor, the annual financial statements and the consolidated financial statements for the 2019 financial year give a true and fair view of the net assets, financial position, results of operations and cash flows of the Company and the Group in accordance with the accounting regulations; the audit of the dependent company report for the 2019 financial year by the auditor did not give rise to any objections. The auditors issued their unqualified audit opinions in each case. The auditor's report on the dependent company report reads as follows: "Having duly examined and assessed the report in accordance with professional standards, we confirm that the factual information contained in the report is correct and that the consideration paid by the Company for the transactions listed in the report was not inappropriately high or that disadvantages were compensated."

In addition, the auditors determined in the course of their assessment of the risk management system that the Management Board had taken the measures required by Section 91 (2) of the German Stock Corporation Act (*AktG*) to identify risks that could jeopardise the continued existence of the company at an early stage.

After our own examination of the annual financial statements, the consolidated financial statements, the management report, the Group management report and the dependent company report, each for the 2019 financial year, we fully concurred with the auditor's report. On 24.03.2020, the Supervisory Board approved the annual financial statements and the consolidated financial statements for the 2019 financial year. The annual financial statements of Delticom AG are thus adopted.

Personnel changes in the Supervisory Board and Management Board

There were two personnel changes in the Supervisory Board in 2020: As of 29.02.2020, Rainer Binder, until then Chairman of the Supervisory Board, resigned his office as Chairman and member of the Supervisory Board for personal reasons. Mr. Binder is a co-founder and indirect major shareholder of Delticom AG. In future, he will continue to be associated with the company as a consultant and will make his many years of expertise in purchasing and pricing available to the company free of charge. The Supervisory Board thanks Mr. Binder for his constructive contribution to the work of the Supervisory Board. On 05.04.2020, the Hanover Local Court appointed Alexander Gebler as his successor until the end of the Annual General Meeting 2020. Alan Revie also resigned from his office as a member of the Supervisory Board on 29.02.2020, as he wishes to terminate his professional activity for reasons of age. The Supervisory Board would also like to thank Mr Revie for his many years of service on the Supervisory Board and for the good and successful cooperation. On 05.03.2020, the Hanover Local Court appointed Karl-Otto Lang as his successor.

The Supervisory Board would like to thank the Management Board and all employees for their excellent work in the past year. In a difficult market environment, they have bravely taken on the challenges of increasing the company's profitability and guiding Delticom AG to sustained profitability. We are confident that we will master this together.

Hanover, 24.03.2020

Alexander Gebler

The Delticom share

The Delticom share (WKN 514680, ISIN DE0005146807, stock market symbol DEX) closed 2019 at € 4.55.

Development of the stock markets

2019 stock market

The year 2019 showed an overall positive development of the German stock market. One influential factor was the de-escalation of the trade conflict between the USA and China, which began in the second half of the year. In Europe, the capital markets also welcomed the agreement between the Italian government and the EU on the Italian draft budget for 2020 and the brexite regulation negotiated by the EU and British Prime Minister Johnson. Against this backdrop, the German indices DAX (+25.5 %), MDAX (+31.2 %), SDAX (+31.6 %) and TecDAX (+23.0 %) performed significantly better in 2019 than at the end of the year on December 28, 2018. The DAX started the year at 10,580 points. The DAX reached its high of 13,408 points on 16.12.2019. On 03.01.2019 it marked a low at 10,417 points. It closed the year at 13,249 points, an overall rise of 2,669 points or 25.5 %.

Development of the Delticom share (DEX)

Benchmarks

We use the STOXX® Europe Total Market General Retailers (SXETMGR) as a benchmark for DEX.

The SXETMGR is a net return index in which dividends are considered as net dividends. The chart Share performance shows the performance of DEX and SXETMGR since the beginning of 2019 over the course of the year.

DEX performance

After beginning the year at € 7.42, DEX reached an annual low on 10.09.2019 at € 2.58. The shares' annual high was recorded on 30.01.2019 and 16.12.2019 at € 7.62. DEX closed the year on € 4.55. In the course of 2019 the market capitalisation of DEX decreased from € 89.5 million to € 56.7 million.

Share performance 2019

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 € –3.27 (2018: € –0.13). Diluted earnings per share are € –3.27 (previous year: € –0.13).

The calculation of the earnings per share was based on net income after taxes totalling € –40,780,477.72 (previous year: € –1,675,893.95) and the weighted average number of shares outstanding during the fiscal year totalling 12,463,331 shares (previous year: 12,463,331 shares).

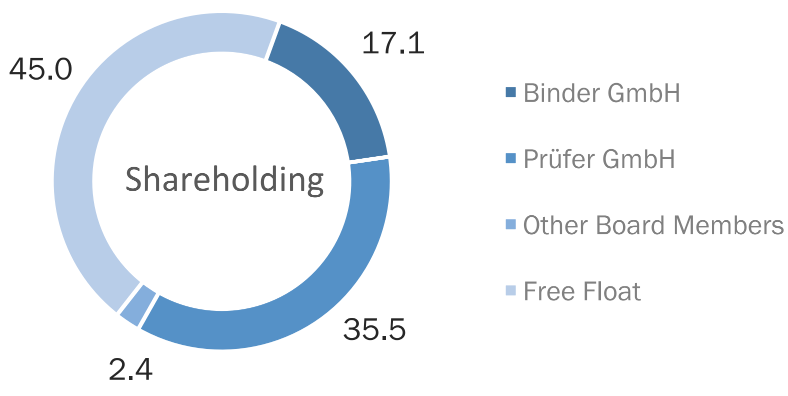
In view of the development of earnings last year and the tight liquidity situation, no dividend will be paid for the 2019 financial year.

Shareholder structure

There were no material changes in the shareholder structure of Delticom AG in 2019.

Shareholder structure

Shareholding in % of the 12,463,331 shares outstanding, as of 31.12.2019



The shares of Prüfer GmbH and Binder GmbH are attributed to the company founders Andreas Prüfer and Rainer Binder. In 2019, Andreas Prüfer as Board Member and Rainer Binder as Chairman of the Supervisory Board (until 29.02.2020) 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 one analyst from a renowned bank regularly offer his view on the course of Delticom AG's business and future prospects (with recommendation as of 16.03.2020):

- Marc-René Tonn, Warburg (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 companyspecific 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 2019, 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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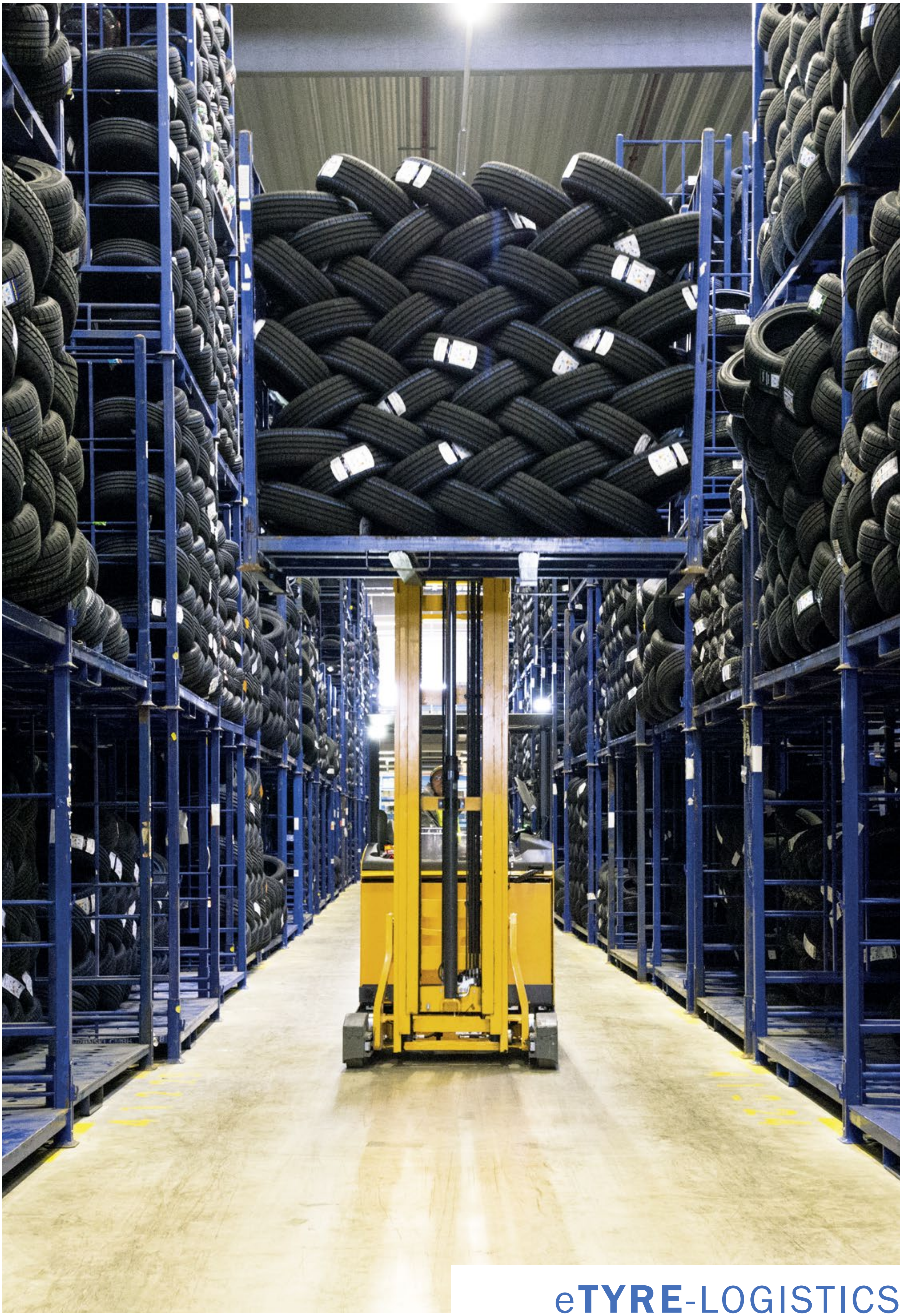
30169 Hanover
Phone: +49 511 93634-8903
E-Mail: melanie.gereke@delti.com

Stock key information

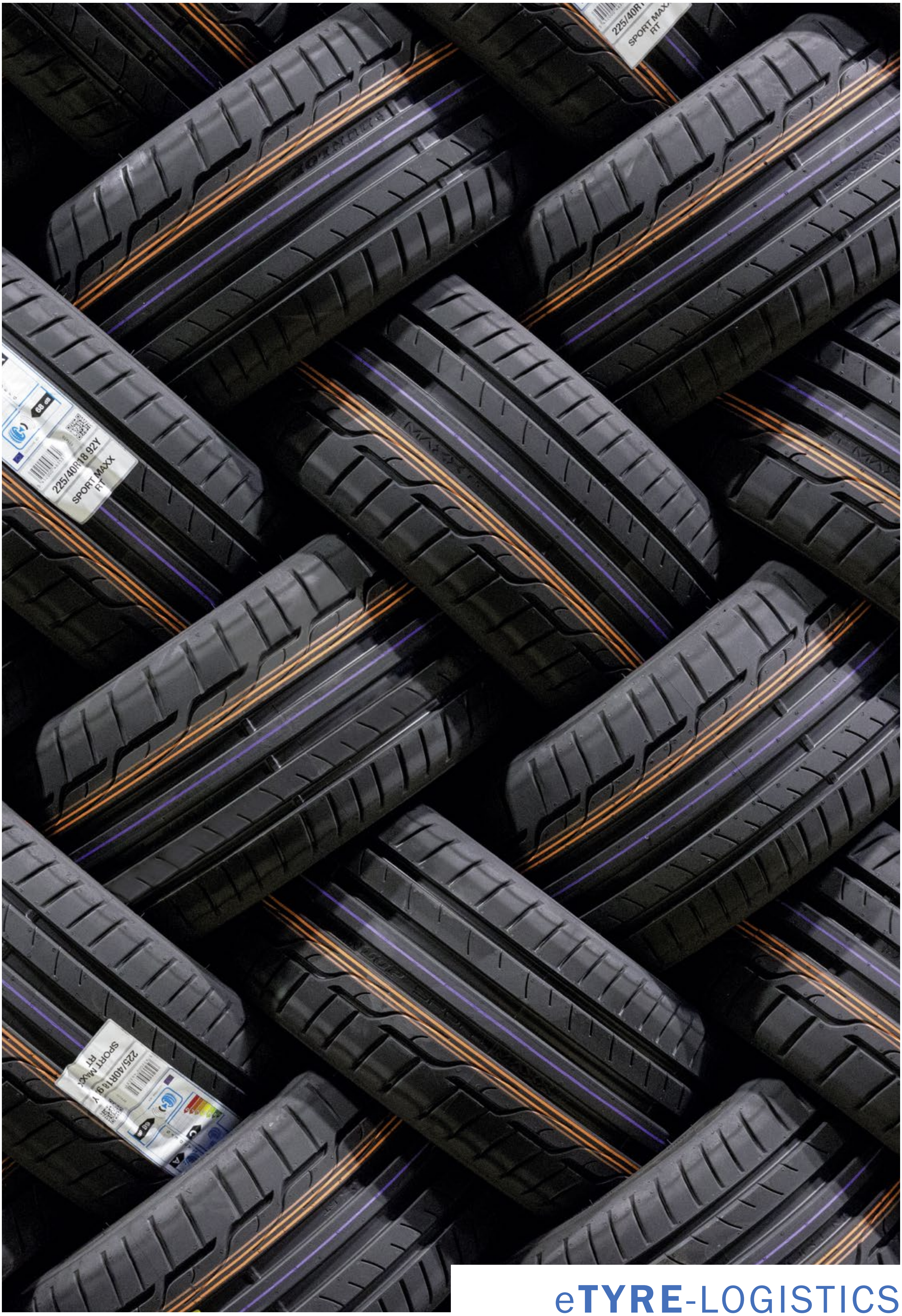
		01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Number of shares	shares	12,463,331	12,463,331
Share price on first trading day[1]	€	7.42	11.35
Share price on last trading day of the period[1]	€	4.55	7.18
Share performance[1]	%	-38.70	-36.7
Share price high/low[1]	€	7,62 / 2,58	11,5 / 7,18
Market capitalisation[2]	€ million	56.7	89.5
Average trading volume per day (XETRA)	shares	8,896	3,902
EPS (undiluted)	€	-3.27	-0.13
EPS (diluted)	€	-3.27	-0.13

(1) based on closing prices

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



eTYRE-LOGISTICS



eTYRE-LOGISTICS

eTYRE-LOGISTICS

Combined Management Report of Delticom AG

Content

Group fundamentals

Delticom was founded in Hanover in 1999 and today, it is the leading company in Europe for the online distribution of tyres and complete wheels. The company operates 440 online shops and online distribution platforms in 75 countries. In October 2006, it was the the first German e-commerce company to go public. Since then, the shares have been listed in the Prime Standard of the German Stock Exchange.

Refocusing on the core business

In fiscal year 2016, Delticom acquired the business activities for online trading of high-quality gourmet food and the logistics unit required for efficient processing with the aim of expanding its online trading activities over the long term. The efood and logistics units were acquired at a time when online food retailing was forecast to enjoy high growth rates while the market environment in Delticom's core tyre business was becoming increasingly difficult due to a consolidation process. Diversification was carried out with the clear objective of ensuring that the start-ups within the Delticom group make a positive contribution to earnings over the medium term. Ultimately this goal was not achieved. The loss-making start-ups' contributions to earnings together with the downturn in earnings in the core business led to a net loss for the first time in the company's history in fiscal year 2018.

Against the background of a tense earnings and liquidity situation, Delticom has initiated a restructuring process in the middle of 2019. In this context, a specialized consulting firm was commissioned to prepare an expert opinion based on the IDW S6 standard. The restructuring concept presented in October and approved by management culminated in a restructuring agreement with the financing banks in December of last year. The collateral pool agreement, which was also concluded in December last year, defines the collateral to be provided by Delticom in Germany and abroad. The process for providing foreign collateral is currently still ongoing.

At the heart of the restructuring concept is the refocusing on the core business - the online trade with tyres and complete wheels in Europe. As a consequence, it was decided in the past fiscal year to discontinue unprofitable business areas and to initiate appropriate closure measures (hereinafter called deinvestment). The operating business of All you need GmbH was already discontinued at the end of 2019. The business of Gourmondo Food GmbH, as well as the online trade in automotive spare parts and oils, will be completely discontinued by the end of the first quarter of 2020. With this restructuring process, the company's aim is to put Delticom back on a sustainably profitable growth path - and to do so by increasing efficiency and optimizing processes.

As a result of the restructuring and the refocusing on the core business, the overall annual result is burdened by various special effects, which are to a large extent associated with the disinvestment concept. These effects are presented in the group income statement as follows:

in € million	One-off effects	Thereof deinvestment
Cost of goods sold	4.6	1.5
Personal expenses	0.6	0.6
Rents (impending losses)	0.7	0.8
Restructuring costs	3.5	0
Foreign exchange losses	3.8	0
Other operating expenses	3.5	2.5
Total before impairment	**16.7**	**5.4**
Impairment	22.1	22.1
Total	**38.8**	**27.5**

Organisation

During the period under review on average 261 staff members were employed at Delticom. The highly automated business processes form a company-wide, scalable value chain. Possibly necessary manual routine work is passed to operations centres. Partnering with other companies allows us to fulfil the overall needs of our customers and, for example, provide customer-oriented logistics and transport services.

Legal Structure

The following section lists the subsidiaries that are fully consolidated in the consolidated financial statements as of 31.12.2019:

- All you need GmbH, Berlin (Germany)
- DeltiCar SAS, Paris (France)
- Delticom North America Inc., Benicia (California, USA)
- Delticom OE S.R.L., Timisoara (Romania)
- Delticom TOV, Kiev (Ukraine)
- Delticom Russland OOO, Moscow (Russia)
- Deltiparts GmbH, Hanover (Germany)
- DeltiStorage GmbH, Hanover (Germany)
- DeltiLog Ltd., Witney (United Kingdom)
- DeltiLog GmbH, Hanover (Germany)

- DS Road GmbH, Pratteln (Switzerland)
- Extor GmbH, Hanover (Germany)
- Giga GmbH, Hamburg (Germany)
- Gigatires LLC, Benicia (California, USA)
- Gourmondo Food GmbH, Munich (Germany)
- MobileMech GmbH, Celle (Germany)
- Pnebo Gesellschaft für Reifengroßhandel und Logistik mbH, Hanover (Germany)
- 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)

Delticom Japan GK, Tokyo/Japan, was liquidated and deconsolidated in 2019.

Corporate Governance

As a German joint-stock corporation, Delticom operates a dual management system, with a Supervisory Board and a Management Board that aims 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 coordinates the strategy with the Supervisory Board and ensures its implementation. 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 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.

External factors influencing the course of business

Vehicle stock, mileage, replacement cycle

In addition to the increasing importance of the Internet as a sales channel, the company is not completely independent of the underlying volume development of the tyre market.

Currently there are more than 260 million cars on the roads of the European Union. According to the manufacturer association ACEA, the passenger vehicle stock in the EU has grown by 8.0 % over the last five years, which represents total growth of around 20 million passenger vehicles.

The average age of vehicles in Europe is just under 11 years and in Germany (the largest share of passenger cars in Europe) around 10 years. Due to a longer lifespan of the cars, an increasing number of vehicles can be expected in the coming years, even if the number of new car registrations decreases.

Based on an annual average mileage of a car of about 14,000 km and similar road conditions in Europe tyres are worn out after 60,000 km at the latest. Accordingly, the replacement cycle is about four years. In the past fiscal year, the trend away from traditional cars and toward SUVs (Sport Utility Vehicles) continued. In Germany alone, more than 760 thousand SUVs were sold last year (+21 % compared to 2018).

It is generally expected that sales growth in the replacement business in both Europe and the USA will be approximately the same level as in 2019.

Price and mix

The revenues and the margin of an e-commerce company are influenced not only by quantity demand, but also in particular by prices in purchasing and sales.

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.

Tyre manufacturers have successfully made their production more flexible in recent years. In principle, they can now adjust their capacity variably to demand. Nevertheless, there may be over- or understocking in the supply chain, which affects prices between manufacturers, retailers and end customers. Overstocking usually puts pressure on margins.

Depending on the region and the economic situation of motorists, demand is divided between premium brands and lower-priced second and third brands. A shift in the mix can affect the average value of the shopping baskets sold and thus sales and margins.

Weather-dependend demand

In many countries, the passenger car replacement tyre business is significantly influenced by the seasons and the associated differences in weather and road conditions. In the northern part of Europe with the German-speaking countries, there are two peak periods per year: summer and winter tyres season. A trend towards all-season tyres is discernible due to the continuously changing conditions.

The second and fourth quarters are very strong in terms of revenues, as summer tyres are changed in spring and winter tyres in the fourth quarter.

The first and third quarters fall into transitional phases with lower revenues. In many European countries, the last quarter is then the strongest in terms of revenues.

Summer and winter tyre business extend over a longer period and follow a weather-dependent demand. Fluctuating growth rates due to different weather conditions thus explain deviations in comparison with the previous year.

The Delticom group operates throughout Europe and can thus often compensate for weather-related weak demand in individual countries with good growth in other regions.

Regulatory effects

Legislation also influences tyre demand. In Germany, for instance, there is a situational obligation to use winter tyres. In the event of "black ice, slippery snow, slush, ice or frost", motor vehicles must be fitted with winter tyres.

With the fifty-second regulation amending road traffic regulations the definition of winter tyres was specified and, as a result, mandatory minimum requirements for the performance of winter tyres on snow-covered roads are now being defined for the first time. In case of using non-permitted tyres, 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/with non-permitted 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

According to a directive issued by the European Union, all tyres for cars, vans, light trucks and trucks have to carry standardised labels that classify and depict ratings regarding fuel efficiency, wet grip and external rolling noise.

A colour-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.

As a matter of duty, the Delticom group provides its customers with comprehensive information on the labels of the respective products and their properties in its online shops and in its customer communications.

Tyre Pressure Monitoring System (TPMS)

Since 01.11.2012, all new type approved cars and camper vans that are sold within the EU must be equipped with a TPMS (tyre pressure monitoring system). Since 01.11.2014, all cars and camper vans with initial registrations must also have a TPMS. Such systems are split into direct and indirect systems in relation to their functionality.

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 these systems through its assembly specialists.

Competitive position

Barriers to entry

Delticom competes with many smaller, regionally specialised online dealers. In connection with the ongoing consolidation process in the tyre trade, individual local online dealers have been partially or completely taken over by other market participants. The number of new entrants has also declined significantly against the backdrop of a persistently difficult market environment. Both in 2019 and at the beginning of the current year, various providers in Europe closed their online shops.

Thanks to its multi-shop approach, Delticom can meet the individual requirements of different buyer groups in the best possible way, and can adapt flexibly to different competitive requirements.

First Mover

As "first-mover", we have established good business relationships with manufacturers and wholesalers throughout Europe over recent years. 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 75 countries.

Streamlined value chain

We focus on online trading and maintain a tightly-knit network of around 39,000 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 efficient positioning provides us with the necessary scope to offer our customers a broad product range at attractive prices. Thanks to effective working capital management we can make purchases off-season and thus ensure a continuous supply capability.

With increasing competitive pressure, 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. The replacement tyre market relevant to the Delticom group accounts for about three quarters of the world tyre market. 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 – increasingly also from the emerging markets.

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.

In the fragmented European tyre trade, 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

The continuing trend towards e-commerce and the further expansion of broadband connections, combined with an increasingly Internet-savvy customer base, will continue to drive tyre sales via e-commerce in the future.

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 2019.

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 % and has potential for growth. This 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.

Additionally, Delticom has a unique network of more than 39,000 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.

Important business processes

Purchasing

Delticom celebrated its 20th anniversary on 02.07.2019. Over the past 20 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, online market places 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 replacement tyres 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 tyre purchase.

Customer Capital

Since the company's founding around 15 million customers have made purchases in our online shops (previous year: 13.6 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 and forwarding agents. 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 600 tyre brands and around 18,000 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 access to test reports and manufacturers' specs for all our products and obtain comprehensive information.

Seasonal product ranges

In Northern Europe, but also in the Alpine region and in Germany, weather-dependent demand characterises the course of business in the tyre trade. We take this into account with our seasonal product range.

Business Model

Delticom Group sells tyres and complete wheels to private and commercial end customers via online shops and online distribution platforms. In the core business of online tyre trade, the tyre shop with the greatest revenues is www.reifendirekt.de. Tirendo is also a well-known brand in the German-speaking e-commerce space.

Delticom Group generates a large share of its revenues by selling from own inventories and ensures that it is able to deliver on a continuous basis. Using dropship fulfilment, the company also sells tyres from the warehouses of manufacturers and wholesalers which 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 75 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

346 employees

As of 31.12.2019, the Delticom group had a total of 242 employees (including trainees). The decrease in the number of employees compared to the previous year (2018: 346) is mainly due to the closure of the operational business of All you need GmbH at 31.12.2019. For the year as a whole, the average number of 261 employees worked for the company (previous year: 235). This calculation is based on the number of employees taking into account the 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 appropriate. 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 9 young people completed their apprenticeships in our company in the 2019 financial year. A total of 8 trainees were employed as of the end of 2019 (previous year: 10).

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 even in difficult situations and contribute profitably to the 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 Managing Board: "We declare that Delticom AG has received appropriate compensation for each of the transactions and measures listed in the report on relationships with affiliated companies according to the circumstances known to us on the date on which the transactions were executed or the measures were taken, and that it has not been disadvantaged by the fact that measures were taken. No measures were omitted in the reporting period."

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 on 20.03.2012, 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:

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

The variable components with a long-term incentive effect include both the performance-related salary components and the issue of stock options.

The performance-related salary components for the members of the Managing Board are based on the Delticom Group's revenues and operating profit. In order to align the remuneration structure with the sustainable development of the company, payment is spread over a longer period of time. These remuneration components are subject to a bonus/malus system geared to sustainability. As in the previous year, none of the members of the board were granted advances on their salaries or given loans during 2019.

Stock 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.

Furthermore, on 04.12.2018, the Supervisory Board of the company resolved to invite the members of the Management Board of the company to subscribe for option rights to no-par value shares of the third and final tranche. On 28.12.2018, the Supervisory Board of Delticom AG resolved to issue option rights from this third tranche to the members of the Managing Board Susann Dörsel-Müller, Philip von Grolman and Andreas Prüfer in equal parts.

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.

The General Meeting on August 12, 2019 authorized the Supervisory Board to grant option rights to subscribe a total of up to 150,000 new no-par value registered shares of the company to members of Delticom AG's Managing Board up to August 11, 2024, on one or several occasions or - to the extent that issued option rights expire or otherwise expire - repeatedly (Stock Option Plan I/2019). The conditions correspond to those of the 2014 stock option plan. No stock options were issued to members of the Managing Board in fiscal year 2019.

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 289 f. and Section 315d 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 complete wheels. The company 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 performance indicators.

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. The main objective of liquidity management is to ensure that the company is solvent at all times.

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 2019 the number of 1,339 thousand new customers was slightly lower than in 2018 (1,372 thousand). Nevertheless, the company has exceeded its target formulated at the beginning of the year of convincing more than 1 million new customers of its products and value-for-money offerings in the year under review. In addition, customers who come back contribute to the success of the business. In the past year 701 thousand of those customers (2018: 699 thousand) made repeat purchases at Delticom. Since the company was founded more than 14.9 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.

Sustainable and profitable growth

The market volume in the European replacement tyre trade amounts to more than € 10 billion annually, the online share is currently around 13 %. Delticom is the clear market leader with online revenues of more than half a billion € per year in its core european automotive business. The aim of the Delticom Group is to maintain and further expand its existing market leadership in the European tyre trade in order to once again increase its revenue and earnings potential in the medium and long term.

Thanks to our multi-shop concept, we are already reaching various target groups. However, Internet penetration in the individual European markets in which we operate still varies considerably with regard to online tyre trade. Accordingly, the Internet and Internet trading in Europe continue to offer growth potential for the future. It is therefore important to position the Group in this way today and to create the necessary structures to continue to be able to take advantage of future growth opportunities.

The continuous improvement of cost efficiency is a key target for sustainable and profitable growth. Accordingly, the company will continue to invest in the automation and optimization of its process landscape in the coming years in order to maintain and further expand not only its market leadership but also to regain cost leadership.

Focus

We focus on the online distribution of replacement tyres and complete wheels to private and commercial end customers in Europe.

Online only

Delticom sells exclusively online and does not operate any bricks-and-mortar outlets. Further automation and additional outsourcing are going to streamline the organisation. In the medium and long term, the Delticom group's sales activities will continue to focus on online trading with tyres and complete wheels.

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. In order to achieve its growth and profitability targets in the medium to long term, Delticom will continue to invest in its warehouse infrastructure. 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

The main objective of liquidity management is to ensure that the company is solvent at all times. The seasonality in the tyre trade results 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 39,000 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.

Services for research and development purposes

Delticom develops software for e-commerce (shop systems and backend systems) and technical logistics systems by its own employees, but also purchases development services.

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

Restructuring

Against the backdrop of a tense earnings and liquidity situation, Delticom initiated a restructuring process in the middle of 2019, which resulted in a restructuring agreement with the financiers in December of last year. The detailed background to this process is discussed in greater detail in the section *"Refocusing on the core business"* under "Group fundamentals".

General conditions in 2019

The downturn in global industrial activity, international trade conflicts, the brexit process and geopolitical risks all contributed to the global economy losing further momentum last year. While the economy continued to deteriorate, particularly in the advanced economies, economic momentum stabilized in many emerging markets. The Kiel Institute for the World Economy expects the global economy to grow by 3 % for 2019, after 3.7 % in the previous year.

Macroeconomic development

Europe

In the wake of the weaker global economy, the economic outlook in the euro zone also dimmed over in the course of the year. In the fourth quarter 2019, the currency area achieved the weakest economic growth of the year. One reason for this is the economic development in Italy and France. In both countries, economic output declined in the last three months of the year. In Spain, on the other hand, the economy grew faster than expected by experts. In its forecast for 2019, the International Monetary Fund (IMF) expects GDP in the euro area to rise by 1.2 %. Despite a gloomy economic outlook and subdued production growth, the labor market situation proved robust in many places. In October of last year, the unemployment rate in the euro zone was 7.5 %, only slightly above the low of 7.3 % recorded in 2007.

Germany

In 2019, the German economy has grown for the tenth year in a row. However, the economic momentum has slowed down noticeably over the course of the year. This is due in particular to the weakness of industry. The gloomy global economic environment and the high level of global political uncertainty placed a particular burden on the German economy, which specializes in the production of capital goods. Nevertheless, private consumer spending remains a reliable pillar of the domestic economy. The high level of employment and the marked increase in disposable income are contributing to this.

Sectoral developments

E-Commerce

Almost 60 % of the world's population already uses the Internet. However, Internet penetration, and thus the number of e-shoppers, still varies widely around the world. This also applies to Europe. In Northern and Western Europe, Internet penetration currently stands at around 93 % each. Whereas in Western Europe 81 % of Internet users have already made online purchases, the figure in Northern Europe is 77 %. In Central Europe, too, penetration is already comparatively high at 81 % and an e-shopper share of 66 %. Southern and Eastern Europe are currently still lagging behind in a European comparison with regard to Internet penetration and online shopping (e-shopper): while the figures for Southern Europe are 77 % and 47 % (e-shopper), Eastern Europe is currently still at the bottom of the European table with 71 % and 52 % (e-shopper).

Electronic commerce is growing rapidly and is becoming increasingly important as part of business models and for consumers in their everyday lives. Experts estimate that European e-commerce generated sales of € 620 billion in the past financial year. This corresponds to a growth of 13 %. According to the German E-Commerce and Mail Order Association (bevh), every third online shopper in Germany now orders several times a week on the Internet. The domestic industry was able to increase sales in 2019 by almost 12 % to nearly € 73 billion. Of this amount, 35 % is accounted for by multichannel providers, 47 % by online marketplaces and 15 % by Internet pure players, which showed last year with around 11 % similar growth to that of online marketplaces.

Replacement tyre business

The market data 2019 recently presented by the Bundesverband Reifenhandel und Vulkaniseuerhandwerk (BRV) documents for **German replacement tyre market** in the product group of passenger cars and off-road tires (4x4), a total decline in unit sales of 4.1 % year-on-year. While unit sales of summer tyres fell by 7.7 %, business with all-season tyres increased by 13 %. Sales of winter tyres were 7.5 % lower than in the previous year.

With regard to the **European replacement tyre market**, the European Tyre and Rubber Manufacturers' Association (ETRMA) speaks of a weak year for the tyre industry. In the largest sub-segment in terms of volume, 3 % less passenger car replacement tyres were sold during the year as a whole. The drop in sales volume in the fourth quarter was around 2 %, a drop of more than 51 million units. In contrast, the positive sales trend in the motorcycle/scooter tyre product segment continued in the last three months of the year. For the year as a whole, the increase in unit sales in the two wheel business amounted to more than 2 %.

Consolidation process on the replacement tyre market

The consolidation process in the European tyre trade, which has been ongoing for several years, continued in the current year. As a result of persistently difficult market conditions, there were further takeovers and insolvencies along the European tyre retail chain.

Summer tyre sales

After a comparatively mild winter in Q4 2018, the new year started with cold weather conditions accompanied by snowfall down to the lower altitudes. As a result, part of the demand for winter tyres has shifted from 2018 into the 2019 fiscal year. Industry experts estimate that in the first half of 2019, a total of 12.1 % more winter tyres were sold to consumers by German tyre dealers.

A few mild days in March also prompted many motorists to switch to summer tyres at an early stage - unlike the year before. However, some drivers still change their vehicles according to the rule of thumb from O to O (October to Easter). While Easter in 2018 fell on the first weekend in April, Easter in 2019 was three weeks later. After Easter and thus at the end of April, summer tyre business reached its second seasonal peak in the past fiscal year

While a decline in sales of 6.4 % was reported for the domestic business with passenger car summer tyres for the first half of 2019, the negative sales trend continued in the following months. Over the year as a whole, sales of summer tyres in Germany were 7.7 % down on the previous year. A significant increase in sales of 13 % was recorded in the business with all-season tyres for the year as a whole.

Winter tyre business

The start of the winter tyre season has been delayed by persistently mild temperatures. The third warmest summer since measurements began almost 140 years ago was followed by mild and rainy weather until October. In the second half of the month it was drier with partly high air pressure, but October as a whole turned out to be noticeably too warm. It was not until the end of the decade that a cold front brought a marked cooling and sporadic frost. Accordingly, the winter tyre business in 2019 started later than in the previous year. Due to the still comparatively mild temperatures until the end of the year, the seasonal curve was flatter overall, with no strong seasonal peak.

The Bundesverband Reifenhandel und Vulkaniseurhandwerk (BRV - German Tyre Trade and Vulcanising Trade Association) assumes that a total of 7.5 % fewer winter tyres were sold in the German tyre trade last year.

Business performance and earnings situation

Restructuring

In view of an increasingly difficult business enviroment and in order to secure its long-term liquidity, Delticom has been working with specialist management consultants since mid-August 2019 to develop a comprehensive future concept for returning to the profit zone, increasing profitability and focusing on its core business "Tyres Europe". The aim is to return to the profit zone as quickly as possible and to secure the future viability of the company in the long term by returning to the success model of **tyres online**. The continuation of all non-core activities of the company was scrutinised. The refocusing on the core business is accompanied by the discontinuation of loss-making business areas. At the end of last year it was therefore decided to discontinue the operating business of Gourmondo Food GmbH. The sell-off continued until mid of March 2020. The operating business of All you need GmbH has been discontinued on 31.12.2019. The non-profitable business with automotive spare parts and lubricants was abandoned during the first quarter 2020.

The costs incurred in connection with the deinvestments result in a negative contribution to earnings of € 27.5 million in the 2019 reporting period. Of this amount, € 22.1 million is attributable to impairments. The remaining difference mainly relates to other operating expenses in connection with the write-off of fixed assets and necessary value adjustments to the inventory. The management is convinced of the necessity to return to the core business. The resulting sustained improvements will allow the Delticom group to regain its former strength.

First-time adoption of IFRS 16

The following key figures are partly subject to the first-time application of IFRS 16. This leads to considerable deviations from the previous year's figures, particularly with regard to depreciation and amortisation as well as rents and operating costs. In total, however, these deviations almost balance each other out and therefore have no material influence on the earnings situation in the reporting period.

Revenues

Group

Delticom group generates the bulk of its revenues through online sales of replacement tyres for cars, motorcycles, trucks and industrial vehicles.

Over the course of 2019, Delticom group generated revenues of € 625.8 million, a decrease of 3.1 % from prior-year's € 645.7 million. Due to an exceptionally mild winter, weather related demand for winter tyres was lower than expected in the past fiscal year. In addition to weaker demand, the strengthened focus on profitability also contributed to this decrease in revenues.

Regional split

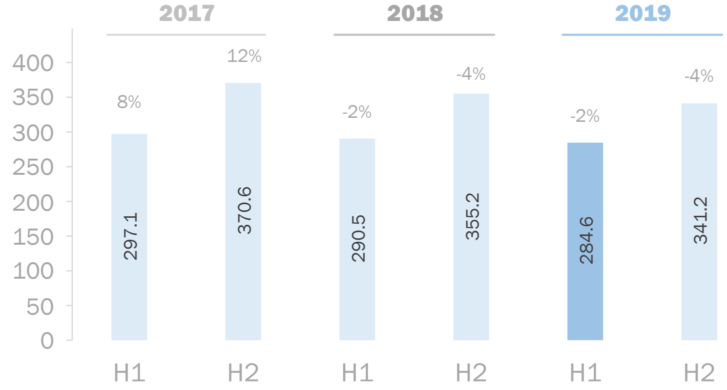
The group offers its product range in 75 countries, with the majority of sales in EU countries. Revenues in those countries totalled € 463.0 million (2018: € 490.3 million, –5.6 %). Operations in Europe are not restricted to EU member states but also include European non-EU countries and the USA. Across all countries outside the EU the revenue contribution for 2019 was € 162.7 million (2018: € 155.4 million, +4.7 %). 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

per half year, in € million (% change yoy)



1st half year

Thanks to the cold weather conditions at the beginning of the year, accompanied by snowfall down to the lower altitudes, a part of the demand for winter tyres has shifted to 2019 after a comparatively mild winter in Q4 2018. In addition, a few mild days in March - in contrast to the previous year - prompted many motorists to switch to summer tyres early on. Against this backdrop, the Delticom Group generated total revenues of € 122.2 million in the first quarter of the past fiscal year (Q1 18: € 110.8 million, +10.2 %).

Due to comparatively mild temperatures in March, the start of the summer tyre business in the past fiscal year has moved forward into the first quarter. Although the summer tyre business in the classic change-over countries reached a second seasonal peak after Easter and thus at the end of April, this was not sufficient to compensate for the market-related weaker demand in the rest of Europe during the remaining weeks of the second quarter. Accordingly, the company generated total revenues of € 162.4 million in Q2 2019 (Q2 18: € 179.7 million, –9.6 %).

In the first half of 2019, the Delticom Group generated total revenues of € 284.6 million, a decrease of 2.0 % compared to the same period of the previous year (H1 18: € 290.5 million).

2nd half year

After the summer 2019 in this country was the third warmest since the beginning of measurements almost 140 years ago, the weather in September turned out to be unsettled. As a result of the weather conditions described in the *"Sectoral developments"* with regard to the winter tyre business, sales of winter tyres did not reach an initial peak until the beginning of November. This first peak demand turned out to be flatter than the first seasonal peak in October of the previous year. Revenues in the second half of the year came in at € 341.2 million, a decrease of 3.9 % compared to the previous year (H2 2018: € 355.2 million).

Key expense positions

Cost of goods sold

The largest expense item is cost of goods sold (COGS), in which the purchase prices for the goods sold are recorded. The decrease in the reporting period by 2.9 % from € 505.1 million to € 490.6 million is in line with the development of sales. Nevertheless, the cost of materials ratio (ratio of cost of materials to revenues) increased year-on-year from 78.2 % to 78.4 %. This increase is mainly due to write-downs of inventories in the past fiscal year.

Personnel expenses

On 31.12.2019, the group had a total of 242 employees (including trainees). In the reporting period on average 261 staff members were employed at Delticom group (previous year: 235). Personnel expenses amounted to € 19.9 million (2018: € 15.9 million, +25.4 %). In the course of 2018, the company hired additional warehouse personnel who had previously worked for Delticom on a temporary basis. This effect is included in 2019 for the year as a wole. At the time of the acquisition in November 2018, All you need GmbH had a total of 110 employees, who were gradually reduced until the company ceased operations in December 2019.

The personnel expenses ratio (staff expenditures as percentage of revenues) amounted to 3.2 % in the past financial year (2018: 2.5 %).

Other operating expenses

Transportation costs

Among the other operating expenses, transportation costs is the largest line item. Despite the decline in sales, transportation costs in the reporting period were with € 62.2 million 0.4 % higher than in the same period of the previous year (2018: € 61.9 million). This effect results from a lower cost base in the previous year. In H1 2018, a € 1.8 million correction to transportation costs became necessary after transportation costs were overstated by this total amount in both fiscal years 2016 and 2017. As a result of this correction, the comparative basis for 2018 is correspondingly lower. Taking this effect into account, transport costs are 2.4 % lower than in the previous year before correction.

Rents and overheads

Rents and overheads decreased by 46.8 % in 2019, from € 7.4 million to € 3.9 million (ex IFRS 16: € 8.8 million). This decline is primarily due to the first-time application of IFRS 16 as of January 1, 2019. Leasing obligations are now accounted for accordingly, with the result that rental expenses for operating leases are primarily included in depreciation.

Direct warehousing costs

In the course of the 2018 financial year, the company had expanded its warehouse capacity by commissioning further warehouse locations. In 2019, the warehouse logistics processes were optimized in preparation for the winter season in order to increase delivery capacity and to further shorten delivery times. As a result, stocking costs increased in the reporting period from € 9.3 million to € 11.0 million (+17.3 %). The ratio of stocking costs against revenues of 1.8 % was above the previous year's level (2018: 1.4 %).

Marketing costs

Marketing expenses in the reporting period amounted to € 28.6 million, after € 33.0 million in the previous year. The significant decline of 13.3 % is the result of the cost-cutting and efficiency-enhancing measures introduced last year. The marketing expense ratio is 4.6 % of revenues (2018: 5.1 %).

Financial and Legal

Expenses for finance and legal fees amounted to € 9.3 million in the period under review (2018: € 4.9 million), an increase of 90.0 %. This significant increase is mainly due to legal and consulting costs in the amount of € 3.5 million incurred in connection with the restructuring of the company as well as the non-periodic additional costs for the audit of the 2018 annual financial statements.

Bad debt losses

Bad debt losses amounted to € 4.1 million in the reporting period, compared to € 5.1 million in 2018. Despite the decline of 18.8 %, the default rate remains comparatively high at 0.7 % of sales (2018: 0.8%). This is primarily due to the reconciliation and adjustment of open items. In addition, receivables management with regard to defaulting customers was further streamlined last year.

Depreciation

Depreciation on property, plant and equipment increased in the year under review to € 11.5 million (2018: € 2.6 million). The significant year-on-year increase is mainly due to impairments in the amount of € 7.9 million, which were taken as part of the deinvestment concept.

The amortisation of intangible assets amounted to € 19.1 million (2018: € 5.3 million). In connection with the deinvestment concept, impairments of € 14.2 million were also recognized on the assets of already closed or yet to be closed subdivisions.

In the course of the **first-time application of IFRS 16**, depreciation and amortisation for rights of use in the financial year 2019 had to be taken into account in the amount of € 4.8 million.

Overall, depreciation and amortisation including impairments increased by 350.0 % from € 7.9 million to € 35.4 million (ex IFRS 16: € 30.6 million) in the reporting period.

Earnings position

Gross margin

The gross margin (trading margin excluding other operating income) came in at 21.6 %, compared with 21.8 % the previous year. Although the company focused more strongly on profitability last year, the gross margin in H2 2019 at 21.3 % is lower than in the previous year (H2 2018: 21.9 %). This is due to the write-down of inventories in the amount of € 4.6 million carried out in the final quarter in connection with the optimisation of working capital management. Excluding this effect, the gross margin in H2 2019 amounts to 22.6 %.

Other operating income

Other operating income decreased in 2019 by 1.2 % to € 37.6 million (ex IFRS 16: € 38.0 million, 2018: € 38.1 million). During the year under review, income of € 14.0 million was generated from the participation in an ongoing logistics/land project. In the previous year, income of € 11.4 million was realised through the acquisition of All you need GmbH. In addition, other operating income includes gains from exchange rate differences in the amount of € 3.4 million (2018: € 3.5 million). FX losses have been accounted for as line item in the other operating expenses (2019: € 6.5 million, 2018: € 3.2 million). The increase in currency losses is mainly due to value adjustments in foreign currency business in the amount of € 2.7 million. In the reporting period the balance of FX income and losses totalled € –3.1 million (2018: € 0.3 million). Other operating income also includes marketing grants, income from transport losses and other income, which in total remained virtually unchanged year-on-year.

Gross profit

Altogether, the gross profit decreased in the reporting period by 3.3 % year-on-year, from € 178.7 million to € 172.7 million. Gross profit in relation to total income of € 663.4 million (2018: € 683.8 million) amounted to 26.0 % (2018: 26.1 %).

Operating EBITDA

The earnings before interest, taxes, depreciation and amortisation achieved in 2019 are burdened by one-off effects associated with the restructuring and refocusing in the total amount of € 16.7 million. The operating EBITDA before extraordinary expenses for the past fiscal year thus amounts to € 10.0 million.

EBITDA

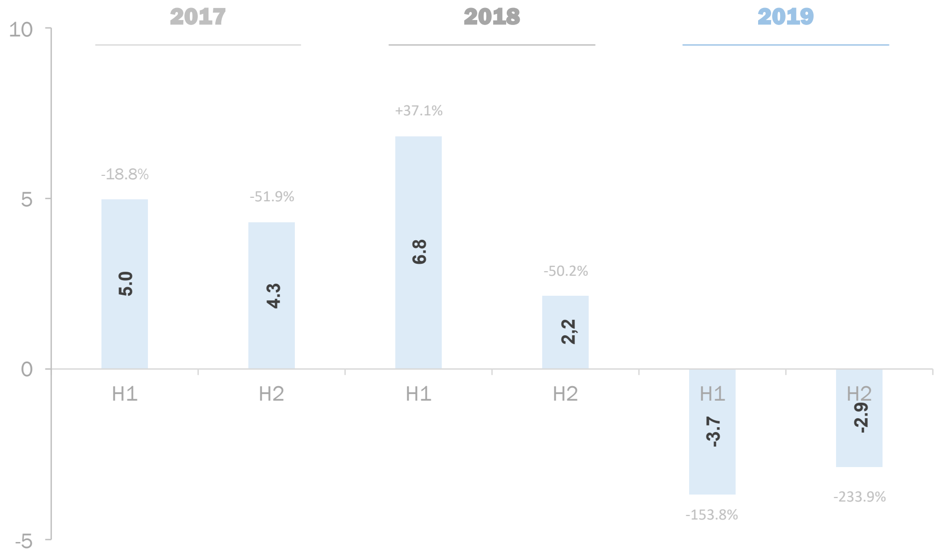
EBITDA for the reporting period decreased by 174.0 % from € 9.0 million to € –6.6 million (ex IFRS 16: € - 11.2 million). The EBITDA margin for the fiscal year stood at –1.1 % (ex IFRS 16: -1.8 %, 2018: 1.4 %).

In the first six months of 2019, EBITDA of € –3.7 million (ex IFRS 16: € -6.3 million) was generated, 153.8 % lower than in the same period of the previous year (H1 18: € 6.8 million). The EBITDA margin for H1 19 totalled –1.3 % (ex IFRS 16: -2.2 %, H1 18: 2.3 %). An increased cost base resulting from the acquisition of All you need GmbH in November 2018, the restructuring of warehouses and the increase in transportation costs had a negative impact on earnings in H1 19.

In the second half of the year, an EBITDA of € –2.9 million (ex IFRS 16: € -4.9 million) was achieved, after € 2.2 million in H2 18 (–233.9 %). In addition to the weaker revenue development in the fourth quarter, the significant decline is due in particular to the one-time expenses from impairment losses and restructuring costs incurred in H2 2019. The cost savings achieved in the second half of the year, particularly in marketing, and the income received from the logistics project could not fully compensate for the factors that had a negative impact on earnings. The EBITDA margin achieved in the second half of the year is –0.8 % (ex IFRS 16: -1.4 %), compared with 0.6 % in the same period of the previous year.

EBITDA

Per half year, in € million (% change yoy)



EBIT

EBIT decreased in the reporting period from € 1.1 million to € –42.1 million (ex IFRS 16: € -41.7 million). This equates to an EBIT margin of –6.7 % (ex IFRS 16: -6.7 %, 2018: 0.2 %). In addition to increased expenses resulting from the optimisation and restructuring measures introduced, the negative results of subsidiaries and impairments on non-current assets of € 22.1 million in connection with the closure or possible sale of subsidiaries had a negative impact on earnings.

Financial income

Financial income for the reporting period amounted to € 86 thousand (ex IFRS 16: € 57 thousand, 2018: € 22 thousand). Financial expenses raised to € 1.5 million (ex IFRS 16: € 1.2 million, 2018: € 0.7 million). The significant increase results on the one hand from the restructuring interest rate, which is applied both to the credit lines and to the existing medium-term loans in the restructuring period. On the other hand, the first-time application of IFRS 16 resulted in an increase in financial expenses of € 0.3 million. The financial result amounted to € –1.5 million (ex IFRS 16: € -1.2 million, 2018: € –0.7 million).

Income taxes

Due to the negative pre-tax result (EBT) of € –43.5 million (ex IFRS 16: € -42.9 million), the item "Taxes on income" shows an income of € 2.7 million while in 2018 a tax expense of € 2.1 million was recorded. The tax rate in the past financial year was 6.3 % (2018: 493.1 %). The income in 2019 mostly results from loss carryforwards in the amount of € 3.1 million, which Delticom AG can use in future.

Net income and dividend

The consolidated net income of € -40.8 million (ex IFRS 16: € -40.2 million) respectively € -3.27 (ex IFRS 16: € -3.22) per share is significantly lower than in the previous year (2018: € -1.7 million or € -0.13 per share). Delticom AG's earnings relevant for the dividend distribution are negative at € -49.0 million or € -3.93 per share (2018: € -3.4 million or € -0.27 per share).

In view of the development of earnings last year and the tight liquidity situation, no dividend will be paid for the 2019 financial 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

	2019	%	+%	2018	%	+%	2017	%
Revenues	**625,755**	**100.0**	**-3.1**	**645,724**	**100.0**	**-3.3**	**667,711**	**100.0**
Other operating income	37,610	6.0	-1.2	38,064	5.9	47.4	25,827	3.9
Total operating income	663,364	106.0	-3.0	683,788	105.9	-1.4	693,539	103.9
Cost of goods sold	-490,643	-78.4	-2.9	-505,100	-78.2	-4.8	-530,311	-79.4
Gross profit	**172,722**	**27.6**	**-3.3**	**178,688**	**27.7**	**9.5**	**163,228**	**24.4**
Personnel expenses	-19,936	-3.2	25.4	-15,893	-2.5	45.6	-10,916	-1.6
Other operating expenses	-159,423	-25.5	3.6	-153,829	-23.8	7.5	-143,039	-21.4
EBITDA	**-6,637**	**-1.1**	**-174.0**	**8,965**	**1.4**	**-3.3**	**9,273**	**1.4**
Depreciation	-35,417	-5.7	350.0	-7,871	-1.2	8.8	-7,237	-1.1
EBIT	**-42,054**	**-6.7**	**-3,944.3**	**1,094**	**0.2**	**-46.3**	**2,036**	**0.3**
Net financial result	-1,460	-0.2	118.7	-668	-0.1	76.0	-379	-0.1
EBT	**-43,514**	**-7.0**	**-10,306.5**	**426**	**0.1**	**-74.3**	**1,657**	**0.2**
Income taxes	2,734	0.4	-230.0	-2,102	-0.3	289.9	-539	-0.1
Consolidated net income	**-40,780**	**-6.5**	**2,333.4**	**-1,676**	**-0.3**	**-249.9**	**1,118**	**0.2**

Overall statement on the earnings position

In our core business - the online trade with tyres and complete wheels in Europe - the earnings situation has been tense since 2018. In addition to a market environment characterized by consolidation, this is due not least to an excessively high cost base. In both fiscal year 2018 and 2019, consolidated earnings were supported to a considerable extent by one-time effects. Such positive earnings contributions cannot be achieved in every year. With the restructuring process initiated in the past fiscal year and the associated refocusing on our core business, we have initiated a turnaround to put Delticom back on a sustainably profitable growth path. Despite the restructuring agreement concluded last year, we still need to consistently continue on our chosen path and thus return to our core business - tyres Europe. We aim to reach the agreed milestones step by step up to the end of 2021, in order to return the Delticom group to its former strength.

In addition to the increased management focus on profitability, the unusually mild winter also led to a decline in revenues in the past fiscal year by 3.1 % to € 625.8 million (2018: € 645.7 million). EBITDA was negative at € -6.6 million (ex IFRS 16: € -11.2 million, 2018: € 9.0 million, -174.0 %). The consolidated net income was € -40.8 million (ex IFRS 16: € -40.2 million) after a previous year's result of € -1.7 million. Non-recurring expenses from restructuring costs, negative effects from losses of individual subsidiaries and impairments had a significant negative impact on earnings last year. In view of the deinvestment concept to discontinue the loss-making companies in the efood and logistics sector, the balance sheet valuations of these companies were already fully adjusted in the past financial year. Although we cannot be satisfied with the resulting development of earnings last year, an important step towards increasing efficiency and profitability has been taken. The cost savings in marketing and the income generated from the participation in a logistics/property project compensated for some of the above-mentioned effects. The reorganization concept passed in October last year convinced banks and trade credit insurers of the Delticom group's future viability. The first successes from the defined measures were already recorded in 2019. For example, the optimization of warehouse logistics processes in winter business, which was already initiated at the start of the year, paid off for our customers in the past fiscal year. Delticom was able to deliver faster overall and was thus significantly more efficient than in 2018. By focusing on its core business, Delticom can quickly return to profitability, thus laying the foundation for a sustained increase in profitability.

Financial and assets position

The Delticom group's financial position and net assets on the balance sheet date 31.12.2019 is characterized by comprehensive measures for restructuring and reorientation of the company. With regard to the measures taken last year to secure financing and strengthen liquidity, we refer to the comments in the Risk and Opportunity Report in the section *"Risk threatening the existence of the company"*.

Investments

Property, plant and equipment

The investments made in property, plant and equipment in 2019 totalling € 4.5 million (2018: € 7.2 million) mainly relate to replacement and equipment investments in our warehouses.

Intangible Assets

Delticom also invested € 2.1 million in intangible assets (2018: € 3.5 million). The investments made in 2019 largely relate to software.

The total of the investments made in 2019 in the amount of € 6.6 million is thus significantly lower than the previous year's value of € 10.7 million.

Rights of use - IFRS 16

The rights of use from leasing agreements to be accounted for in accordance with IFRS 16 amounted to € 24.3 million on the balance sheet date, following scheduled depreciation of € 4.8 million in the reporting period.

Working Capital

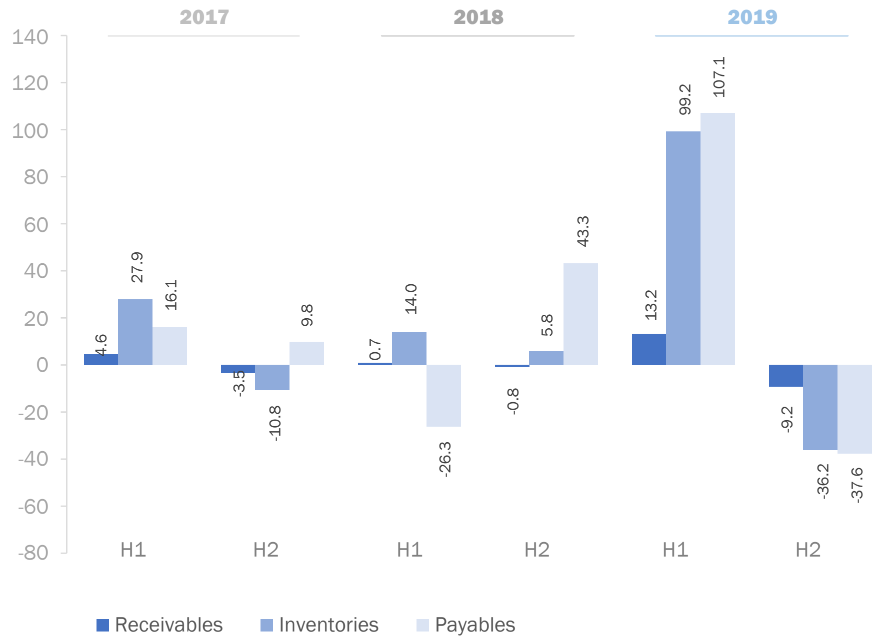
Working Capital

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 2019 the Net Working Capital increased from € -15.1 million by € 12.6 million to € -2.5 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

In total, working capital commitment in receivables - reduced by prepayments received from customers as well as customer credits - decreased from € 16.2 million as of 31.12.2018 to € 4.0 million as of 31.12.2019. Average Days Sales Outstanding (DSO, average receivables divided by average revenue per day) with 5.9 was lower compared to the previous year (2018: 9.4).

The accounts receivable stood at € 10.5 million on the reporting date (31.12.2018: € 24.3 million). Due to mild weather conditions, the order volume in the second half of December was below the previous year's level. Accordingly, prepayments received from customers at the end of the year were with € 6.2 million lower than in the previous year (31.12.2018: € 7.8 million). The liability position of customer credits on the reporting date remained with € 0.3 million nearly unchanged (31.12.2018: € 0.3 million).

Inventories

Among the current assets, inventories is the biggest line item. Against the background of active working capital management, inventories were reduced in the course of the year by € 36.6 million to € 62.9 million (31.12.2018: € 99.6 million). Due to logistics difficulties at the seasonal peak in October 2018, the inventory of winter goods was above average on the balance sheet date 31.12.2018. A good portion of this inventory was sold in Q1 2019 thanks to the prolonged winter.

Due to lower inventory levels during the year and the decline in revenues, average Days Inventory Outstanding for 2019 (DIO, average inventory level divided by average cost of sales) decreased over the course of the past financial year, from 64.8 days in 2018 to 60.2 days in 2019.

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 other assets). This balance of accounts payable reduced by credit with suppliers was with € 69.4 million by € 61.5 million lower than the previous year (31.12.2018: € 130.9 million). This decrease corresponds to the significantly lower inventories compared with the balance sheet date.

Cash flow

Operating cash flow

The cash flow from operating activities was significantly lower in the reporting period at € -22.5 million than in the previous year (2018: € -11.7 million). The significant deterioration in EBIT in the reporting period is mainly compensated by significantly higher depreciation and amortisation, the change in current provisions and the positive effect of income taxes paid. The reduction in trade payables over the course of the year is higher than the reduction in inventories and receivables and other assets not attributable to investing and financing activities.

Investing activities

Payments for investments into property, plant and equipment have been € 4.5 million (2018: € 7.2 million). In the reporting period, Delticom also invested € 2.1 million in intangible assets (2018: € 3.5 million). The disbursements are offset by inflows from the disposal of property, plant and equipment amounting to € 2.5 million. As a result, the cash flow from investment activities totalled € –4.1 million (previous year: € –3.1 million).

Financing activities

In the period under review, the Delticom group recorded cash flow from financing activities totalling € 28.5 million (2018: € 14.3 million). Financial liabilities totalling € 5.8 million were repaid up to the approval of the restructuring concept at the end of October. This is offset by the utilization of credit lines in the amount of € 34.2 million.

Liquidity according cash flow

The starting point is the liquidity position as of 31.12.2018 amounting to € 3.4 million. The balance of effective changes in cash funds during the reporting period totalled € 1.9 million. On 31.12.2019 liquidity totalled € 5.3 million. As a result, the group's net cash position (liquidity less liabilities from current accounts) amounted to € –59.0 million on the balance sheet date. The starting point is the net liquidity less current financial liabilities at the beginning of the year in the amount of € –23.9 million plus the change in cash and cash equivalents by € 1.9 million and the increase in current financial liabilities by € –37.2 million compared with the prior year balance sheet date. With regard to the reasons for this development, we refer to the explanations in the section *"Balance sheet structure - Current liabilities".*

Free cash flow

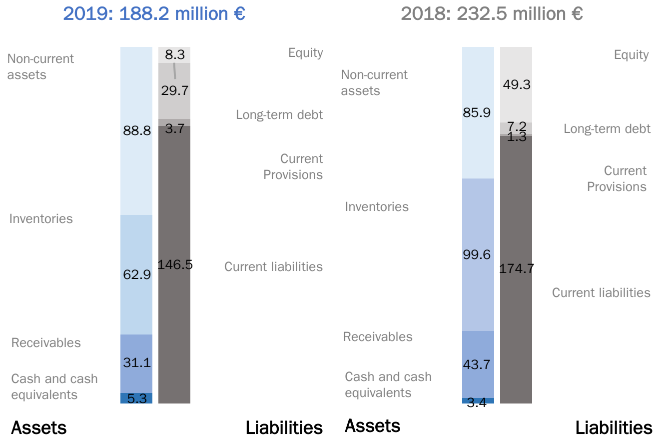
The free cash flow (operating cash flow less cash flow from investing activities) decreased from € –14.8 million to € –26.5 million.

Balance sheet structure

As of 31.12.2019 the balance sheet total amounted to € 188.2 million (ex IFRS 16: € 159.5 million, 31.12.2018: € 232.5 million, –19.1 %). The chart Balance Sheet Structure illustrates the capital intensity of the business model.

Balance Sheet Structure

in million €



Abgridged Balance Sheet

in thousand €

	31.12.2019	%	+%	31.12.2018	%	30.06.2018	%
Assets							
Non-current assets	88,800	47.2	3.4	85,858	36.9	79,357	36.1
Fixed assets	76,364	40.6	-6.2	81,369	35.0	74,104	33.7
Other non-current assets	12,436	6.6	177.0	4,490	1.9	5,253	2.4
Current assets	99,412	52.8	-32.2	146,677	63.1	140,737	63.9
Inventories	62,950	33.4	-36.8	99,586	42.8	93,784	42.6
Receivables	31,123	16.5	-28.8	43,686	18.8	42,977	19.5
Liquidity	5,339	2.8	56.8	3,404	1.5	3,976	1.8
Assets	**188,212**	**100.0**	**-19.1**	**232,535**	**100.0**	**220,094**	**100.0**
Equity and Liabilities							
Long-term funds	38,021	20.2	-32.7	56,490	24.3	60,680	27.6
Equity	8,274	4.4	-83.2	49,254	21.2	53,337	24.2
Long-term debt	29,748	15.8	311.1	7,236	3.1	7,343	3.3
Provisions	384	0.2	52.2	252	0.1	191	0.1
Liabilities	29,030	15.4	343.4	6,547	2.8	6,723	3.1
OtherNonCurrentLiabilities	334	0.2	-23.5	437	0.2	429	0.2
Short-term debt	150,190	79.8	-14.7	176,045	75.7	159,414	72.4
Provisions	3,694	2.0	177.7	1,330	0.6	1,365	0.6
Liabilities	146,496	77.8	-16.2	174,715	75.1	158,049	71.8
Equity and Liabilities	**188,212**	**100.0**	**-19.1**	**232,535**	**100.0**	**220,094**	**100.0**

Non-current assets

On the assets side, non-current assets increased slightly from € 85.9 million to € 88.8 million (ex IFRS 16: € 60.5 million). Intangible assets decreased from € 59.7 million to € 41.6 million, a substantial part of which was due to deinvestment-related impairments of € 14.2 million. Property, plant and equipment also declined from € 21.7 million by € 11.2 million to € 10.4 million, mainly due to impairment losses of € 7.9 million. As a result of the first-time application of IFRS 16, so-called rights of use from leasing agreements (Right of Use Assets) were recognised for the first time in the reporting year in the amount of € 24.3 million.

Other non-current assets rose by € 7.9 million to € 12.4 million (ex IFRS 16: € 8.5 million, 31.12.2018: € 4.5 million), which is almost exclusively attributable to increased deferred tax assets from loss carryforwards and the first-time application of IFRS *16 - Subletting receivables*.

Inventories

The largest item in current assets is inventories. They decreased by € 36.6 million in the reporting period and amounted to only € 62.9 million (previous year: € 99.6 million) at the balance sheet date 31.12.2019. The reasons for the decrease of 36.8 % are presented in detail under Financial Position - Working Capital.

Receivables

Trade receivables amounted to € 10.5 million at the end of the year and were thus € 13.8 million or 56.6 % lower than in the previous year (31.12.2018: € 24.3 million). In addition to weaker business development at the end of the year, this development is also due to the tightening of receivables management last year. Within other current assets of € 20.6 million (ex IFRS 16: € 20.1 million, 2018: € 12.8 million), tax refund claims decreased by 54.3 % from € 9.8 million to € 4.5 million. This change is due to lower sales tax receivables at the end of the year. The increase in other current receivables from € 1.7 million as of 31.12.2018 to € 15.1 million (ex IFRS 16: € 14.6 million) is mainly due to receivables in connection with a logistics / real estate project in the amount of € 10.9 million, which are cash-effective in 2020. Of this amount, € 0.9 million relates to a loan repayment claim that was granted to a project participant in connection with this project. The total receivables including income tax receivables decreased from € 43.7 million as of 31.12.2018 to € 31.1 million (ex IFRS 16: € 26.7 million).

Liquidity position

Cash and cash equivalents registered net inflows of € 1.9 million. On 31.12.2019 liquidity totalled € 5.3 million (prior year: € 3.4 million). The very high loss for the period under review of € 40.8 million (ex IFRS 16: € -40.2 million) was only to a very small extent cash effective. As a result of the first-time application of IFRS 16, total debts remained with € 179.9 million (ex IFRS 16: € 150.6 million) slightly below the previous year (2018: € 183.3 million). The optimization of working capital led to an increase in liquid funds as of the reporting date (see also the detailed explanations under *cash flow*).

The current assets amounted to € 99.4 million (ex IFRS 16: € 93.6 million, 31.12.2018: € 146.7 million) on the balance sheet date. The decrease by € 47.3 million is primarily due to the reduction in inventories in a closing date comparison.

Current liabilities

On the liabilities side of the balance sheet, the short-term credit instruments decreased by € 25.9 million or 14.7 % to € 150.2 million (ex IFRS 16: € 144.3 million, 31.12.2018: € 176.0 million). Other short-term provisions rose by € 2.5 million to € 3.4 million, in particular due to increased legal consulting costs in connection with the restructuring. Tax liabilities decreased by € 0.1 million to € 0.3 million.

As part of the € 146.5 million (ex IFRS 16: € 140.6 million) in short-term liabilities as of 31.12.2019, € 69.4 million were recorded as accounts payable, corresponding to a share of 36.9 % of balance sheet total. Compared to the prior year value of € 131.4 million accounts payable decreased by € 62.0 million or 47.2 %.

Current liabilities to banks amounted to € 64.3 million (ex IFRS 16: € 58.4 million) at the balance sheet date, an increase of € 37.2 million compared with the previous year (2018: € 27.1 million). In order to reduce trade payables before the balance sheet date and according to plan, the utilisation of existing credit lines was extended, also against the background of the weaker business development in the fourth quarter. This is mainly a reporting date effect.

In the other current liabilities of € 12.7 million (previous year: € 16.2 million) € 6.2 million are attributable to payments received on account of orders (previous year: € 7.8 million) and € 0.3 million to customer credits (previous year: € 0.3 million).

Long-term liabilities

Non-current liabilities of € 29.7 million (ex IFRS 16: € 6.3 million, previous year: € 7.2 million) include non-current interest-bearing liabilities of € 28.8 million (31.12.2018: € 3.7 million). The increase of € 25.0 million is mainly due to the capitalization of the rights of use in the amount of € 23.4 million from the rental lease obligations in the course of the first-time application of IFRS 16. Non-current liabilities also include non-current provisions of € 0.4 million (31.12.2018: € 0.3 million), other non-current liabilities of € 0.3 million (31.12.2018: € 0.4 million) and deferred tax liabilities of € 0.3 million (31.12.2018: € 2.8 million).

The sum total of non-current and current financial liabilities amounted to € 93.1 million (ex IFRS 16: € 63.8 million) on the reporting date, reflecting an increase of € 62.3 million in a balance sheet date comparison (31.12.2018:

€ 30.9 million). The share of interest-bearing financial liabilities of the balance sheet total at the reporting date was 49.5 % (31.12.2018: 13.3 %).

Equity and equity ratio

On the liabilities side of the balance sheet the equity position went down by € 41.0 million or 83.2 % from € 49.3 million to € 8.3 million (ex IFRS 16: € 8.9 million). The decrease is mainly attributable to the negative consolidated net income realized in the past fiscal year in the amount of € 40.8 million (ex IFRS 16: € 40.2 million). As a result, the structure of the liabilities and shareholders' equity shows a decrease in the equity ratio, from 21.2 % to 4.4 % (ex IFRS 16: 5.5 %). As of 31.12.2019 the coverage ratio of property, plant and equipment, intangible assets, rights of use, financial assets and inventories totalling € 139.3 million (ex IFRS 16: € 115.0 million) to long-term funding was 27.3 % (prior year: 31.2 %).

Overall statement on the financial and assets position

Sustainable balance sheet

Due to the tense financial and asset situation, we worked out and approved a comprehensive restructuring concept together with specialist consultants in the past financial year, which is also viable from the point of view of the financiers. Thanks to the corresponding restructuring agreement, the financing of the company is secured until the end of 2021 under the clear condition that the agreed measures are successfully implemented by the company. The company continues to receive payment terms from its suppliers in line with market conditions and can make use of unchanged credit lines during the year to finance parts of its inventories. The restructuring agreement defines various milestones until the end of 2021 in order to return the company to a sustainable profitable growth path. The refocusing on the core business "Tyres Europe" and the discontinuation of unprofitable business areas will already ease the financial and asset situation in the current fiscal year. The measures taken last year to optimise working capital have had a positive effect, particularly in the area of inventories. Liquidity and cash flow are closely managed in order to optimize free cash flow. We are confident that we will be able to close the financing gap in the low single-digit million range that was identified in the expert opinion for August this year. Liquidity is subject to significant fluctuations during the year due to seasonality and the payment terms customary in the tyre trade. Although we cannot be satisfied with the financial and asset situation at the end of the past fiscal year, we believe that we are well on the way to strengthening it sustainably in the future against the background of the measures we have introduced.

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.

Delticom AG did not hold or acquire any of its own shares in the fiscal year under review. With regard to the Managing Board's authority to buy back shares and use own shares, we refer to the information in the notes to the separate financial statements of Delticom AG for the fiscal year 2019.

Results of operations of Delticom AG

Revenues

In the 2019 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 € 231.3 million (2018: € 273.9 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 € 231.3 million. These figures are referred to as "adjusted revenues" below.

In the financial year elapsed, Delticom generated total revenues of € 737.8 million (2018: € 799.2 million), adjusted revenues amounted to € 506.5 million (2018: € 525.3 million, -3.6 %).

Other operating income

Other operating income registered a sharp increase of 374.3 % in the period under review to € 22.9 million (2018: € 4.8 million). The increase is mainly due to income from an ongoing logistics / property project in the amount of € 14.0 million and the reversal of the passive adjustment item for All you need GmbH in the amount of € 4.8 million. Gains from currency exchange rate differences amounted to € 2.5 million in 2019 and where thus almost on the level of the previous year (2018: € 2.7 million). Delticom reports currency losses within other operating expenses (2019: € 5.5 million, 2018: € 2.6 million). This increase is mainly due to value adjustments in foreign currency business. The net balance of currency gains and currency losses stood at € –3.0 million in the period under review (2018: € 0.1 million). There was a total of € 0.8 million in income from asset disposals, half of which was attributable to intangible assets and half to property, plant and equipment (previous year: € 0.0 million).

Key expense positions

Revenues related to the sale of merchandise from Delticom to Pnebo in an amount of € 231.3 million (2018: € 273.9 million) 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 € 371.2 million in the period under review (2018: € 389.4 million, –4.7 %). Compared to the previous year, the cost of materials ratio decreased from 74.1 % to 73.3 %.

Personnel expenses

The company employed an average of 156 staff in the period under review (2018: 144). Personnel expenses increased by 9.3 % to € 10.9 million (2018: € 10.0 million). The personnel expense ratio (ratio between personnel expenses and adjusted revenues) amounted to 2.2 % in the period under review (2018: 1.9 %).

Other operating expenses

Transportation costs

Transportation costs comprise the largest individual item within other operating expenses. The 3.9 % increase in transportation costs from € 51.7 million to € 53.7 million resulted from a correction-related lower cost base in the previous year. In H1 2018, transportation costs were reduced by € 1.8 million after this item was overstated by this amount in fiscal years 2016 and 2017. Excluding this effect, transportation costs are almost unchanged compared to the previous year. The transportation costs' share of adjusted revenues amounted to 10.6 % (2018: 9.8 %).

Warehousing costs

Expenses for warehousing increased by 7.4 % in the period under review, from € 7.7 million in the previous year to € 8.3 million. The ratio of warehousing costs to adjusted revenues was 1.6 % (2018: 1.5 %).

Marketing

Marketing costs amounted to € 22.6 million in the reporting period, compared to € 24.4 million in 2018. This corresponds to a ratio of 4.5 % in relation to adjusted revenues (2018: 4.6 %).

Depreciation

Depreciation and amortization of intangible assets and property, plant and equipment decreased by 20.8 % in the period under review from € 4.5 million to € 3.5 million. This reduction is mainly due to asset disposals, which led to other operating income of € 0.8 million.

Assumption of losses & depreciation of financial assets

The amount of loss absorption from subsidiaries was € 44.3 million (2018: € 11.7 million). Write-downs on financial assets amounted to € 20.8 million (previous year: € 0.2 million).

Earnings position

Gross margin

The gross margin (trading margin, excluding other operating income) amounted to 26.7 % in the financial year elapsed, compared with 25.9 % in the prior year period. This margin increase could almost make up for the adjusted revenue decrease of € 18.8 million. At € 135.3 million, gross profit - excluding other operating income - was only slightly below the previous year (2018: € 135.9 million).

Gross profit

Taking into account the other operating income, gross profit increased by 12.5 % in the period under review, from € 140.7 million in the comparable prior-year period to € 158.2 million. Gross profit in relation to adjusted total operating income of € 529.5 million (2018: € 530.1 million) amounted to 29.9 % (2018: 26.5 %).

EBITDA

Earnings before taxes, net interest, income from investments and depreciation increased by 51.1 % in the period under review, from € 10.3 million to € 15.6 million. The increase results from the significantly higher other operating income.

EBIT

The increase in gross profit and lower depreciation and amortisation compensated for the rise in personnel costs and other operating expenses. As a result, earnings before taxes, net interest and income from investments (EBIT) increased to € 12.1 million in the period under review (2018: € 5.9 million, +105.8 %). This is equivalent to a return on sales of 2.3 % (2018: 1.1 %).

Financial income

Income from participating interests amounted to € 0.9 million in the reporting period (2018: € 1.4 million). The income from profit transfer agreements decreased by 278.3 % from € 0.2 million in 2018 to € 0.9 million in 2019.

Income taxes

With regard to income taxes, an income of € 3.2 million was recorded for the reporting period. In 2018, the income tax expense amounted to € 2.1 million. The effect in the year under review was mainly due to deferred tax income.

Income and dividend

Earnings in 2019 amounted to € –49.0 million, compared to € –3.4 million in the previous year. This corresponds to earnings per share of € –3.93 for the financial year under review (2018: € –0.27). With regard to the dividend, we refer to the explanations in the Group management report.

in € thousand	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Revenues	**737,836**	**799,201**
Other operating income	22,911	4,831
Cost of materials	-602,513	-663,322
Personnel expenses	-10,893	-9,967
Depreciation	-3,529	-4,457
Other operating expenses	-131,745	-120,423
Income from participating interests	932	1,388
Other interest received and similar income	315	470
Depreciations of financial assets	-20,754	-182
Expenses from loss transfers	-44,332	-11,704
Paid interest and similar expenses	-1,356	-1,535
Income from profit transfer agreements	916	242
Expenses from loss transfers	3,192	2,093
Earnings after taxes	-49,021	-3,364
Profit carried forward	0	19,301
Balance sheet result	**-33,084**	**15,936**

General statement of the Management Board on the earnings situation

Our measures to increase profitability led to an increase in the gross margin last year. Despite the decline in sales, the gross profit before other operating income is only slightly below the previous year. The other operating income generated from the participation in an ongoing logistics / land project compensated at least partially for the negative effects on earnings from last year. The loss transfers from subsidiaries significantly depressed Delticom AG's earnings in 2019. Although we cannot be satisfied with the resulting development of earnings in the past financial year, we have laid the foundation for a sustained increase in profitability by deciding to close down unprofitable companies. As Delticom AG's profitability is a key factor within the Delticom group, the restructuring measures to sustainably improve earnings will also have a positive impact on the individual companies.

Financial and assets position Delticom AG

Delticom AG's financial position on the balance sheet date 31.12.2019 is characterized by extensive measures to restructure and realign the company. The company's liquidity position is strained. Please see the comments in the Group Risk and Opportunity Report in the section "Risk threatening the existence of the company" for information on the measures taken in the past fiscal year to secure financing and to strengthen liquidity.

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 investments in property, plant and equipment amounted to € 3.0 million in 2019 (2018: € 3.8 million) and relate mainly to the expansion of the shipping capacity in our warehouses. In addition, Delticom invested a total of € 0.5 million in intangible assets in the period under review. These investments relate mainly to expansions of software licenses.

The investments in financial assets in the amount of € 4.8 million are primarily loans to affiliated companies.

Balance sheet structure

Total assets of € 215.2 million as of 31.12.2019 were 12.6 % below the previous year's € 246.2 million.

Non-current assets

On the assets side of the balance sheet, long-term assets decreased from € 113.9 million to € 94.6 million. The decrease is mainly due to the unscheduled depreciation made on shares in affiliated companies as part of the deinvestments.

Inventories

Inventories in the reporting period amounted to € 6.7 million (2018: € 20.8 million). They consist almost exclusively of goods in transit. The year-on-year decline is attributable to active inventory management aimed at optimizing working capital.

Receivables

The largest item within short-term assets comprise receivables due from associated companies in an amount of € 82.4 million (2018: € 78.3 million). Receivables against Pnebo GmbH amount to € 82.0 million (2018: € 75.4 million), and comprise the largest item within receivables. Trade receivables of € 6.7 million are 44.1 % lower than the previous year (2018: € 12.0 million).

Within the other assets of € 17.5 million (2018: € 16.7 million), receivables from the participation in an ongoing logistics / property project in the amount of € 10.9 million in particular led to the significant increase compared with the previous year.

Liquidity

Liquid assets recorded a net decrease of € 0.2 million. "Balance sheet liquidity" amounted to € 0.9 million as of 31.12.2019 (2018: € 1.1 million, –14.6 %).

The total current assets of € 118.2 million were below the corresponding figure for the previous year (2018: € 128.9 million), mainly due to the reduction in inventories and trade receivables in closing-date comparison.

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 € 5.8 million of tax assets after offsetting with deferred tax liabilities (2018: € 2.7 million).

Provisions and liabilities

On the equity and liabilities side of the balance sheet, provisions and liabilities increased by 13.1 % or € 23.1 million, from € 176.8 million to € 199.9 million. This increase is mainly due to the higher financial liabilities on the balance sheet date and the significantly higher liabilities to affiliated companies. Provisions increased by 87.5 % or € 1.8 million to € 3.9 million (previous year: € 2.1 million).

Within the € 196.0 million of liabilities as of 31.12.2019 (2018: € 174.7 million), € 56.3 million, was attributable to trade payables. Compared with the previous year's € 109.5 million this amount went down by € 53.3 million or 48.6 %.

Liabilities due to banks

The increased liabilities due to banks of € 63.8 million (2018: € 30.8 million) include long-term financial debts of € 5.4 million (2018: € 3.7 million). The remaining part of the financial liabilities are of a current nature. The significant increase in current financial liabilities is accompanied by a reduction in trade payables. This is a holiday-related reporting date effect.

Equity

On the equity and liabilities side of the balance sheet, equity decreased by € 49.0 million or 76.2 % to € 15.3 million (2018: € 64.3 million). The structure of equity and liabilities reflects a year-on-year decrease in the equity ratio from 26.1 % to 7.1 %.

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	31.12.2019	31.12.2018
Fixed Assets	**94,585**	**113,934**
Intangible assets	4,020	6,103
Property, plant and equipment	7,965	8,842
Financial assets	82,600	98,989
Current Assets	**114,229**	**128,928**
Inventories	6,652	20,791
Accounts receivables	6,730	12,042
Receivables from affiliated companies	82,413	78,306
Other receivables and other assets	17,497	16,691
Cash and cash equivalents	937	1,098
Deffered item	**629**	**602**
Deffered taxes	**5,760**	**2,700**
Assets	**215,203**	**246,164**

in € thousand	31.12.2019	31.12.2018
Equity	**15,275**	**64,296**
Subscribed capital	12,463	12,463
Share premium	35,696	35,696
Retained earnings	200	200
Balance sheet profit	-33,084	15,936
Passive adjustment items	**0**	**5,000**
Provisions	**3,948**	**2,105**
Provisions for taxes	0	32
Other Provisions	3,948	2,073
Liabilities	**195,977**	**174,703**
Liabilities to banks	63,836	30,824
Payments received on account of orders	4,566	6,039
Accounts payable	56,285	109,535
Payables to affiliated companies	66,858	24,440
Other liabilities	4,433	3,865
Deferred item	**3**	**60**
Shareholders' Equity and Liabilities	**215,203**	**246,164**

Overall statement on the financial and assets position

Sustainable Balance Sheet

Due to the tense financial and asset situation, we worked out and approved a comprehensive restructuring concept together with specialist consultants in the past financial year, which is also viable from the point of view of the financiers and resulted in a corresponding restructuring agreement. The financing of the company is thus secured until the end of 2021, under the clear condition that the agreed measures are successfully implemented by the company. The company continues to receive payment terms from its suppliers in line with market conditions and can draw on unchanged credit lines granted during the year to finance parts of its inventories. The reorganization agreement provides for various milestones until the end of 2021 in order to return the company to a sustainable profitable growth course. The refocusing on the core business "Tyres Europe" and the discontinuation of unprofitable business fields will already ease Delticom AG's financial position and net assets in the current year. The measures taken last year to optimize working capital already had a positive impact in the past fiscal year, in particular with regard to inventories. Liquidity is subject to significant fluctuations during the year due to seasonality and the payment terms customary in the tyre trade. Although we cannot be satisfied with the financial and asset situation at the end of the past fiscal year, we believe that we are well on the way to strengthening it sustainably in the future against the background of the measures we have introduced.

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

Current logistics / land project

In view of the constantly growing proportion of tyres sold online, Delticom AG intends to further increase its logistics performance. A new tyre warehouse is scheduled to open at the end of 2020 in the French town of Ensisheim, not far from the border with both Germany and Switzerland. A project company was commissioned to construct the new logistics centre according to Delticom AG's specifications. The project consultant has already successfully sold the entire industrial property comprising two halls to an investor. Delticom AG will lease one of the two halls under construction on a long-term basis and will participate in the income from the sale to the investor. In 2019, other operating income in the amount of € 14 million was generated accordingly. A further € 2.3 million income will be recognized over the next twelve years. Of this € 16.3 million, € 10 million has already been paid to Delticom AG in cash in the current fiscal year 2020. The remaining difference is initially granted as a cash deposit, the claims arising from this are secured by a guarantee. At the beginning of the use of the warehouse, the cash deposit is converted into a rent deposit.

Corona virus

At the beginning of the current year, the novel corona virus spread at high speed in China. Asian tyre manufacturers today produce a certain proportion of European tyre replacement demand in the low price segment. Due to the comprehensive measures taken by the Chinese government to contain the new virus, Chinese tyre factories were closed at the beginning of the year, but production has since resumed. Due to the sea route of between 4 and 6 weeks, it must be assumed that there will be a corresponding delay in the delivery of Chinese tyres for the European market. Accordingly, together with our European market companions, we may face the challenge of not being able to offer our customers the entire portfolio of tyres at the start of the season in April. In the short term, this could result in market-wide price increases for part of the product range.

The increasing spread of corona in Europe poses great challenges for trade in many places. In the member states, the private lives of European consumers are increasingly restricted, and major events are cancelled in many places.

An estimate of whether or to what extent the corona virus will have a negative impact on business development in the current year can only be made with considerable uncertainty at the present time (as of 24.03.2020). At this point we refer to the explanations in the forecast report in the section *"Forecast 2020 - COVID-19"*. Delticom AG's management continues to keep a close eye on the information situation and will manage business in the coming week depending on developments. Delticom's organization has taken far-reaching measures to ensure that its operating processes are also secure in the event of a further spread of the virus in Germany. The majority of Delticom's employees are already working from home with the appropriate equipment, and are familiar with the necessary rules of conduct and communication procedures. Wherever a presence in the organization is required (e.g. in the warehouses), work is performed in teams that do not come into personal contact with each other. Delticom hopes that the measures it has taken will help to at least delay the spread of the virus throughout Germany.

Risk and Opportunity Report

As an internationally operating company, Delticom is exposed to a wide range of risks. In order to be able to identify and evaluate these risks in good time and to initiate appropriate countermeasures, we established a risk management system at an early stage and adopted a company-wide guideline for early risk identification and risk management.

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 31.12.2019, we differentiated between going-concern risks (20 Mio. €), significant risks (2.5 Mio. €) and low risks (0.2 Mio. €).

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 mitigation measures

The Delticom Group is insured against a wide variety of risks and cooperates with well-known insurers. In addition to elementary risks (fire, explosion, flooding, storm and earthquake), the insured risks also include various operational risks, such as credit insurance in business with commercial dealer customers to limit the risk of non-payment.

As an E-Commerce company, the Delticom Group is also exposed to a wide variety of IT risks. We counter these risks with a comprehensive catalogue of measures:

- **Measures to protect against unauthorized system access:** A complex password protection secures all web-based applications. Our servers are only accessible via upstream load balancers/firewalls, access to the servers is limited to a few people and is monitored by security personnel. Internal systems can only be accessed from outside the company network with a valid VPN certificate. In addition, the TÜV and a PCI auditor regularly perform an independent vulnerability scan on all servers.

- **Measures to protect against manipulation of programs/data by employees:** This risk is limited by a change management system and the principle of dual control in programming. Possible manipulations can be traced at any time via change histories. In applications, users only have access to those sub-areas that are necessary for the daily accomplishment of tasks.

Access to the applications used is managed by means of a comprehensive authorization concept.

- **Failure of the IT landscape due to programming errors:** This risk is countered by extensive testing at the development level. Possible errors can be detected before live operation.

- **Due to a technical failure, applications or online shops are no longer accessible:** Despite the high state of the art, various components may fail. Our systems and servers are designed redundantly. In the event of a failure of a device/service, an emergency system automatically takes over. The systems are monitored by software in order to detect possible problems at an early stage.

Delticom is a lean company and highly dependent on key personnel in all areas of the company. The personnel risk essentially comprises the loss of know-how carriers, a lack of information exchange and errors by employees. A number of measures are taken to limit the personnel risk:

- **Short coordination and decision paths:** The flat organisational hierarchy within the Delticom Group ensures short coordination and decision-making paths. Meetings are held regularly (both within and across departments) to ensure the exchange of information and to bundle and specifically utilize the know-how available within the company.

- **Newsletter:** All employees are regularly informed about important changes and innovations within the Delticom Group via newsletters. Delticom's personnel department also uses special personnel newsletters to inform employees about important personnel issues.

- **Documentation:** Thanks to the collaboration software currently in use, knowledge is centrally recorded and historicized. Employees receive a defined framework for action by means of work and process instructions.

- **Trainings and courses:** Through trainings, courses and seminars the development of knowledge and the individual performance of the employees is specifically promoted.

- **Employee appraisals:** Through regular staff appraisals, employees and managers have the opportunity to exchange views beyond their day-to-day business, to talk together about cooperation and mutual expectations, and to provide feedback so that everyone involved can develop further.

As an internationally operating company, Delticom is exposed to various operational risks. We counter these risks with a series of measures.

- **Market risks:** Due to the international orientation of our business, the market risk is limited. Relevant economic indicators and industry reports are used and analysed to assess possible future developments. This enables us to identify market risks - and opportunities - at an early stage.

- **Currency risks:** The Treasury department hedges foreign currency transactions in order to minimize the risk of currency fluctuations. In addition, Delticom maintains a large number of bank accounts abroad to which customers transfer money. Incoming payments in foreign currencies are largely hedged naturally by outgoing payments in the same currency.

- **Bad debt losses:** Delticom offers its customers a wide range of payment options in its online shops. Payment methods at risk of default, where payment is only made after the goods have been delivered, require a comprehensive catalog of measures in order to limit the risk of bad debt losses and fraud. In the area of payment processing, we cooperate with well-known service providers and also use an internal scoring system to identify orders at risk of default at an early stage.

- **Customer dissatisfaction due to untrained personnel:** Delticom cooperates with call center service providers in Germany and abroad. The respective shift and department managers are regularly trained by Delticom specialists and pass on their knowledge accordingly. Call center employees also have access to documentation, manuals and process instructions at all times. Service Level Agreements regulate the degree of fulfillment of the service to be provided by the service providers. Delticom continuously monitors compliance with these Service Level Agreements and the defined KPIs.

Risk management organisation

Delticom's risk management is based on these four pillars: Risk Support Team, Risk Manager, Internal Risk Revision 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.

Internal Risk Audit

An independent external auditor is responsible for auditing the risk management system. The effectiveness of risk management in general and of the methods and countermeasures used in particular is examined annually by means of spot checks.

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 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 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.

Risk audit

After the annual risk inventory, the independent Internal Risk Audit selects several identified risks. The gross risk assessment and the effectiveness of the countermeasures implemented for these risks are then reviewed. New findings are reported to the risk manager and updated in the risk management system. The person responsible for auditing prepares a record for documentation purposes and reports to the Management Board.

Risk threatening the existence of the company

Liquidity bottleneck / overindebtedness

Due to the seasonal nature of the business and the early purchase of stock goods, sometimes months before the expected seasonal peak, it is necessary to draw on current account and letter of credit lines during the year. Accordingly, the Company's solvency is to a large extent dependent on the continuation of the financing framework with its banking partners. These were bilateral agreements with the individual houses until the restructuring agreement was concluded in December 2019. In the past, parts of the credit lines were subject to seasonal limits, as the full financing framework was not required throughout the year.

Against the background of the earnings development in 2018, the delay in the preparation of the annual financial statements 2018 and the associated postponement of the Annual General Meeting, the bilateral discussions on the continuation or extension of short-term expiring credit lines from the middle of 2019 proved increasingly difficult.

The company has taken this as an opportunity to immediately initiate corrective measures as follows:

- Commissioning of a specialized consulting firm to prepare an expert opinion based on the IDW S6 standard.
- Assignment of a company specializing in M&A to acquire buyers for subsidiaries and in particular the search for opportunities for new capital (equity/debt) outside the existing financing partners.
- Convening of an initial financing meeting to determine and agree on the further course of action.
- Recruitment and appointment of an experienced Chief Financial Officer.
- Establishment of a Chief Performance Manager who, in addition to the full Management Board, will manage the restructuring process holistically and across all functions.

- Systematic and detailed analysis of the current economic situation, identification of loss-making business areas.
- Determination of the company's purpose for the future - concentration on the tyre business in Europe and the associated decision to abandon unprofitable divisions / units.
- Introduction of detailed cash flow planning, monitoring and initiation of measures to improve liquidity.
- Significant reduction in inventories compared to the previous year.
- Cost and margin management and in-depth analysis of receivables and liabilities.

Through these measures, which were quickly, systematically and extensively introduced from the middle of the year 2019 onwards, the process with the financing partners could be successfully structured via various standstill agreements and resulted in a reorganisation agreement, which was concluded with all financiers on 13 December 2019. Essentially, the existing and necessary financing requirements have been confirmed and are now secured until the end of 2021, on condition that the milestones agreed with the banks are met. A further necessary financing component is still to be concluded in 2020 in addition to the successfully completed bank financing mentioned above. The measures introduced are to be successfully implemented as the project progresses. The expert restructuring opinion confirms the predominant probability of restructuring on the basis of the facts, findings, measures and plausible assumptions described in the turnaround concept on which the restructuring opinion is based. Despite the restructuring agreement, uncertainty remains with regard to financing security, as Delticom has to meet the milestones agreed for the restructuring period until the end of 2021 to secure financing.

As a result of these events or circumstances, there is a material uncertainty that could cast significant doubt on Delticom AG's (or the Delticom group's) ability to continue its operations, and Delticom AG or the Delticom group may thus not be able to realize its assets and settle its liabilities during the normal course of business (risk to the company's continued existence).

Key individual risks and opportunities

The significant individual risks and opportunities with a reporting threshold between 2.5 Mio. € and 20 Mio. € 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 can run into payment problems, which can lead to bad debt losses. 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' willing-ness 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.

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.

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. According to the Electric Vehicle Index, 2.3 Million electric cars were sold worldwide for the first time in fiscal year 2019. More than half of the electric cars sold were on the Chinese market. In Europe, the demand for electric cars in 2019 rose by 44 % compared to the previous year. Although the number of registered electric cars worldwide 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. 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. 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 upto-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 and well integrated 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.

The risk of a liquidity bottleneck or overindebtedness, which could endanger Delticom's continued existence as a going concern, represents a fundamental risk.

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 (Section 289 Paragraph 4 and Section 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 fiscal year, the Delticom Group expects total annual revenues in a range between € 600 million and € 630 million, accompanied by an EBITDA between € 1.0 million and € 5.0 million. This year's focus will be on cost reductions as part of an extensive restructuring program to return Delticom to sustained profitable growth in medium term. Delticom's sales focus is on European online tyre trading. Loss-makers within the Delticom group will either be fully wound up by the end of the first quarter of 2020 or, as in the case of DeltiLog GmbH, will probably be sold during the first half of 2020.

Forecast report

Full-year guidance 2019 – reasons for deviations

Revenues

In our initial forecast at the beginning of the year, we assumed that we would be able to achieve consolidated revenues in a range between € 660 million and € 690 million for the year as a whole. Although sales at the end of the first six months were 2 % down on the previous year, we adhered to this target because the fourth quarter plays a key role in terms of sales and earnings. In the course of the year, the company further optimized warehouse processes in order to be able to deliver unrestrictedly at the peak of the winter tyre season and to further shorten delivery times. At € 420 million, Group sales for the first nine months were € 2 million higher than in the previous year (2018: € 418 million), not least thanks to the improved logistics performance. Due to persistently mild temperatures well into October, the winter tyre business did not gain momentum until the beginning of November, unlike in the previous year. Following the absence of a significant seasonal peak until mid-November, we adjusted our revenues forecast accordingly. At this point in time, we considered a range of € 640 million to € 660 million for consolidated revenues for the year as a whole to be achievable. The underlying assumption was that the winter tyre business does not decline significantly compared to 2018 in the remaining weeks of the year. With consolidated revenues of € 625.8 million, we fell short of the adjusted forecast range. One of the main reasons for this is the consistently mild winter in large parts of Europe. However, the decline in revenues is also partly due to the increased focus on profitability in connection with the restructuring program initiated in Q3.

EBITDA

In mid-November, we also adjusted our EBITDA target set at beginning of the year. The initial planning provided for the operating profit before depreciation and amortisation a range of € 8 million to € 12.5 million. Against the backdrop of the downturn in earnings in Delticom AG's core business, in mid-August the Managing Board of Delticom AG commissioned a consultant specialized in restructuring. Together with the management a comprehensive concept was developed for a sustained return to profitability. The draft concept was approved by the Management Board and Supervisory Board at the end of October. This concept includes a comprehensive action plan for the restructuring period until the end of 2021 to sustainably increase profitability accompanied by process optimizations. At the heart of the restructuring concept is the focus on the core business - online trading with tyres and complete wheels in Europe - and the associated discontinuation of loss-making business areas. Corresponding measures have already been initiated in 2019 and have already been partially implemented. With the adjustment of the EBITDA forecast in November, we took the changed company situation into account. In line with the reduced revenues forecast, we adjusted our planning for the **operating EBITDA** for the year as a whole. The new corridor of + € 5 million and + € 8 million included a positive contribution to earnings from the investment in a logistics / real estate business. Against the background of the costs likely to be incurred in connection with the optimization measures, we considered a range of € -5 million and € -8 million for group **EBITDA** as whole to be achievable in 2019. Thanks to the measures introduced last year, Delticom was able to meet its target for earnings before interest, taxes, depreciation and amortization despite the weaker revenue growth. At € + 10.0 million, operating EBITDA is above the forecast range, while EBITDA of € -6.6 million is within the adjusted forecast.

Future macroeconomic environment

Global economy

According to the International Monetary Fund (IMF), the global economy will recover in the current year. This assessment was made at the beginning of the current year and thus prior to the rapid spread of the novel corona virus from Asia, which has now reached all continents in varying degrees. In their original forecast, after growth of 2.9 % in 2019, the experts anticipate a growth rate of 3.3 % for the current year. The reasons for the slight recovery are seen in the continued loose monetary policy of the central banks, a partial settlement of the trade dispute between the USA and China, as well as decreasing concerns about an unregulated withdrawal of Great Britain from the EU. The IMF cites a renewed escalation in the trade dispute, geopolitical tensions and anti-government protests in many countries as risks for the global economy in the current year. The worldwide spread of the novel corona virus is viewed with increasing concern and is leading to a high degree of uncertainty on the financial markets. According to experts, the corona epidemic basically holds a potential for recession. The virus could trigger an economic shock that could affect the world as a whole, similar to the financial crisis in 2008.

Europe

In its winter forecast published in mid-February this year, the European Commission expects stable but subdued growth for the European economy. For the current year it is assumed that the gross domestic product in the euro zone will remain largely stable at 1.2 %. Continued job creation and robust wage growth are supporting private consumption. In addition, public projects in the Member States, such as investment in transport and digital infrastructure, are also helping the European economy to continue on its moderate growth path. According to the EU Commission, downside risks arise from changing geopolitical conditions in conjunction with trade uncertainties. The outbreak of the coronavirus (COVID-19) and its impact on public health, economy and trade has been identified as another downside risk for the European economy. Whether and to what extent the virus will negatively affect the European economy remains to be seen, according to the Commission. Meanwhile, the rating agency S&P expects that the eurozone economy could grow by 0.1 to 0.2 percentage points less than previously assumed due to the new virus in the eurozone.

Germany

In addition to a weaker global economy, and international trade conflicts, it was not least the Brexit, which had remained unresolved for a long time, and stagnating exports in Germany at the end of last year that slowed down the export-oriented industry in particular. The drop in orders noticed by many companies and the increasing use of short-time working are regarded as harbingers of a subdued economic development. For the first time since 2013, more people were unemployed in January than in the previous year. Nevertheless, according to economic experts, the unemployment rate will rise only slightly this year from 5.0 % to 5.1 %. Thanks to the good labour market situation, consumption remains a key pillar of the German economy. The German Institute for Economic Research (DIW) assumes that the consumer mood of private households will continue to rise in the next two years due to higher pensions, tax breaks and the abolition of the solidarity surcharge.

Future sector-specific development

E-Commerce

The "Global Digital Report 2020" assumes that already more than 4.5 billion people and thus around 60 % of the worldwide population use the Internet. This is an increase of 7.0 % compared to the previous year. According to the study, online penetration in Europe is already higher at 84 %. In the study 74 % of internet users worldwide stated that they had made an online purchase in the last month. Growing computing power and extensive data make it possible to research the customer journey more and more effectively and to predict customer wishes even better. It is therefore not surprising that the customer satisfaction of German online shoppers continued to rise last year from around 94 % to 94.5 %. The E-Commerce Consumer Study of the German E-Commerce and Mail Order Association (bevh) also shows that in Germany one in three orders are already placed via smartphones and tablets. Five years ago, this proportion was less than 20 %. E-commerce is becoming more and more efficient and the trend towards e-commerce will continue to grow in the future. For the current year, the German E-Commerce and Mail Order Association (bevh) expects domestic E-Commerce turnover to grow by 10 % to an estimated € 80 billion. It remains to be seen whether and to what extent the shutdown decided by the German government in mid-March to slow the spread of corona pandamia will generate additional demand in online trading in the short term.

German replacement tyre market

The domestic replacement tyre market was slightly down 2019. According to the German Tyre Trade and Vulcanising Trade Association (BRV), the replacement tyre market has been largely saturated and therefore tends to stagnate for years. As a result, experts do not expect any significant sales impetus for the current year.

Shortage

Due to global supply chains and complex value-added stages, experts believe that the novel coronavirus will lead to short-term production and supply bottlenecks in selected industries. It is assumed that the automotive, consumer, raw materials and technology sectors will be particularly affected by the effects of lung disease. At the beginning of the year, many factories in China were closed for some time, and cargo ships usually take four to six weeks to export to Europe. As Asian tyre manufacturers now cover a certain portion of European demand for replacement tyres in the low-price segment, selective bottlenecks could possibly occur in the upcoming summer tyre business. Together with our European market competitors, we may face the challenge of not being able to offer our customers the entire portfolio of tyres. Market-wide price increases for part of the product range could be the consequence. The actual effects, however, remain to be seen. These will mainly depend on the further spread of the virus and the associated level of any production residues.

2020 forecast

Discontinuation of unprofitable operations

The focus on the core business “Tyres Europe” for a sustainable return to the profit zone is accompanied by the discontinuation of unprofitable business areas. Corresponding closure measures were already initiated in 2019 and some of them have already been executed. The business of All you need GmbH for instance was already closed down at the end of 2019. The business of Gourmondo Food GmbH, as well as the online trade with automotive spare parts and oils, will be completely closed down by the end of the first quarter of 2020. All material valuation issues in connection with the discontinuation of operations have already been considered in the 2019 financial statements.

Focus on the core business

Delticom will continue to benefit from the increasing importance of the Internet as a sales channel in future. Due to the recent decline in earnings in the core business, the company's management launched a comprehensive restructuring programme last year. This program focuses on reducing costs and increasing efficiency along the entire value chain with the aim of returning Delticom to sustained profitable growth over the medium term. In order to make the best possible use of growth and earnings potential, the Delticom group's sales focus will once again be on its core business - online trading in tyres and complete wheels in Europe.

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 14.9 million customers have bought products in one of our online shops since the company was established. For the current fiscal year, we expect to be able to welcome some of these customers, who have been acquired over the past few years, to one of our online shops again. Accordingly, the number of repeat customers should develop positively over the year as a whole.

Revenues and EBITDA

Against the background of the measures and objectives described, we expect to be able to achieve consolidated revenues in a range of € 600 million and € 630 million in the current fiscal year. The focus this year is again on achieving a balance between profitability and volume growth. For EBITDA, we are planning a range of between € 1 million and € 5 million depending on sales.

In the current financial year, too, the ongoing restructuring will result in extraordinary expenses. We are planning these in the amount of € 4 million. Operating EBITDA for the year as a whole will therefore be in a range of € 5 to 9 million.

COVID-19

The increasing spread of corona in Europe poses great challenges for trade in many places. Italy, which is currently the most affected country in Europe by COVID-19, is the first European country where the government has ordered a temporary closure of retail shops that are not needed to ensure the daily needs. Other large economies, including Germany and France, have also decided to implement a so-called shutdown in the meantime. In more and more European countries, the private lives of European consumers are increasingly being restricted, and major events are being cancelled in many places. Against the background of the current situation, consumers are increasingly looking for alternatives on the Internet to cover their needs. Consequently, the novel corona virus could lead to increased online demand in the short term. However, should the virus spread throughout Europe and rigid government measures become necessary to contain the pandemic, this could lead to increased restrictions on private use of the vehicle. This could have a short-term impact on demand for replacement tyres. However, we expect demand to shift only temporarily in such a situation, as the purchase of replacement tyres cannot be postponed indefinitely. Should COVID-19 lead to a pan-European or global recession in the course of this year, despite support measures from institutions and governments, we may have to adjust our full-year forecast in line with the information gained during the year.

Investments

For the current year we are planning to invest in the expansion and technical equipment of our warehouse infrastructure. The amount of investment for the year as a whole will be in the high single-digit millions, which will be largely covered by leasing.

Liquidity

In line with our sales and liquidity planning for the current year, we will manage the build-up and reduction of inventories in the coming quarters. Against the background of the turnaround measures initiated, we expect a positive free cash flow in the high single-digit million range in the current year. According to the present restructuring report, there is a financing gap of about € 2 million in August this year. In order to close this financing gap, an M&A process was already started in 2019. In addition to a possible sale of the non-core Automotive Europe business units, Delticom AG is in the process of acquiring additional equity or debt capital. With regard to the current process, it is highly probable that the financing will be secured during the restructuring period until the end of 2021 according to the present restructuring report, which was prepared based on IDW S6.

Medium term outlook

Increasing digitalization worldwide, combined with steadily rising online penetration, is a key factor for future growth. As the market leader in European online tyre retailing, Delticom will also benefit over the medium term from the increasing importance of E-commerce as a sales channel. By refocusing on its core business and consistently implementing the turnaround measures approved in its restructuring report, the Delticom group will be able to record positive results again as early as 2021. The medium-term target is an operating EBIT margin of 2 %.

Free-Cashflow

By optimizing inventories and consistent working capital management, Delticom will generate positive free cash flows again over the medium term.

Information required by takeover law

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 2019, taking account of the knowledge and events up until the time when this report was prepared in accordance with Section 289a Paragraph 1 and Section 315a Paragraph 1 of the German Commercial Code, as follows:

No. 1: Composition of subscribed capital

Following the IPO on October 26, 2006, the subscribed capital consisted of 3,946,480 registered no-par value ordinary shares with a notional value of € 1.00 per share. As a result of the capital increase from company funds resolved by the Annual General Meeting on 19 May 2009 and the associated issue of new shares, the subscribed capital tripled to EUR 11,839,440. On 6 May 2011, the subscribed capital increased to EUR 11,847,440 through the exercise of 8,000 option rights, which entitle the holder to subscribe to 8,000 new, no-par value registered shares in the company, on 2 May 2013 through the exercise of a further 12,000 option rights, which entitle the holder to subscribe to 12,000 new, no-par value registered shares in the company, to EUR 11,859,440, and on April 30, 2014 by exercising a further 85,810 option rights, which entitle the holder to subscribe to 85,810 new, no-par value registered shares in the company, to EUR 11,945,250. The above-mentioned option rights were exercised by the former member of the Management Board Frank Schuhardt. On March 1, 2016, the subscribed capital increased by EUR 518,081 to EUR 12,463,331 due to the registration of the implementation of an increase in the share capital through partial utilization of the Authorized Capital I/2011.

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

Delticom AG's shareholders are not restricted in their decision to acquire or sell shares by German law or by the company's articles of incorporation. Only the statutory prohibitions on voting rights apply.

With regard to agreements between shareholders regarding restrictions on voting rights or the transfer of shares, the following applies:

The shareholders Prüfer GmbH and Binder GmbH, as parties to a pooling agreement, are restricted in the exercise of their voting rights in such a way that they have to vote their voting behaviour with a view to uniform voting at the Annual General Meeting. In addition, the shareholder Binder GmbH has undertaken to the shareholder Prüfer GmbH to vote at the company's General Meetings for all measures that are part of an investor's entry at Delticom AG's level with the aim of strengthening Delticom AG's capital base. In addition, Binder GmbH has also undertaken to Prüfer GmbH that, in the event that Prüfer GmbH and Seguti GmbH sell and transfer the shares held by Prüfer GmbH and Seguti GmbH in Delticom AG to an investor, it will also sell and transfer its shares to the investor at the same economic conditions at Prüfer GmbH's request, if the investor is not affiliated with Prüfer GmbH or Seguti GmbH or otherwise close to them, the investor is willing to acquire all shares of Binder GmbH under the same conditions, the guarantees and warranties are customary in the context of the transaction and no joint and several liability of Binder GmbH with other sellers exists.

The above-mentioned obligations of Binder GmbH are connected to similar obligations that Prüfer GmbH and Seguti GmbH have assumed with regard to a share trustee, which represents the security interests of certain banks as Delticom AG's financier.

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 of 2 May 2017 authorised the Management Board, with the approval of the Supervisory Board, to increase the share capital of the Company by a total of up to EUR 6,231,665 by issuing up to 6,231,665 new no-par value registered shares of the Company in one or more stages up to 1 May 2022 against cash or non-cash contributions (authorised capital I/2017).

The Management Board is authorized, with the approval 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 the subscription right of the shareholders against cash or contributions in kind do not exceed a total of 20 % of the share capital, neither at the time this authorization takes effect nor at the time it is exercised.

In the case of capital increases in return for cash contributions, the shareholders must generally be granted a subscription right to the new shares. The new shares are then to be taken over by at least one credit institution or at least one company operating in accordance with section 53 (1) sentence 1 or section 53b (1) sentence 1 or (7) of the KWG with the obligation to offer them to the shareholders for subscription.

However, the Management Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the case of capital increases against cash contributions, provided that the shares issued against cash or non-cash contributions during the term of this authorisation, excluding shareholders' subscription rights, do not exceed a total of 20% of the share capital, either at the time this authorisation takes effect or at the time it is exercised,

(aa) to exploit any peaks,

bb) to the extent required to protect against dilution in order to grant subscription rights for new shares to holders of conversion or option rights issued or to be issued by Delticom AG or companies in which Delti-com AG directly or indirectly holds a majority interest to the extent to which they would be entitled after exercising their conversion or option rights or after fulfilling their conversion obligations,

cc) if the issue price of the new shares is not significantly lower than the stock market price and the shares issued in accordance with or in analogous application of Section 186 (3) sentence 4 AktG against cash contributions excluding subscription rights during the term of this authorisation do not exceed a total of 10% of the share capital, either at the time this authorisation takes effect or at the time it is exercised. This limit of 10 % of the share capital shall include (1) those shares which are or will be issued to service bonds with conversion or option rights, if and to the extent that the bonds are issued during the term of this authorization in analogous application of § 186 (3) sentence 4 AktG under exclusion of the subscription right and (2) treasury shares which are sold during the term of this authorization in analogous application of § 186 (3) sentence 4 AktG under exclusion of the subscription right of shareholders.

The authorized capital I/2017 was registered in the Commercial Register on May 17, 2017.

There is no other authorized capital.

b) conditional capitals

The Annual General Meeting of 29 April 2014 authorised the Management Board, with the consent of the Supervisory Board (or the Supervisory Board in place of the Management Board if option rights are granted to members of the Management Board), to grant option rights for the subscription of a total of up to 540,000 new no-par value registered shares of the Company to members of the Management Board of the Company, to employees of the Company and to employees and members of the management of affiliated companies (stock option programme 2014) on one or more occasions up to 28 April 2019. In order to grant new shares to the holders of option rights issued by the Company in accordance with the aforementioned authorisation resolution, the share capital was conditionally increased by up to EUR 540,000 by issuing up to 540,000 new no-par value registered ordinary shares (no-par shares) (conditional capital I/2014). By resolution of the General Meeting of 12 August 2019, the Conditional Capital I/2014 was reduced, so that the share capital is conditionally increased by a total of up to EUR 142,332 by issuing a total of up to 142,332 new no-par value ordinary registered shares (no-par value shares). This corresponds to the maximum scope required to service the option rights issued on the basis of the aforementioned authorization. Since the authorization has expired, no further option rights can be issued on this basis. The conditional capital I/2014 was originally entered in the Commercial Register on June 11, 2014, and the reduction was entered on September 23, 2019 by resolution of the Annual General Meeting on August 12, 2019.

By resolution of the Annual General Meeting on August 12, 2019, the authorization to grant stock option rights (stock option program 2014) granted by resolution of the Annual General Meeting on April 29, 2014 was also cancelled to the extent that the authorization had not yet been exercised.

On the basis of this authorization, a stock option plan for employees of the Company was introduced by resolutions of the Management Board of the Company on December 25, 2016 and of the Supervisory Board of the Company on December 27, 2016, and a stock option plan for members of the Management Board of the Company was introduced by resolution of the Supervisory Board of the Company on December 28, 2016. 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 to members of the Company's Management Board on January 5, 2017. On January 5, 2018, a total of 18,337 stock options were issued to employees of the Company and a total of 32,000 stock options to members of the Company's Management Board. In addition, a total of 16,660 stock options were issued to employees of the Company on December 17, 2018 and a total of 24,000 stock options to members of the Company's Management Board on December 28, 2018. In addition, 3,332 stock options were issued to employees of the Company on April 17, 2019. The vesting period for all stock options is four years beginning on the respective issue date. The stock options are therefore currently not yet exercisable.

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 regulations in the notes to the annual financial statements, in the notes to the consolidated financial statements or in the annual report. The issue of stock options from the aforementioned stock option program is no longer possible due to the expiration of time since April 29, 2019.

The Annual General Meeting on August 12, 2019 authorized the Management Board, with the consent of the Supervisory Board (or the Supervisory Board in place of the Management Board if option rights are granted to members of the Management Board), to subscribe to a total of up to 540 option rights on one or more occasions up to August 11, 2024 or - if issued option rights expire or otherwise expire - repeatedly.000 new no-par value registered shares of the Company to members of the Management Board of the Company, to employees of the Company and to employees and members of the management of affiliated companies (stock option program 2019).

The share capital of the Company is conditionally increased by up to EUR 540,000 (in words: five hundred forty thousand euros) by issuing up to 540,000 (in words: five hundred forty thousand) new no-par value ordinary registered shares (no-par value shares) (Conditional Capital I/2019). The conditional capital I/2019 serves exclusively to grant new shares to the holders of option rights issued by the Company in accordance with the authorisation resolution of the Annual General Meeting of 12 August 2019 (agenda item 6 b)). The shares will be issued at the exercise price to be determined in accordance with the above-mentioned resolution.

The conditional capital I/2019 was entered in the commercial register on 23 September 2019. No option rights have yet been issued on the basis of stock option program 2019.

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

By resolution of the Annual General Meeting of 5 May 2015, the Company was authorised to acquire treasury shares in a volume of up to 10% of its share capital existing at the time of the resolution or - if this value is lower - of its share capital existing at the time the authorisation is exercised. The authorization is valid until May 4, 2020. The authorization may be exercised in whole or in part, once or several times, for one or more purposes by the Company, by its Group companies or by third parties for its or their account. At the discretion of the Management Board, the shares may be acquired either via the stock exchange or by means of a public purchase offer addressed to all shareholders.

The consideration per share paid for the acquisition of the shares on the stock exchange (excluding incidental acquisition costs) may not be more than 10% higher or lower than the average closing price on the three stock exchange trading days preceding the obligation to purchase (**"reference days"**).

The **"closing price"** is, with regard to each individual trading day, the closing price determined in the closing auction or, if such a closing price is not determined on the trading day in question, the last price of the Company's shares determined in continuous trading. The basis for all three reference days is the closing price in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange or in floor trading on a German stock exchange, or the last price in continuous trading which was based on the highest turnover in the ten trading days prior to the first of the three reference days. If the acquisition is made by means of a public purchase offer, the purchase price offered (excluding incidental acquisition costs) per share may not be more than 10 % higher or lower than the average of the closing prices (as defined above) on the three stock exchange trading days prior to the reference date.

The **"cut-off date"** is the date of publication of the Company's decision to make a public offer or, in the case of an amendment to the offer regarding the purchase price, the date of the final decision of the Management Board regarding the amendment to the offer.

The purchase offer may provide for conditions. If more shares are tendered to the Company for repurchase than the Company has offered to repurchase in total, the Company will acquire shares in proportion to the number of shares tendered. Preferential acceptance of small numbers of up to 100 shares tendered per shareholder may be given.

The Management Board is authorized to use the acquired treasury shares for all legally permitted purposes; in particular, it may redeem the shares, transfer them in return for non-cash contributions, transfer them to fulfill conversion or option rights arising from convertible bonds or bonds with warrants or in the course of fulfilling conversion obligations arising from convertible bonds, or, under certain conditions, sell them in ways other than via the stock exchange. Shareholders' subscription rights to own 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:

By resolutions of the Company's Management Board on December 25, 2016 and of the Company's Supervisory Board on December 27, 2016, a stock option plan for employees of the Company was introduced and by resolution of the Company's Supervisory Board on December 28, 2016, a stock option plan for members of the Company's Management Board was introduced.

Both stock option plans provide that in the event of a change of control of the Company (defined in the option terms and conditions as the direct or indirect acquisition of at least 50% of the voting rights in the Company by a natural person or legal entity or a plurality of natural or legal persons acting in concert), the stock options issued on the basis of these option plans become immediately exercisable, provided that the waiting period for these stock options has already expired and the performance target has been achieved. Option rights for which the waiting period has not yet expired expire without replacement.

On the basis of 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 to members of the Management Board of the Company on January 5, 2017. On January 5, 2018, a total of 18,337 stock options were issued to employees of the Company and on January 5, 2018, a total of 32,000 stock options were issued to members of the Management Board of the Company. In addition, a total of 16,660 stock options were issued to employees of the Company on December 17, 2018 and a total of 24,000 stock options to members of the Company's Management Board on December 28, 2018. In addition, 3,332 stock options were issued to employees of the Company on April 17, 2019. The vesting period for all stock options is four years beginning on the respective issue date. The stock options are therefore currently not yet exercisable.

Delticom AG and another group company are also party to a reorganization agreement with lending banks. Each of these lending banks is entitled to extraordinarily terminate the reorganization agreement in the event of a change of control as defined in the reorganization agreement, and the remaining lending banks can decide to continue the agreement without the terminating bank. The definition of change of control in the Reorganization Agreement is not congruent with a change of corporate control within the meaning of Section 29 (2) WpÜG, but a change of corporate control within the meaning of Section 29 (2) WpÜG may also constitute a change of control within the meaning of the Reorganization Agreement. Termination of the reorganization agreement would impact the financing situation of Delticom AG and its group companies and could lead to their insolvency.

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.

Consolidated Financial Statements of Delticom AG

Content

Consolidated Income Statement

in € thousand	Notes	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Revenues	(1)	**625,755**	**645,724**
Other operating income	(2)	37,610	38,064
Total operating income		**663,364**	**683,788**
Cost of goods sold	(3)	-490,643	-505,100
Gross profit		**172,722**	**178,688**
Personnel expenses	(4)	-19,936	-15,893
Amortization and depreciation of intangible assets, rights of use and property, plant and equipment	(5)	-35,417	-7,871
Impairment losses of financial assets		-4,130	-5,084
Other operating expenses	(6)	-155,292	-148,745
Earnings before interest and taxes (EBIT)		**-42,054**	**1,094**
Financial expenses		-1,546	-689
Financial income		86	22
Net financial result	(7)	**-1,460**	**-668**
Earnings before taxes (EBT)		**-43,514**	**426**
Income taxes	(8)	2,734	-2,102
Consolidated net income		**-40,780**	**-1,676**
Thereof allocable to:			
Non-controlling interests		-341	-221
Shareholders of Delticom AG		-40,439	-1,455
Earnings per share (basic)	(9)	-3.27	-0.13
Earnings per share (diluted)	(9)	-3.27	-0.13

Statement of Recognized Income and Expenses

in € thousand	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Consolidated Net Income	**-40,780**	**-1,676**
Changes in the financial year recorded directly in equity		
Other comprehensive income for the period	**-328**	**160**
Recycling profit and loss		
Changes in value due to currency translation	-328	176
Net Investment Hedge Reserve		
Changes in current value recorded directly in equity	0	-23
Deferred taxes relating to Net Investment Hedge Reserve	0	7
Total comprehensive income for the period	**-41,108**	**-1,516**
Attributable to non-controlling interests	-157	-377
Attributable to shareholders of the parent	-40,951	-1,139

Consolidated Balance Sheet

Assets

in € thousand	Notes	31.12.2019	31.12.2018
Non-current assets		**88,800**	**85,858**
Intangible assets	(10)	41,629	59,671
Rights of use	(11)	24,280	0
Property, plant and equipment	(12)	10,448	21,688
Financial assets		8	10
Investments using equity method		0	0
Other financial assets		8	10
Deferred taxes	(13)	3,999	4,033
Other non-current receivables	(14)	8,437	457
Current assets		**99,412**	**146,677**
Inventories	(15)	62,950	99,586
Accounts receivable	(16)	10,533	24,283
Other current assets	(17)	20,583	12,753
Income tax receivables	(18)	7	6,650
Cash and cash equivalents	(19)	5,339	3,404
Assets		**188,212**	**232,535**

Shareholders' Equity and Liabilities

in € thousand	Notes	31.12.2019	31.12.2018
Equity		**8,274**	**49,254**
Equity attributable to Delticom AG shareholders		**8,325**	**49,148**
Subscribed capital	(20)	12,463	12,463
Share premium	(21)	33,739	33,739
Stock option plan	(20)	231	103
Other components of equity	(22)	46	374
Retained earnings	(23)	200	200
Net retained profits	(24)	-38,354	2,269
Non-controlling interests		**-51**	**106**
Liabilities		**179,938**	**183,281**
Non-current liabilities		**29,748**	**7,236**
Non current financial liabilities	(25)	28,777	3,750
Non-current provisions	(26)	384	252
Deferred tax liabilities	(27)	253	2,797
Other Non Current Liabilities		334	437
Current liabilities		**150,190**	**176,045**
Income tax liabilities	(26)	257	401
Other current provisions	(26)	3,437	929
Accounts payable	(28)	69,422	131,408
Current financial liabilities	(25)	64,350	27,119
Other current liabilities	(30)	12,724	16,188
Shareholders' equity and liabilities		**188,212**	**232,535**

Consolidated Cash Flow Statement

in € thousand	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Earnings before interest and taxes (EBIT)	**-42,054**	**1,094**
Depreciation of intangible assets and property, plant and equipment	-35,417	-7,871
Changes in other provisions	2,640	-1,190
Gain (–) / loss (+) from the disposal of non-current assets	3,293	111
Other non-cash expenses and income	-309	-5,802
Changes in inventories	36,636	-18,599
Changes in receivables and other assets not attributable to investment or financing activities	1,648	-3,538
Changes in payables and other liabilities not attributable to investment or financing activities	-65,321	17,008
Interest received	86	22
Interest paid	-1,275	-689
Income tax paid	6,785	-7,997
Cash flow from operating activities	**-22,454**	**-11,708**
Cash inflow from the disposal of property, plant and equipment	2,515	1,913
Payments for investments in property, plant and equipment	-4,478	-7,213
Cash inflow from the disposal of intangible assets	0	114
Payments for investments in intangible assets	-2,110	-3,530
Cash inflow from aquisition of subsidiary	0	5,634
Cash flow from investing activities	**-4,073**	**-3,082**
Dividends paid by Delticom AG	0	-1,246
Capital transactions with non-controlling interests	0	12
Cash inflow of financial liabilities	34,218	19,110
Cash outflow of financial liabilities	-5,754	-3,562
Cash flow from financing activities	**28,464**	**14,313**
Changes in cash and cash equivalents due to currency translation	-2	0
Cash and cash equivalents at the start of the period	3,404	3,881
Changes in cash and cash equivalents	1,935	-477
Cash and cash equivalents - end of period	**5,339**	**3,404**

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 2018	**12,463**	**33,739**	**215**	**16**	**71**	**200**	**5,651**	**52,355**	**585**	**52,940**
Compensation of differences from purchase of non-controlling interests							-854	-854	-102	-956
Dividends paid							-1,246	-1,246		-1,246
Stock option plan					32			32	0	32
Consolidated net income							-1,455	-1,455	-221	1,676
Other comprehensive income			159	-16			173	316	-156	160
Total comprehensive income			**159**	**-16**			**-1,282**	**-1,139**	**-377**	**-1,516**
as of 31 December 2018	**12,463**	**33,739**	**374**	**0**	**103**	**200**	**2,269**	**49,148**	**106**	**49,254**
as of 1 January 2019	**12,463**	**33,739**	**374**	**0**	**103**	**200**	**2,269**	**49,148**	**106**	**49,254**
Dividends paid							0	0		0
Stock option plan					129			129	0	129
Changes in minority interests							0	0	0	0
Consolidated net income							-40,439	-40,439	-341	-40,780
Other comprehensive income			-328	0			-184	-512	184	-328
Total comprehensive income			**-328**	**0**			**-40,623**	**-40,951**	**-157**	**-41,108**
as of 31 December 2019	**12,463**	**33,739**	**46**	**0**	**231**	**200**	**-38,354**	**8,325**	**-51**	**8,274**

Notes to the Consolidated Financial Statements of Delticom AG

Content

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 complete wheels. The range offered to retail and commercial customers includes over 600 brands and around 18,000 models of tyres for passenger cars, motorbikes, trucks, utility vehicles, buses and complete wheel sets. Customers are also able to have the ordered products sent to one of the around 39,000 service partners of Delticom AG worldwide.

The group offers its product range in 75 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 ensure a high level of service quality.

The Management Board had authorized these consolidated financial statements on 24.03.2020. 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. The tables could show rounding diffferences due to technical calculation.

Major developments in fiscal 2019

Due to an increasingly difficult business environment and in order to secure its long-term liquidity, Delticom has been working with specialist consultants since mid-August 2019 to develop a comprehensive future concept for returning to profitability, increasing profitability and focusing on the core business "Tyres Europe". The aim is to return to profitability as quickly as possible and to secure the company's long-term future by returning to the successful online tyre model. The continuation of all non-core activities of the Delticom group was questioned. The refocusing on the core business is accompanied by the discontinuation of loss-making business areas. Consequently, at the end of the financial year it was decided to close the operating business of Gourmondo Food GmbH. The sale will continue until the end of March 2020. The operational business operations of All you need GmbH were discontinued on December 31, 2019, and the closure of Lebensmittel.de is planned for the end of the first quarter of 2020. The unprofitable business with automotive spare parts and lubricants will also be discontinued at the end of the first quarter of 2020.

The special effects of the divestments and the focus on the core business are shown in the consolidated income statement as follows:

in € million	One-off effects	Thereof deinvestment
Cost of goods sold	4.6	1.5
Personal expenses	0.6	0.6
Rents (impending losses)	0.7	0.8
Restructuring costs	3.5	0
Foreign exchange losses	3.8	0
Other operating expenses	3.5	2.5
Total before impairment	**16.7**	**5.4**
Impairment	22.1	22.1
Total	**38.8**	**27.5**

As a result of the divestment and the focus on core business, the Delticom group's non-current assets were correspondingly impaired in the fiscal year totaling € 22,141 thousand and inventories were written down by a total of € 1,469 thousand. In addition, additional legal and consulting fees totaling € 3,470 thousand were incurred as a result of restructuring measures. Furthermore, other expenses in connection with the derecognition of fixed assets, write-downs of receivables and other inventories and anticipated closure costs had to be recognized.

In view of the constantly growing proportion of tyres sold online, Delticom AG intends to further increase its logistics performance. A new tyre warehouse is scheduled to open at the end of 2020 in the French town of Ensisheim, not far from the border with both Germany and Switzerland. A project company was commissioned to construct the new logistics centre according to Delticom AG's specifications. The project consultant has already successfully sold the entire industrial property comprising two halls to an investor. Delticom AG will lease one of the two halls under construction on a long-term basis and will participate in the income from the sale to the investor. In 2019, other operating income totalling € 13,952 thousand was generated accordingly. Further € 2,248 thousand will be recognized as income over the coming twelve years. Of this € 16,200 thousand, € 10,000 thousand has already been paid to Delticom AG in cash in the current fiscal year 2020. The remaining difference is initially granted as a cash deposit, the claims arising from this are secured by a guarantee. At the beginning of the use of the warehouse, the cash deposit will be converted into a rent deposit.

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 2019 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 are prepared in Euros (EUR). The Euro is Delticom's functional and reporting currency. Unless otherwise stated, the amounts in the notes are generally stated in thousands of Euros (€ thousand).

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

The Delticom group applied IFRS 16 (Leases) for the first time as of 1 January 2019. Other standards to be applied from 1 January 2019, which however do not have a material impact on Delticom AG's financial statements, are:

- Prepayment features with negative compensation - Amendments to IFRS 9
- Non-current financial instruments in associated companies and joint ventures - amendments to IAS 28
- Annual improvements to IFRS (cycle 2015 - 2017)
- Plan amendments, curtailments or settlements - amendments to IAS 19
- IFRIC 23 "Uncertainty in the treatment of income taxes"

Standard IFRS 16 - Leases

In January 2016, the IASB published IFRS 16 "Leases", which was adopted into European law on 9 November 2017. The standard replaces existing guidance on leases, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Assessing the Substance of Transactions in the Legal Form of Leases".

IFRS 16 introduces a uniform accounting model for lessees, which stipulates that, in general, all leases and the associated contractual rights and obligations must be shown in the lessee's balance sheet. This means that the lessee no longer has to classify the lease as an operating or finance lease as required by IAS 17. For leases, the lessee recognizes a liability for the future lease obligations. Correspondingly, a right to use the leased asset is capitalized, which generally corresponds to the present value of the future lease payments plus directly attributable costs and is amortized over its useful life.

Delticom has changed its accounting policies as a result of the adoption of IFRS 16. The conversion to IFRS 16 was carried out according to the modified retrospective approach. In accordance with IFRS 16.C7, the comparative information for the prior-year periods has not been adjusted.

With the first-time application of IFRS 16, Delticom records lease liabilities for leases previously classified as operating leases under IAS 17. These liabilities are measured at the present value of the remaining lease payments, discounted at the lessee's marginal interest rate on borrowings as of 1 January 2019. The lessee's weighted average incremental borrowing rate applied to the lease obligations as of January 1, 2019 is 1,06 %.

Delticom has taken advantage of the following simplifications when applying IFRS 16 for the first time:

- Adoption of previous assessments of whether a lease is onerous as an alternative to impairment testing - no onerous contracts existed at 1 January 2019
- Leases with a remaining term of less than 12 months as of January 1, 2019 are accounted for as current leases.
- The non-inclusion of initial direct costs in the valuation of rights of use at the time of first application.
- The determination of the term of leases for agreements with extension or termination options.
- No separation of non-leasing and leasing components
- No consideration of leasing agreements for assets of minor value

Delticom has decided not to reassess whether an agreement is or contains a lease on the date of first-time application for leases concluded prior to the transition date, but to retain the previous assessment made under IAS 17 and IFRIC 4.

	in € thousand
Obligations from operating leases stated as of 31.12.2018	29,374
Lease liability recognised in the balance sheet at 1 January 2019	27,262
Of which	
short-term lease liabilities	4,594
long-term lease liabilities	22,668
	27,262

The difference between the other obligations as of December 31, 2018 and the lease liabilities recognized as of January 1, 2019 is mainly due to the discounting of the lease payments and the short-term leases and leases of low-value assets to be recognized in income.

Valuation of rights of use

The associated rights of use were recognised in the amount of the associated lease liability.

Adjustments recognised in the balance sheet as at 1 January 2019

- Rights of use - increase of € 27,262 thousand
- Leasing liabilities - increase by € 27,262 thousand

Accounting as lessor

Delticom leases leased assets (warehouse space) to third parties and is thus also a lessor. The sub-leasing is classified as a finance lease. Accordingly, a receivable is carried in the proportionate amount of the subleasing. In the opposite direction, the value of the right of use in fixed assets is reduced. Receivables and liabilities or expenses and income are not netted.

Delticom has not entered into any agreements as a lessor that would have to be taken into account as part of operating leases.

Standards and interpretations published but not yet required to be applied

The Delticom Group will apply the following standards in the future:

Application obligation	Standard / Interpretation	Adoption by EU
1 January 2020	Changes in IAS 1 and IAS 8 Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Materiality	yes
	Changes in references to the Framework in IFRS	yes
	Changes to IFRS 9, IAS 39 and IFRS 7 Reform of Reference Interest Rates	yes
	Changes to IFRS 3 Business Combinations: Definition of a business operation	no
1 January 2021	IFRS 17 Insurance contracts	no
1 January 2022	Changes IAS 1: Classification of liabilities	no

The Group does not consider the effects of these new regulations on current or future reporting periods or on foreseeable future transactions to be material.

Group of consolidated companies

The group of consolidated companies comprises Delticom AG as controlling company, 15 (previous year: 15) domestic and 9 (previous year: 9) foreign subsidiaries, all fully consolidated in the annual financial accounts.

Delticom AG formed DS Road GmbH, Pratteln/Switzerland in fiscal year 2019. The company operates in the freight transport segment. Delticom Japan GK, Tokyo/Japan, was liquidated and deconsolidated in 2019. The deconsolidation result is not material.

Consolidation methods

Subsidiaries are all participations in companies in which the AG has control over the financial and business policy, regularly accompanied by a share of voting rights of more than 50 %. Inclusion begins at the point in time at which the possibility of control exists; it ends when this possibility no longer exists.

Acquired subsidiaries are accounted for using the purchase method. The consideration transferred for the acquisition corresponds to the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the transaction date. Assets, liabilities and contingent liabilities identifiable in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the consideration transferred from the acquisition over the Group's interest in the net assets measured at fair value is recognised as goodwill. If the consideration transferred is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement after a further review.

The consolidated financial statements are based on the annual financial statements of the companies included in the consolidated financial statements prepared using uniform accounting policies. In the case of the companies included in the consolidated financial statements, the reporting date of the individual financial statements corresponds to the reporting date of 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). Intercompany profits arising from deliveries and services within the Group were adjusted for deferred taxes and recognized in income. 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 assets, liabilities and contingent liabilities of an acquired company are generally measured at fair value at the time of the transaction. Any remaining differences between the cost of acquisition and the net assets acquired are recognized as goodwill. Any gain from a business combination is recognised immediately in profit or loss after reassessment.

The transferred consideration does not include any amounts relating to existing relationships. Such amounts are recorded in the profit and loss.

Segment reporting

Delticom is a one-segment company: The company focuses on selling tyres and complete wheels online. In the E-Commerce field, goods are sold to dealers, workshops and end users via 440 online shops and online distribution plattforms in 75 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 Board 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). As a rule, foreign companies belonging to Delticom are independent sub-units, whose financial statements are translated 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.

	Average rate on the balance sheet date	Weighted annual average exchange rate
country	1 € =	1 € =
UK	GBP 0.8476	GBP 0.8769
USA	USD 1.1219	USD 1.1187
Romania	RON 4.7855	RON 4.7388
Russia	RUB 69.6111	RUB 72.4099

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 of fixed assets, the duration of leases and the associated marginal debt interest rate, accounting and valuation of provisions, as well as the measurement of fixed assets including goodwill and 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 occur.

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.

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 (net sales proceeds) 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 cashflows.

Effects from the first-time application of IFRS 16 were taken into account in the impairment test carried out in accordance with the provisions of IAS 36. Thus, the rights of use under IFRS 16 were also included in the carrying amount of the cash-generating unit.

In fiscal year 2019, Delticom uses the fair value less costs of disposal (FVLCOD) to determine the recoverable amount. The basis for measuring the FVLCOD is the planning prepared by management for Delticom's business. This forecast is based on the assumption that e-commerce will continue to increase in importance in the tyre trade over the coming years. The possibility of further increasing competition was also taken into account for the expectations for revenues and earnings growth.

Management believes that the assumptions used to calculate the recoverable amount are reasonable, particularly in light of economic conditions, margins and sales growth. The input factors used are based on market data. Changes in these assumptions could result in an impairment loss that would adversely affect the Group's net assets, financial position and results of operations.

A discount rate after taxes of 6.1 % (previous year 7.9 %), an average EBITDA margin of 2.5 % (previous year 2.3 %), average revenue growth of 2.0 % (previous year 6.2 %) and a growth discount of 1.0 % (previous year 1.0 %) were applied to measure the recoverability of the acquired goodwill of € 35.3 million at group level.

The discount rate is determined on the basis of the risk-free interest rate, the market risk premium and the borrowing rate. In addition, specific peer group information for the beta factor and the gearing ratio is taken into account, with changes in the gearing ratio due to the first-time application of IFRS 16 being taken into account accordingly.

The planning is also based on the assumptions that Delticom will continue to maintain its position as Europe's leading online tyre retailer and that the cost structure will remain lean thanks to additional automation and outsourcing. The planning period covers a period of four years plus a perpetual annuity. Plausible assumptions are made about future developments. The planning assumptions are adjusted to the current level of knowledge.

Budgeted EBITDA is based on expectations of future results taking into account past experience. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume and price growth for the next four years.

The estimated recoverable amount exceeded the carrying amount of the cash-generating unit by around € 67 million (previous year € 15 million).

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 costs and are tested for impairment annually if they are still under development. They are also amortized straight-line over their useful lives. Borrowing costs are not capitalized due to the lack of capitalization requirements, 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 linear 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

Leasing agreements

This note provides information on leases in which the Group is the lessee and also the lessor.

The following items are shown in the balance sheet in connection with leases:

in € thousand	31.12.2019	01.01.2019
Rights of use		
buildings	22,522	27,262
technical equipment and machinery	1,631	0
operating and office equipment	128	0
	24,281	**27,262**
Leasing receivables		
short-term	443	0
long-term	3,974	0
	4.417	**0**
Leasing liabilities		
short-term	5,930	4,594
long-term	23,361	22,668
	29,291	**27,262**

Further details can be found in section 11 of the statement of changes in fixed assets.

The duration of the liabilities are as follows:

in € thousand	2019
up to 1 year	5,930
1-5 years	17,911
over five years	5,451
Total	**29,291**

Additions to the rights of use during the 2019 financial year amounted to € 6,534 thousand.

Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

in € thousand	2019
Depreciation on rights of use	
buildings	4,690
Technical equipment and machinery	144
operating and office equipment	9
income from sale and lease back transactions	256
Interest expenses	300
Expenses in connection with short-term leases (included in other operating expenses)	1,617
Expenses in connection with leases of low-value assets not included in current leases (included in other operating expenses)	89

The total payments for leasing amount to € 7,048 thousand.

For a rental agreement concluded in 2019 for the warehouse in Ensisheim, which will not be used until the end of 2020, cash outflows of € 37,427 thousand are expected over the rental period of 12 years from the start of use.

In addition, there are rental extension options for various warehouses and offices over periods of between 2 and 5 years, which could lead to cash outflows of € 36,730 thousand if fully utilised.

Delticom has mostly concluded rental agreements for office buildings, warehouses, IT equipment and warehouse equipment. The agreements have a term of up to 12 years, and can include additional extension options.

There are exceptions to the recognition of short-term leases and leases for assets with low value of minor value within the meaning of IFRS 16. Payments for leases that are based on assets of minor value and for short-term leases are recognised in profit or loss. Short-term leases are leases with a term of up to 12 months and no purchase option. Assets of minor value mainly include IT equipment and office furniture.

Rights of use and lease liabilities are initially recognised at cost or fair value. Lease liabilities include the fair value of fixed and variable, index-based lease payments.

Rental conditions are negotiated individually and include a variety of different terms. Delticom's leasing agreements also include extension and termination options. Such contractual conditions are used to allow the Group to retain maximum operating flexibility with regard to the assets used by the Group. The extension and termination options can only be exercised by the Group and not by the respective lessor.

The measurement of the lease liability also includes lease payments based on a sufficiently secure utilisation of extension options.

Lease payments are discounted at the implicit interest rate underlying the lease if this can be readily determined. Otherwise - and this is generally the case in the Group - the asset is discounted using the lessee's marginal borrowing rate, i.e. the interest rate that Delticom would have to pay if it had to borrow funds to acquire an asset with a comparable value for a comparable term with comparable security under comparable conditions in a comparable economic environment.

Lease payments are divided into repayment and interest portions. The interest portion is recognised in the income statement over the term of the lease.

Rights of use are amortised on a linear basis over the shorter of the useful life of the underlying asset and the term of the underlying lease agreement. For information on the impairment testing of rights of use, please refer to the notes on property, plant and equipment.

Sale and lease back

Delticom sold individual assets in 2019 and then leased them back from the new owner. The right of use associated with the lease-back is carried at the proportion of the previous carrying amount that relates to the retained right of use. Gains or losses are only recognized to the extent that they relate to the transferred rights.

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 on the disposal of assets are determined as the difference between the proceeds from the sale and the carrying amount and are recognised in the income statement.

Scheduled linear depreciation is essentially based on the following economic useful lives:

	Useful life in years
Warehouse equipment	12-33
Machinery	4-14
Equipment	3-15
Office fittings	3-15

Financial Instruments

i. Recognition and initial measurement

Trade receivables are recognized from the date on which they arise. All other financial assets and liabilities are initially recognized on the trade date when the company becomes a party to the contract under the terms of the instrument.

A financial asset (other than a trade receivable without a significant financing component) or a financial liability is initially measured at fair value. For an item that is not measured at fair value with changes in profit or loss, transaction costs directly attributable to its acquisition or issue are added. Trade receivables without significant financing components are initially measured at the transaction price.

ii. Classification and subsequent measurement

On initial recognition, a financial asset is classified and measured as follows:

- at amortized cost
- FVOCI debt instruments (investments in debt instruments measured at fair value with changes in other comprehensive income)
- FVOCI equity investments (equity investments measured at fair value with changes in other comprehensive income)
- FVTPL (at fair value with changes in profit or loss)

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing financial assets. In this case, all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

A financial asset is measured at amortised cost if both of the following conditions are met and it has not been designated as FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- the contractual terms of the financial asset result in cash flows at specified dates that represent only principal and interest payments on the outstanding principal.

A debt instrument is designated at FVOCI if both of the following conditions are met and it has not been designated as FVTPL:

- It is held within the framework of a business model whose objective is both to hold financial assets in order to collect the contractual cash flows and in the sale of financial assets and liabilities; and
- its contractual terms give rise, at specified times, to cash flows representing only principal and interest payments on the outstanding principal.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to show consequential changes in the fair value of the investment in other comprehensive income. This choice is made on a case-by-case basis for each investment.

All financial assets that are not measured at amortised cost or at FVOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate financial assets that otherwise qualify for measurement at amortised cost or at FVOCI as FVTPL if this results in the elimination or significant reduction of accounting mismatches.

Financial assets - Business model assessment

The Group makes an assessment of the objectives of the business model in which the financial asset is held at a portfolio level as this best reflects the way the business is managed and information is provided to management. The information to be considered includes:

- the risks affecting the results of the business model (and the financial assets held under that business model) and how those risks are managed
- frequency, extent and timing of sales of financial assets in prior periods and expectations about future sales activities.

Transfers of financial assets to third parties through transfers that do not result in derecognition are consistent with the Group continuing to account for the assets, not sales for this purpose.

Financial assets which are held or managed for trading purposes and whose performance is assessed on the basis of fair value are valued at FVTPL.

Financial assets – Assessment whether contractual cash flows are exclusively repayments

For the purpose of this assessment, the "principal amount" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as the consideration for the time value of money and for the risk of default associated with the principal outstanding over a specified period, as well as for other basic credit risks, costs (such as liquidity risk and administrative costs) and a profit margin.

In assessing whether the contractual cash flows are solely interest and principal payments on the principal amount, the Group considers the contractual terms of the instrument. This includes an assessment of whether the financial asset contains a contractual agreement that could change the timing or amount of the contractual cash flows so that they no longer meet these conditions. In making this assessment, the Group takes into account the following factors:

- certain events that would change the amount or timing of cash flows
- conditions that would adjust the interest rate, including variable interest rates
- early repayment and extension options; and
- conditions that restrict the Group's right to receive cash flows from a specific asset.

An early repayment option is consistent with the criterion of exclusive interest and principal repayments where the amount of the early repayment consists essentially of unpaid interest and principal repayments on the outstanding principal, which may include reasonable additional consideration for the early termination of the contract.

In addition, a condition for a financial asset acquired at a premium or discount to the contractual principal amount that permits or requires early repayment at an amount that is substantially the contractual principal amount plus accrued (but unpaid) contractual interest (which may include an appropriate consideration for early termination of the contract) is treated as in accordance with the criterion if the fair value of the early repayment option at inception is not significant.

Financial assets - Subsequent measurement and gains and losses

Financial assets at FVTPL - These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. Amortized cost is reduced by impairment losses. Interest income, exchange rate gains and losses and impairments are recognised in profit or loss. A gain or loss on derecognition is recognized in profit or loss.

FVOCI debt instruments - These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Other net gains or losses are recognised in other comprehensive income. On derecognition, accumulated other comprehensive income is reclassified to profit or loss.

Equity investments in FVOCI - These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend is clearly covering part of the cost of the investment. Other net gains or losses are recognised in other comprehensive income and are never reclassified to profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified and measured at amortised cost or at fair value through profit or loss (FVTPL). A financial liability is classified at FVTPL if it is classified as held for trading, is a derivative or is designated as such upon initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains or losses, including interest expenses, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign currency translation differences are recognized in profit or loss. Gains or losses from derecognition are also recognized in profit or loss.

iii. Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the rights to receive the cash flows in a transaction in which all significant risks and rewards of ownership of the financial asset are transferred.

Derecognition also takes place if the Group neither transfers nor retains all material risks and rewards of ownership and does not retain control of the transferred asset.

Financial liabilities

The Group derecognizes a financial liability when the contractual obligations have been fulfilled, cancelled or expired. The Group also derecognizes a financial liability when its contractual terms are modified and the cash flows of the modified liability are significantly different. In this case, a new financial liability is recognized at fair value based on the revised terms.

When a financial liability is derecognised, the difference between the carrying amount of the liability extinguished and the consideration paid (including non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv. Offsetting

Financial assets and liabilities are offset and presented as net amounts in the balance sheet when the Group has a present enforceable legal right to set off the recognised amounts and it intends either to settle on a net basis or to settle the liability simultaneously with the realisation of the asset.

v. Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge currency risks. Under certain circumstances, embedded derivatives are separated from the host contract and accounted for separately.

Derivatives are initially measured at fair value. Derivatives are subsequently measured at fair value. Any resulting changes are generally recognized in profit or loss.

At the inception of the designated hedging relationship, the Group documents the risk management objectives and strategies it pursues with respect to the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument and whether changes in the cash flows of the hedged item and the hedging instrument are expected to offset each other.

Cash flow hedges

If a derivative is designated as a cash flow hedge, the effective portion of the change in fair value is recognised in other comprehensive income and transferred cumulatively to the hedge reserve. The effective portion of the changes in fair value recognised in other comprehensive income is limited to the cumulative change in the fair value of the hedged item (calculated on a cash basis) since hedge inception. An ineffective portion of the changes in the fair value of the derivative is recognized directly in profit or loss.

If a hedged forecast transaction subsequently results in the recognition of a non-financial item, such as inventories, the cumulative amount of the hedge reserve and the hedging cost reserve is included directly in the cost of the non-financial item when it is recognised.

For all other hedged forecast transactions, the cumulative amount transferred to the hedge reserve and the hedging cost reserve is reclassified to profit or loss in the period or periods in which the hedged forecast future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, terminated or exercised, hedge accounting is discontinued prospectively. When cash flow hedge accounting is discontinued, the amount transferred to the hedging reserve remains in equity until - for a hedging transaction that results in the recognition of a non-financial item - this amount is included in the cost of the non-financial item on initial recognition or - for other cash flow hedges - this amount is reclassified to profit or loss in the period or periods during which the hedged forecast future cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, the amounts transferred to the hedging relationship reserve and the reserve for hedging costs are immediately reclassified to profit or loss.

Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as a hedging instrument to hedge a net investment in a foreign operation, the effective portion of the changes in the fair value of the hedging instrument (in the case of derivatives) or in foreign exchange differences (for nonderivatives) are recognized in other comprehensive income and reported in the foreign currency translation reserve within equity. The ineffective portion of the changes in the fair value of the hedging instrument in the case of derivatives or the exchange rate differences of the non-derivative are recognized directly in profit or loss. The amount recognised in other comprehensive income is reclassified to profit or loss on disposal of the foreign operation.

In general, 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. Generally, 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 32.49 % (previous year: 32.54 %). With regard to the valuation of the Romanian subsidiary, an unchanged tax rate of 16 % is considered. The effects of the changed tax rate are not material.

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

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

The German companies are subject to trade tax of 16.7 % (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 obligations 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 reviewed at each balance sheet date and adjusted to the current best estimate. If a material interest effect results from the date on which the obligation is fulfilled, the provision is recognised at its present value. 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 compounding of the provision is recognized as interest expense. Where no reliable estimate can be made in individual cases, no provision is recognised but a contingent liability is disclosed.

With the exception of leasing liabilities, **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.

Revenues and other operating income are recognized at the time the service is rendered if the amount of the revenue can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the enterprise. Income from services whose amount is immaterial is generally recognized pro rata temporis over the period in which the service is rendered. Sales revenues are reduced by sales deductions. In the case of the sale of merchandise to customers, services are generally provided at the point in time at which the merchandise passes into the economic ownership of the customer. The transfer of control is not tied to the transfer of legal ownership. Deliveries of merchandise that are expected to be returned on the basis of past experience are not recognized in profit or loss.

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.

Depreciation and amortisation of non-financial assets

Scheduled amortization/depreciation is performed in line with the useful lives of intangible assets, property, plant and equipment and rights of use. 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, rights of use, 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.

Impairment losses on financial assets

Delticom recognizes valuation allowances for expected credit losses (ECL) for:

- financial assets measured at amortised cost;
- debt investments valued at FVOCI; and
- contract assets.

Allowances for trade receivables and contract assets are always measured at the amount of the expected credit loss over the term of the contract.

In determining whether the credit risk of a financial asset has increased significantly since initial recognition and in estimating expected credit losses, the Group considers appropriate and reliable information that is relevant and available without undue expense of time and money. This includes both quantitative and qualitative information and analyses based on the Group's past experience and well-founded judgements, including forward-looking information.

Financial assets impaired in terms of creditworthiness

At each reporting date, Delticom assesses whether financial assets measured at amortized cost and debt instruments held under the FVOCI have impaired their creditworthiness and are therefore at risk of default. A financial asset is considered impaired if one or more events have occurred that have a negative impact on the estimated future cash flows of the financial asset.

Evidence that a financial asset is impaired includes the following observable data:

- significant financial difficulties of the borrower or issuer;
- a default;
- the restructuring of a loan by the Group on terms that the Group would not otherwise take into account;
- it is likely that the borrower will go bankrupt or that a reorganization will take place;
- or the disappearance of an active market for a security due to financial difficulties.

The Group considers a financial asset to be defaulted if:

- it is unlikely that the debtor will be able to pay its credit obligation in full to the Group without the Group having to resort to measures such as the realisation of collateral (if any), or
- the financial asset is more than 90 days overdue.

Depending on the development of the credit risk inherent in a financial asset, expected credit losses (ECLs) must be calculated as either 12-month or lifetime ECLs. Lifetime ECLs are the ECLs that arise from all possible default events over the expected life of a financial instrument and should be recognised if the credit risk of a financial asset has increased significantly since initial recognition.

12-month ECLs are the portion of ECLs that result from default events that occur within the next 12 months after the balance sheet date (or a shorter period if the expected life of the instrument is less than 12 months). In deviation from the general procedure, value adjustments for trade receivables and order backlogs are generally measured in the amount of lifetime ECLs (simplified procedure).

The maximum period to be considered in estimating expected credit losses is the maximum contractual period during which the Group is exposed to credit risk.

Measurement of ECLs

Expected credit losses are the probability-weighted estimates of credit losses. Credit losses are measured as the present value of the credit losses (i.e. the difference between the payments due to an enterprise under the contract and the payments expected to be received by the enterprise). Expected credit losses are discounted using the effective interest rate of the financial asset.

For trade receivables and order backlogs, ECLs are calculated on a portfolio basis. Assets are grouped by past due and ECLs are estimated on the basis of historical default rates and forecasts of the economic environment in which the counterparties operate (e.g. country risk).

Presentation of allowance for ECLs in the statement of financial position

Impairment losses on financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. At the current balance sheet date, the expected credit losses (ECL) on financial assets are immaterial to the Group.

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.

Accounting of assets and liabilities for non going concern companies

The assets and liabilities of Gourmondo Food GmbH and All you need GmbH have been recognised at fair value, moving away from the going concern assumption.

Notes to the income statement

(1) Revenue from Contracts with Customers

Revenues consist exclusively of revenues from customer contracts and relate almost exclusively to the "sale of goods" category. Other revenues from services are of minor significance.

Revenues in Germany totaled € 236,665 thousand (previous year € 238,483 thousand).

The following table provides information about receivables and contract liabilities from contracts with customers:

in € thousand	31.12.2019	31.12.2018
Trade receivables	10,533	24,283
Prepayments received from customers (contract liabilities)	-6,214	-7,816

Revenue from contracts with customers is recognized when the customer exercises control over the goods and takes possession of them. This usually occurs when the customer receives the goods. Reported sales are adjusted for expected returns, which are estimated based on historical data. The expected returns are not significant.

Customers use three payment methods: prepayment, payment on receipt of goods and, for certain customers and in accordance with the credit risk policy, payment on maturity. The first two methods are mainly used, the third method is rarely used.

Further information on trade receivables is provided in section (15). Advance payments received from customers are recognized as revenue when control of the goods is transferred to the customer, usually upon delivery of the goods. In the 2019 financial year, € 7,816 thousand was recognised as revenue, which was included in the advance payments received at the beginning of the period.

(2) Other operating income

in € thousand	2019	2018
Income from exchange rate differences	3,256	3,509
Other income AYN	0	11,436
Income from the participation in a logistics or real estate business	13,952	0
Other	20,402	23,119
Total	**37,610**	**38,064**

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 development in miscellaneous other operating income arises mainly from marketing subsidies, income from transportation losses and other income.

(3) Cost of sales

The cost of sales amounted to € 490.6 million (previous year: € 505.1 million) result exclusively from the sale of trading goods.

(4) Personnel expenses

in € thousand	2019	2018
Wages and salaries	17,515	13,708
Social security contributions	2,082	1,937
Share-based compensation with equity instruments	188	49
Expenses for pensions and other benefits	151	199
Total	**19,936**	**15,893**

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, € 1.060 thousand (previous year: € 800 thousand) were recognized under personnel expenses when due.

Details of stock option plan are presented in *equity*.

In 2019, Delticom had an average of 261 employees (previous year: 235 employees).

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

in € thousand	2019	2018
Intangible assets	19,078	5,292
Rights of use	4,842	0
Property, plant and equipment	11,497	2,579
Total	**35,417**	**7,871**

Depreciation based on impairment tests (IAS 36) rwas recorded for intangible assets in the amount of € 14,224 thousand and for property, plant and equipment in the amount of € 7,917 thousand. This is due to the write-downs of the fixed assets of All you need GmbH, Gourmondo GmbH and DeltiLog GmbH. In addition, depreciation on the rights of use for leases of € 4,842 thousand was carried out for the first time in the 2019 financial year.

(6) Other operating expenses

in € thousand	2019	2018
Transportation costs	62,171	61,934
Warehousing costs	10,953	9,341
Credit card fees	5,453	5,956
Marketing costs	28,600	33,000
Operations centre costs	9,458	10,165
Rents and overheads	3,917	7,359
Financial and legal costs	9,294	4,892
IT and telecommunications	3,870	4,060
Expenses from exchange rate differences	6,527	3,235
Other	15,049	8,804
Total other operating expenses	**155,292**	**148,745**

The reported rents and operating costs include short-term leases as well as leases for assets of minor value and, in particular, ancillary costs. The increase in finance and legal expenses is mainly due to additional consultancy costs in connection with the restructuring.

Losses on receivables and individual value adjustments (€ 4,130 thousand; previous year: € 5,084 thousand) are shown as a separate item in the income statement.

(7) Financial result

in € thousand	2019	2018
Financial expenses	-1,546	-689
Financial income	86	22
Total	**-1,460**	**-668**

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 relate to interest expenses for bank loans and overdrafts.

(8) Income taxes

The income taxes result from:

	2019			2018		
in € thousand	Germany	Abroad	Total	Inland	Abroad	Total
Current income taxes	113	1	114	454	129	583
Deferred income taxes	-2,841	-6	-2,847	1,636	-117	1,519
Total	**-2,728**	**-5**	**-2,733**	**2,090**	**12**	**2,102**

In the year under review, income taxes of € 0 thousand (previous year: € -5 thousand) were carried directly under equity.

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

	2019		2018	
in Tausend €	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Losses carried forward	3,853	0	3,792	0
Intangible assets	0	0	448	3,142
Rights of use	0	7,234	0	0
Property, plant and equipment	61	16	5	78
Inventories	0	229	0	133
Receivables	0	1,430	0	1
Long-term provisions	6	0	26	0
Short-term provisions	61	0	0	0
Liabilities	8,681	0	0	2
Other equity and liabilities	0	7	9	4
Total	**12,662**	**8,916**	**4,595**	**3,360**
Balancing	-8,663	-8,663	-563	-563
Value on the balance sheet	**3,999**	**253**	**4,032**	**2,797**

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

in € thousand	2019	2018
Profit before income taxes	-43,514	426
Delticom AG income tax rate	32.49%	32.54%
Expected tax expense	**-14,138**	**139**
Differences from anticipated income tax expense		
Adjustment to different tax rate	25	-59
Non-deductible operating expenses	43	248
Non-period income taxes	-135	405
Tax-free income	0	-3,720
Effects from Group restructuring	7,530	0
Effects from losses carried forward	4,139	5,089
Other tax effects	-199	0
Total adjustments	**11,404**	**1,963**
Actual tax expense	**-2,733**	**2,102**

During the fiscal year, control and profit and loss transfer agreements (BEAV) were concluded between Delticom AG and All you need GmbH. Control and profit and loss transfer agreements already exist with DeltiLog GmbH, Pnebo Gesellschaft für Reifengroßhandel und Logistik mbH, Giga GmbH, Deltiparts GmbH, TyresNet GmbH and DeltiStorage GmbH. A profit and loss transfer agreement (P&L transfer agreement) exists with Tirendo Holding GmbH.

Deferred tax assets on loss carryforwards in the amount of € 3.9 million (previous year: € 3.8 million) include losses at Delticom AG in the current year in the amount of € 1.7 million. It is probable that the vested tax loss carryforwards will be used in future years as a result of expected positive tax results. The remaining deferred tax assets in the amount of € 0.3 million on loss carryforwards are due to companies that already partially used the loss carryforwards in previous years and in the current year, and which are forecasting positive tax results in future years.

In the year under review, deferred tax assets formed in previous years on losses carried forward in the amount of around € 0.7 million were not recognised, as their existence on the balance sheet date was legally uncertain and their utilisation in future years is not probable. In addition, no deferred tax assets of approx. € 4.1 million were recognized on accumulated losses of € 12.8 million. The unrecognized deferred taxes on losses carried forward mostly relate to Delticom AG. These were capitalized on the basis of substantiated corporate planning prepared in cooperation with an external consultant.

The group restructuring has a significant impact on the group tax rate for the financial year. This was largely determined by the reassessment of the recoverability of deferred tax assets from deductible differences and loss carryforwards in the discontinued operations of the Group. Furthermore, no tax benefits can be realized from the complete write-down of fixed assets of discontinued operations. In total, this results in an effect on the tax rate of approximately 17 %. Due to the non-recurring nature of this effect, it is shown separately in the tax reconciliation.

(9) Earnings per share

Basic earnings per share totalled € –3.27 (previous year: € –0.13). The diluted earnings per share totalled € –3.27 (previous year: € –0.13).

Pursuant to IAS-33, undiluted (basic) earnings per share are calculated by dividing the consolidated net income of € –40,780,477.72 (previous year: € –1,675,893.95) by the 12,463,331 weighted average number of ordinary shares in circulation during the financial year (previous year: 12,463,331 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 2019.

Notes to the balance sheet

Non-current assets

(10) Intangible assets

in € thousand	Goodwill	Customer Relationships	Trademarks	Advances paid
Acquisition costs				
as of 1 January 2019	**35,338**	**4,343**	**12,531**	**2,022**
Additions from business combinations	0	0	0	0
Other additions	0	0	0	1,865
Disposals	0	0	0	-297
Reclassifications	0	0	0	-3,260
currency translation	0	0	0	0
as of 31 December 2019	**35,338**	**4,343**	**12,531**	**330**
Accumulated depreciation				
as of 1 January 2019	**0**	**1,846**	**9,422**	**0**
Additions according to plan	0	336	1,441	0
Impairments	0	2,028	1,600	0
Disposals	0	0	0	0
Reclassifications	0	0	0	0
currency translation	0	0	0	0
as of 31 December 2019	**0**	**4,210**	**12,463**	**0**
Residual carrying amounts as of 31 December 2019	**35,338**	**133**	**68**	**330**

in € thousand	Rights of sale	Domains	Software	Total
Acquisition costs				
as of 1 January 2019	**6,539**	**5,162**	**23,795**	**89,730**
Additions from business combinations	0	0	0	0
Other additions	0	0	245	2,110
Disposals	-3,089	-381	-2,584	-6,351
Reclassifications	0	0	3,260	0
currency translation	0	0	0	0
as of 31 December 2019	**3,450**	**4,781**	**24,716**	**85,489**
Accumulated depreciation				
as of 1 January 2019	**6,539**	**1,323**	**10,929**	**30,059**
Additions according to plan	0	1,040	2,037	4,854
Impairments	0	1,007	9,589	14,224
Disposals	-3,089	-192	-1,996	-5,277
Reclassifications	0	0	0	0
currency translation	0	0	0	0
as of 31 December 2019	**3,450**	**3,178**	**20,559**	**43,860**
Residual carrying amounts as of 31 December 2019	**0**	**1,603**	**4,157**	**41,629**

in € thousand	Goodwill	Customer Relationships	Trademarks	Advances paid
Acquisition costs				
as of 1 January 2018	**35,338**	**4,343**	**11,162**	**2,555**
Additions from business combinations	0	0	1,369	0
Other additions	0	0	0	2,983
Disposals	0	0	0	-115
Reclassifications	0	0	0	-3,401
currency translation	0	0	0	0
as of 31 December 2018	**35,338**	**4,343**	**12,531**	**2,022**
Accumulated depreciation				
as of 1 January 2018	**0**	**1,425**	**7,596**	**155**
Additions	0	421	1,826	0
Disposals	0	0	0	0
Reclassifications	0	0	0	-155
currency translation	0	0	0	0
as of 31 December 2018	**0**	**1,846**	**9,422**	**0**
Residual carrying amounts as of 31 December 2018	**35,338**	**2,498**	**3,108**	**2,022**

in € thousand	Rights of sale	Domains	Software	Total
Acquisition costs				
as of 1 January 2018	**6,539**	**5,074**	**16,833**	**81,844**
Additions from business combinations	0	21	3,081	4,471
Other additions	0	67	480	3,530
Disposals	0	0	0	-115
Reclassifications	0	0	3,401	0
currency translation	0	0	0	0
as of 31 December 2018	**6,539**	**5,162**	**23,795**	**89,730**
Accumulated depreciation				
as of 1 January 2018	**6,539**	**1,067**	**7,989**	**24,771**
Additions	0	256	2,789	5,292
Disposals	0	0	0	0
Reclassifications	0	0	155	0
currency translation	0	0	-4	-4
as of 31 December 2018	**6,539**	**1,323**	**10,929**	**30,059**
Residual carrying amounts as of 31 December 2018	**0**	**3,839**	**12,866**	**59,671**

(11) Rights of use

in € thousand	Buildings	Technical machinery and equipments	Other equipment, factory and office equipment	Total
Acquisition costs				
As of 1 January 2019 - IFRS 16 First-time adoption	27,262	0	0	27,262
Additions	4,623	1,774	136	6,533
Disposals	-4,673	0	0	-4,673
Reclassifications	0	0	0	0
Currency translation	0	0	0	0
As at 31 December 2019	27,212	1,774	136	29,122
Accumulated depreciation	**0**	**0**	**0**	**0**
As of January 1, 2019	0	0	0	0
Additions	4,690	144	9	4,842
Disposals	0	0	0	0
Reclassifications	0	0	0	0
Currency translation	0	0	0	0
As at 31 December 2019	4,690	144	9	4,842
Net book values as of 31 December 2019	**22,522**	**1,630**	**127**	**24,280**

Please refer to the section entitled "*Significant accounting policies*" for information on accounting for rights of use in accordance with IFRS 16. The additions include new leases concluded in 2019. The disposals relate to a sublease for a part of a warehouse concluded in 2019.

(12) 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	Total
Acquisition costs				
as of 1 January 2019	2,799	16,824	22,943	42,566
Additions from business combinations	0	0	0	0
Additions	29	3,377	1,073	4,479
Disposals	-1,595	-1,295	-2,141	-5,031
Reclassifications	0	0	0	0
Foreign currency translation	0	0	0	0
as of 31 December 2019	1,233	18,906	21,875	42,014
Accumulated depreciation				
Stand 1. Januar 2019	318	6,667	13,893	20,878
Additions according to plan	48	2,689	843	3,580
Impairments	0	5,761	2,156	7,917
Disposals	-353	-339	-117	-809
Reclassifications	0	0	0	0
Foreign currency translation	0	0	0	0
as of 31 December 2019	13	14,778	16,775	31,566
Amortised cost as of 31 December 2019	**1,220**	**4,128**	**5,100**	**10,448**

in € thousand	Land, similar rights and buildings incl. buildings on third party land	Technical machinery and equipments	Other equipment, factory and office equipment	Total
Acquisition costs				
as of 1 January 2018	1,204	15,614	19,347	36,165
Additions from business combinations	0	731	809	1,540
Additions	1,595	822	4,795	7,212
Disposals	0	-343	-2,008	-2,351
Reclassifications	0	0	0	0
Foreign currency translation	0	0	0	0
as of 31 December 2018	2,799	16,824	22,943	42,566
Accumulated depreciation				
Stand 1. Januar 2018	258	5,601	12,960	18,819
Additions	62	1,259	1,258	2,579
Disposals	0	-189	-326	-515
Reclassifications	-2	-4	1	-5
Foreign currency translation	0	0	0	0
as of 31 December 2018	318	6,667	13,893	20,878
Amortised cost as of 31 December 2018	**2,481**	**10,157**	**9,050**	**21,688**

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

(13) Deferred taxes

Deferred tax assets of € 3,922 thousand (previous year: € 2,162 thousand) are realized after more than 12 months. In addition, € 7,590 thousand of the netted deferred tax assets on the leasing liability are realized after more than 12 months.

(14) Other non-current receivables

Receivables consist primarily of the non-current portion of receivables from the investment in a warehouse and real estate business project (€ 3,990 thousand), receivables from subleases (€ 3,973 thousand) and security deposits paid 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.

Leasing agreements

The subleasing of leased assets is classified as finance leasing. Accordingly, receivables are recognised in the balance sheet at the proportionate amount of subletting. The receivables in the amount of the minimum lease payments from these leases are as follows:

	2019	
in € thousand	nominal	discounted
up to 1 year	490	444
1-2 years	490	448
2-3 years	490	453
3-4 years	490	458
4-5 years	490	464
over five years	2,204	2,150
Total	**4,654**	**4,417**

The subleasing resulted in other operating income of € 286 thousand and interest income of € 29 thousand.

Current assets

(15) Inventories

in € thousand	2019	2018
Tyres and Accessories	55,325	72,961
Goods in Transit	6,604	21,565
Other	1,021	5,060
Total	**62,950**	**99,587**

Some sales transactions for goods in transit had already been concluded on the reporting date. The stored goods are intended for sale in e-commerce. Inventories are recognized in accordance with the agreed delivery terms at the time of transfer of control.

During fiscal year, € 314.360 thousand of inventories were carried as expenses (previous year: € 263,276 thousand). The loss-free valuation resulted in write-downs of € 96 thousand. Additional write-downs were recognized for inventories from the food and automotive parts segments in the amount of € 1.469 thousand. Impairment losses were not reversed in the fiscal year.

(16) Accounts receivable

in € thousand	2019	2018
Accounts receivable	10,533	24,283
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

Information on the Group's credit and market risk and on valuation allowances on trade receivables is included in "Other Disclosures".

(17) Other current receivables

in € thousand	2019	2018
Refund claims from taxes	4,494	9,832
Credits with suppliers	1	516
Deferrals	1,028	687
Receivables from warehouse project	10,893	0
Other current receivables	4,166	1,719
Total	**20,582**	**12,754**

The other current receivables comprise € 8 thousand receivables from derivative financial instruments (previous year: € 42 thousand).

(18) Income tax receivables

Income tax receivables mainly relate to the expected tax refunds for the 2019 financial year. In the previous year, this item included advance payments for corporation and trade tax, which were refunded in 2019.

(19) 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	2019	2018
Cash	3	4
Bank balances	5,336	3,400
Total	**5,339**	**3,404**

Equity

(20) 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 € 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.

Authorized Capital

The Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital by a total of up to € 6,231,665 (in words: six million two hundred and thirty-one thousand six hundred and sixty-five) new no-par value registered shares against contributions in cash or in kind on one or more occasions until May 1, 2022 (Authorized Capital 2017).

Contingent capital
Stock option plan I/2014

The Annual General Meeting of 29 April 2014 authorised the Management Board, with the approval of the Supervisory Board (or the Supervisory Board instead of the Management Board if option rights are granted to members of the Management Board), to grant option rights for the subscription of a total of up to 540,000 new no-par value registered shares of the Company to members of the Management Board of the Company, to employees of the Company and to employees and members of the management of affiliated companies on one or more occasions up to 28 April 2019.

The Company's share capital is conditionally increased by up to EUR 142,332 by issuing up to 142,332 new no-par value ordinary registered shares (no-par shares) (Conditional Capital I/2014). The conditional capital 1/2014 serves exclusively to grant new shares to the holders of option rights issued by the Company in accordance with the authorisation resolution of the Annual General Meeting of 29 April 2014. The conditional capital I/2014 was entered in the commercial register on June 11, 2014.

By resolutions of the Company's Management Board on December 25, 2016 and of the Company's Supervisory Board on December 27, 2016, a stock option plan was introduced for employees of the

Company and by resolution of the Company's Supervisory Board on December 28, 2016, a stock option plan was introduced for members of the Company's Management Board, taking into account the specifications on key features contained in the resolution of the Company's Annual General Meeting on April 29, 2014.

On the basis of this plan, 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 to members of the Company's Management Board on January 5, 2017. On January 5, 2018, a total of 18,337 stock options were issued to employees of the Company and on January 10, 2018, a total of 32,000 stock options were issued to members of the Management Board of the Company. In addition, a total of 16,660 stock options were issued to employees of the Company on December 17, 2018 and a total of 24,000 stock options to members of the Management Board of the Company on December 28, 2018. On April 17, 2019, 3,332 stock options were issued to employees of 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 yet exercisable. The option rights each have a maximum term of ten years from the date on which the respective option right arises. The beneficiaries may exercise the option rights at the earliest after a waiting period of four years, beginning on the issue date. 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 statements or in the notes to the consolidated financial statements. The term of the stock option plan ended on April 28, 2019, after which date the issue of stock options under this stock option plan is no longer permitted. By resolution of the Annual General Meeting on August 12, 2019, the authorization to grant stock option rights under the stock option plan 2014 was partially revoked.

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: 0%
- Volatility of stocks, based on historical data: 25%
- Risk-free interest rate: –0.095%

On this basis, the fair values are € 3.75 (05.01.2017), € 2.88 (10.01.2018), € 1.91 (28.12.2018) and € 1.42 (17.04.2019) per share option.

By resolution of the Annual General Meeting of 12 August 2019, the authorisation to grant stock option rights (stock option programme 2014) granted by resolution of the Annual General Meeting of 29 April 2014 was cancelled to the extent that the authorisation had not yet been utilised.

Stock option programme I/2019

The Annual General Meeting of 12 August 2019 authorised the Management Board, with the approval of the Supervisory Board (or the Supervisory Board instead of the Management Board if option rights are granted to members of the Management Board), to grant option rights for the subscription of a total of up to 540,000 new no-par value registered shares of the Company to members of the Management Board of the Company, to employees of the Company and to employees and members of the management of affiliated companies on one or more occasions up to 11 August 2024.

The share capital of the Company is conditionally increased by up to EUR 540,000 (in words: five hundred and forty thousand euros) by issuing up to 540,000 (in words: five hundred and forty thousand) new no-par value ordinary registered shares (no-par shares) (Conditional Capital I/2019). The conditional capital 1/2019 serves exclusively to grant new shares to the holders of option rights issued by the company in accordance with the authorisation resolution of the Annual General Meeting of 12 August 2019 (agenda item 6 lit. b)). The shares will be issued at the exercise price to be determined in each case in accordance with the aforementioned resolution. The conditional capital increase will only be implemented to the extent that the holders of the option rights make use of them. The shares participate in the profit - if they are created by the beginning of the Company's Annual General Meeting - from the beginning of the previous financial year, otherwise from the beginning of the financial year in which they are created.

No stock options were issued under this stock option plan in fiscal 2019.

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.

(21) Share premium

The share premium contains the amounts generated in excess of the nominal value when issuing nopar 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.

(22) Gains and losses recognized directly in equity

The currency deviations of the foreign subsidiaries and affiliates arising in the balance sheet translation difference were transferred to the adjustment item from currency translation.

(23) 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).

(24) 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 € –341 thousand. The presentation of summarized financial information for subsidiaries is waived for reasons of immateriality.

Liabilities

(25) Finanical liabilities

Liabilities due to banks are composed as follows as at 31 December 2018:

in € thousand	31.12.2019	31.12.2018
Long term Financial Loans	28,779	3,750
Short term financial liabilities	64,350	27,119
Total	**93,129**	**30,869**

The financial liabilities are non-current and current leasing liabilities (totaling € 29,291 thousand) as well as medium-term annuity loans and the utilization of credit lines.

The long-term loans have a term of between one and five years.

The liabilities to banks are due in full as of 31 December 2021 in accordance with the agreements concluded in 2019. The following collateral exists for all liabilities to banks based on a collateral pool agreement with the lending banks:

- Pledging of all payment transaction accounts of the Company and other Group companies in Germany and abroad on the basis of account pledge agreements
- Pledge of IP rights
- Transfer of ownership of warehouses at home and abroad by way of security
- Assignment of all claims from trade credit insurance
- Assignment of the remuneration claim and the loan repayment claim from a cooperation agreement, pledging of the associated rental collateral account

- Assignment of all claims from intercompany loans, customer receivables and insurance claims within the scope of global assignments under German and foreign law
- Pledge of Delticom AG's shares in Delticom North America Inc.
- Collateral for all other key assets of the Delticom group

(26) Provisions

Provisions had the following breakdown:

in € thousand	31.12.2019	31.12.2018
Long-term provisions	384	252
Other short-term provisions	3,437	928
Total	**3,821**	**1,180**

The provisions have developed as follows:

in Tausend €	01.01.2019	consumption	Resolution	Feed	31.12.2019
Other provisions long-term	252	113	0	245	384
Other provisions short-term	928	774	154	3,437	3,437
Total	**1,180**	**887**	**154**	**3,682**	**3,821**

Other short-term provisions mainly comprise increased personnel provisions due to the restructuring and, in addition, environmental fees and expenses for legal disputes still to be paid. Other short-term provisions have a term of less than one year. Long-term provisions are due in more than one year. The interest effect from the compounding of long-term provisions is of minor significance.

Non-current provisions are used to carry the costs of fulfilling the statutory archive requirements for business documents. Further to this the long-term portions of the performance-based pay for the managing board are stated there. Provisions are discounted by means of runtime-specific discount rates.

(27) Deferred tax liabilities

Deferred tax liabilities of € 12 thousand (previous year: € 2,376 thousand) are realized after more than 12 months. In addition, € 7,254 thousand of the netted deferred tax liabilities on rights of use and receivables from subleases are realized after more than 12 months.

(28) Trade accounts payable

in € thousand	31.12.2019	31.12.2018
Accounts payable	69,422	131,408
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)	0	0

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

(29) Additional notes concerning financial instruments

Net profits and losses from financial instruments are as follows:

in € thousand	2019	2018
Financial assets at amortized cost	-34	286
Financial assets and liabilities (FVTPL)	-1,507	-666
Financial liabilities at amortized cost	-1,537	-676
Thereof net interest income	-1,537	-683

The development of the carrying amounts of financial instruments in the balance sheet is shown in the following table:

	Measurement category according to IFRS 9	**Book Value 31.12.19**	Balance sheet valuation according to IFRS 9			**Fair value 31.12.19**
in € thousand			Amortized cost (AC)	Fair value not affecting income (FVOCI)	Fair value affecting income (FVTPL)	
Assets						
Cash and cash equivalents	AC	**5,339**	5,339	0	0	**5,339**
Accounts receivable	AC	**10,533**	10,533	0	0	**10,533**
Other receivables	AC	**16,088**	16,088	0	0	**16,088**
Derivative financial assets	FVTPL	**8**	0	0	8	**8**
Liabilities						
Accounts payable	FLAC	**69,422**	69,422	0	0	**69,422**
Other current liabilities	FLAC	**2,302**	2,302	0	0	**2,302**
Other original financial liabilities	FLAC	**93,129**	93,129	0	0	**93,129**
Derivative financial liabilities	FVTPL	**99**	0	0	99	**99**
Thereof cumulated according valuation categories IFRS 9						
Financial assets measured at amortized cost		**31,960**	91,960			**31,960**
Financial Assets Held for Trading (FVTPL)		**8**	0		8	**8**
Other financial liabilities (FLAC)		**164,853**	164,853		0	**164,853**
Financial Liabilities Held for Trading (FVTPL)		**99**	0		99	**99**

in € thousand	Measurement category according to IFRS 9	Book Value 31.12.18	Balance sheet valuation according to IFRS 9			Fair value 31.12.18
			Amortized cost (AC)	Fair value not affecting income (FVOCI)	Fair value affecting income (FVTPL)	
Assets						
Cash and cash equivalents	AC	**3,404**	3,404	0	0	**3,404**
Accounts receivable	AC	**24,283**	24,283	0	0	**24,283**
Other receivables	AC	**2,914**	2,914	0	0	**2,914**
Derivative financial assets	FVTPL	**42**	0	0	42	**42**
Liabilities						
Accounts payable	FLAC	**131,402**	131,402	0	0	**131,402**
Other current liabilities	FLAC	**4,602**	4,602	0	0	**4,602**
Other original financial liabilities	FLAC	**30,869**	30,869	0	0	**30,869**
Derivative financial liabilities	FVTPL	**30**	0	0	30	**30**
Thereof cumulated according valuation categories IFRS 9						
Financial assets measured at amortized cost		**30,601**	30,601			**30,601**
Financial Assets Held for Trading (FVTPL)		**42**	0		42	**42**
Other financial liabilities (FLAC)		**162,784**	162,784		0	**162,784**
Financial Liabilities Held for Trading (FVTPL)		**30**	0		30	**30**

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. This also applies to long-term bank loans.

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 € 8 thousand (2018: € 42 thousand) and those designated to the category liabilities held for trading total € 99 thousand (2018: € 30 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 interest terms on which Delticom 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.

Delticom records transfers between the levels of the fair value hierarchy at the end of the reporting period in which the change occurred. There were no such transfers during the 2019 fiscal year.

Net gains and losses from financial assets measured at amortized cost include changes in valuation allowances, gains and losses on disposals, cash receipts, reversals of impairment losses on loans and receivables originally written down and from currency translation.

Net gains and losses from financial assets at fair value through profit or loss 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 gains and losses on financial liabilities measured at amortised cost comprise gains or losses on disposal and currency translation.

(30) 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 € 99 thousand of liabilities arising from derivative financial instruments (previous year: € 30 thousand) within due date of less than one year.

All current liabilities are due within one year.

in € thousand	31.12.2019	31.12.2018
Sales tax (VAT)	4,208	3,771
Contract liabilities (advance payments received)	6,214	7,816
Customer credits	344	296
Social security contributions	93	101
Income and church tax	122	212
Other current liabilities	1,744	3,992
Total	**12,724**	**16,189**

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	31.12.2019	31.12.2018
Order commitments for goods	36,363	18,381
Other financial commitments	48,603	48,655
Total	**84,966**	**67,036**

In the previous year, other financial obligations included those from leases that are now recognised in the balance sheet in accordance with IFRS 16.

In addition, there are leases for assets with a low value and a term of less than 12 months. In 2019, a rental agreement was also concluded for a warehouse in Ensisheim, where the use is starting at the end of 2020 with a term of 12 years.

The future cumulative minimum lease payments as of December 31, 2018 (IAS 17 application) amounted to

in € thousand	2018
up to one year	5,804
2 years to 5 years	17,353
more than 5 years	6,217
Total	**29,374**

Lease payments recognised as an expense under IFRS 16.6 amounted to € 1.7 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. or IFRS 9. All derivatives are carried at their fair values. The valuation is performed taking into account current ECB reference rates and forward premiums and discounts.

All remaining maturities of the forward exchange transactions were 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 currencies from operations in the E-Commerce division are not hedged. Where possible, Delticom make use of the natural currency hedge: inflows in foreign currencies are used to cover the outflows in foreign currencies.

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 31.12.2019)	Result +10% in €	Result -10% in €	Net exposure in €
CHF	1.0858	-53,815	53,815	-538,154
DKK	7.4723	-7,790	7,790	-77,902
GBP	0.8476	13,305	-13,305	133,045
NOK	9.8608	-24,661	24,661	-246,605
PLN	4.2518	-47,082	47,082	-470,823
RON	4.7855	4,829	-4,829	48,293
RUB	69.6111	-105	105	-1,051
SEK	10.4899	-5,788	5,788	-57,878
USD	1.1219	-1,070,856	1,070,856	-10,708,555
Others	n/a	136,795	-136,795	1,367,951

Currency	1 Euro = unit FX (as of 31.12.2018)	Result +10% in €	Result -10% in €	Net exposure
CHF	1.126	-697	697	-6.973
DKK	7.466	-10	10	-98
GBP	0.898	8,359	-8,359	83,594
NOK	9.912	-866	866	-8,662
PLN	4.294	-76	76	-760
RON	4.654	-4	4	44
RUB	79.796	2	-2	20
SEK	10.163	-3,737	3,737	37,373
USD	1.145	-42,857	42,857	428,574
Others	N/A	310	-310	3,096

Interest rate risk

For financial instruments with variable interest rates, there is a cash flow risk from interest. Due to the low level of interest rates, sensitivities were determined using a hypothetical change of 10 basis points. An increase in interest rates by 10 basis points results in a loss of € 86 thousand (previous year: € 18 thousand), a decrease in interest rates by 10 basis points results in a gain of € 86 thousand (previous year: € 18 thousand). The sensitivity analysis included both bank balances and variable-interest financial liabilities.

Liquidity risk

The Delticom group centrally manages liquidity risk, i.e. the risk of not being able to meet existing or future payment obligations as a result of the insufficient availability of cash. As a result of the seasonal nature of the business and the early purchase of merchandise in stock, in some cases months before the expected seasonal peak, it is necessary to draw on current account and letter of credit lines during the year. Accordingly, the Company's solvency is largely dependent on the continuation of the financing framework with its banking partners. These are bilateral agreements with the individual banks. In the past, parts of the credit lines were subject to seasonal limits, as the full financing framework was not required throughout the year.

Due to the profit development in 2018, the delay in the preparation of the annual financial statements for 2018 and the associated postponement of the Annual General Meeting, the bilateral discussions on the continuation or extension of credit lines expiring at short notice from mid-2019 onwards proved increasingly difficult.

This has prompted the company to take immediate corrective action as follows:

- Assignment of a specialized consulting firm to prepare an expert opinion based on the IDW S6 standard.

- Assignment of a company specialising in M&A to acquire buyers for subsidiaries and in particular the search for opportunities for new capital (equity/debt capital) outside the existing financing partners.
- Convening of a first financing meeting to determine and agree on the further procedure.
- Recruitment and appointment of an experienced Chief Financial Officer
- Establishment of a Chief Performance Manager who, in addition to the full Management Board, will manage the restructuring holistically and across all functions.
- Systematic and detailed analysis of the current economic situation, identification of loss-making areas.
- Determination of the company's purpose for the future - concentration on the tire business in Europe and the associated decision to discontinue unprofitable business areas / units
- Introduction of detailed cash flow planning, monitoring and introduction of measures to improve liquidity.
- Significant reduction in inventories compared to the previous year.
- Cost and margin management and detailed analysis of receivables and liabilities.

Due to these measures, which were introduced quickly, systematically and comprehensively from mid-2019, the process with the financing partners was successfully structured via various standstill agreements and culminated in a restructuring agreement, which was concluded with all financiers on 13 December 2019. Essentially, the existing and necessary financing requirements were confirmed and are now secured until the end of 2021. The expert restructuring opinion confirms the ability to restructure even without the sale of subsidiaries, but with the sale / closure of loss-making business areas.

As a result of these events or circumstances, there is a material uncertainty that could cast significant doubt on Delticom AG's (or the Delticom group's) ability to continue its operations, and Delticom AG or the Delticom group may thus not be able to realize its assets and settle its liabilities during the normal course of business (risk to the company's continued existence).

Exposure to liquidity risk

The following table shows the contractual residual terms of the financial liabilities at the balance sheet date, including estimated interest payments. These are non-discounted gross amounts including contractual interest payments, but excluding the effect of offsetting:

in € thousand		Contractual cash flows					
2019	Book value	**Total**	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
Overdrafts	58,420	**58,420**	58,420	0	0	0	0
Bank loans	5,417	**5,945**	22	242	5,681	0	0
Accounts payable trade	69,422	**69,422**	69,422	0	0	0	0
Derivative financial liabilities	99	**99**	99	0	0	0	0

in € thousand		Contractual cash flows					
2018	Book value	**Total**	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
Overdrafts	24,203	**24,503**	24,503	0	0	0	0
Bank loans	6,666	**6,914**	441	2,573	2,544	1,357	0
Accounts payable trade	131,408	**131,408**	131,408	0	0	0	0
Derivative financial liabilities	30	**30**	30	0	0	0	0

Credit risk

Delticom supplies goods to retail companies with varying creditworthiness. There can be temporary concentrations of risk on 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 € 2,711 thousand (previous year: € 3,835 thousand). The deductibles for credit-insured receivables amounts to between 10 % and 15 %.

Credit risk is the risk of financial loss for the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It mainly results from receivables from customers.

The carrying amounts of financial assets and contract assets correspond to the maximum credit risk.

The impairment losses recognised in profit or loss for financial assets and contract assets are as follows:

in € thousand	2019	2018
Expenses for the complete derecognition of receivables	-4,130	-4,175
Income from receipts on receivables written off	113	142

Trade receivables and contract assets

Delticom's credit risk is mainly influenced by the individual characteristics of each customer. Orders for which customers do not pay in advance are automatically checked and blocked according to complex rules. For blocked orders, the credit risk team performs a manual check.

The Group limits its credit risk on trade receivables by establishing a credit limit policy. A maximum payment period of 30 days has been set for private and corporate customers.

The Group does not require collateral for trade and other receivables. Taking into account the due dates of the receivables, the respective value adjustment ratios result:

In € thousand Receivables from deliveries and services	Book value	Not overdue	less than 30 days	30 to 60 days	60 to 90 days	over 90 days	value adjusted
as of 31.12.2019	10,533	3,144	4,815	919	378	4,423	3,145
Value adjustment rate in %		0.2	0.4	1.0	2.0	70.0	
as of 31.12.2018	24,283	14,278	7,024	1,568	236	3,104	3,028
Value adjustment rate in %		0.2	0.4	1.5	2.0	70.0	

Receivables older than 90 days are written off and passed on to a collection agency. Impaired receivables are only written off when it is no longer expected that they can be collected via a collection company. Impairments are determined using the loss expected over the term (simplified approach for expected credit losses).

The value adjustments from trade receivables developed as follows:

in € thousand	2019	2018
Write-downs – balance on January 1	**3,028**	**2,240**
Changes in the consolidated companies	0	0
Additions (expenses for write-downs)	4,130	3,992
Reversals	-113	-121
Use of write-downs	-3,900	--3.083
Write-downs – balance on December 31	**3,145**	**3,028**

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 2,133,561, 17.12 % interest)
- Prüfer GmbH (number of shares 4,427,671, 35.52 % 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 since 01.01.2014), Hanover, and for Prüfer GmbH and Seguti GmbH to Andreas Prüfer (Board member since 01.01.2014), 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 Tausend €	2019	2018
to associated companies and related parties (category: persons in key positions)	3	3
to associated companies and related parties (category: not consolidated subsidiary companies)	0	0

Purchase of goods and services:

in € thousand	2019	2018
from associated companies and related parties (category: persons in key positions)	0	500
from associated companies and related parties (category: not consolidated subsidiary companies)	0	0

There is also a loan from a related company (category: key personnel) to a consolidated subsidiary in the amount of € 90 thousand. In addition, related parties (category: persons in key positions) accompany the restructuring process and are part of agreements concluded in connection with the restructuring agreement. All transactions with related companies and persons have been carried out on terms and conditions that are also customary among third parties.

Executive bodies

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

2019 the Management Board had the following members:

- Susann Dörsel-Müller, Isernhagen: Wholesale business (B2B) Passenger car tyres Europe/Food, fleet business, fitting partners, consumer business B2C/B2B tyres, special tyres and commercial vehicles, two-wheelers, law, personnel
- Philip von Grolman, Hemmingen: North America, Purchasing Tyres Passenger Cars and Special Tyres, Transport/Logistics Services
- Andreas Prüfer, Hanover: Logistics Central warehouse, consumer business (B2C) Car Eastern Europe with Austria, IT, Corporate Communications, Risk Management
- Thomas Loock, Kleve (since 15 August 2019): Finance

The Management Board's remuneration consists of the following:

	Thomas Loock (since 15.08.2019)					
	Inflows		Donations			
in € thousand	2018	2019	2018	2019	2019 (Min)	2019 (Max)
Fixed compensation	0	102	0	102	102	102
Additional compensation	0	0	0	0	0	0
Total	**0**	**102**	**0**	**102**	**102**	**102**
One-year compensation	0	0	0	25	0	25
Multi-year compensation	0	0	0	12	0	500
Components with long-term incentive effect	0	0	0	12	0	500
Garanted stock options	0	0	0	0	0	0
Total	**0**	**102**	**0**	**139**	**102**	**627**
Pension expense	0	0	0	0	0	0
Total compensation	**0**	**102**	**0**	**139**	**102**	**627**

	Susann Dörsel-Müller					
	Inflows		Donations			
in € thousand	2018	2019	2018	2019	2019 (min)	2019 (Max)
Fixed compensation	240	240	240	240	240	240
Additional compensation	0	0	0	0	0	0
Total	**240**	**240**	**240**	**240**	**240**	**240**
One-year compensation	0	0	0	0	0	0
Multi-year compensation	24	28	58	0	0	500
Components with long-term incentive effect	24	28	27	0	0	500
Garanted stock options	0	0	31	0	0	0
Total	**264**	**268**	**298**	**240**	**240**	**740**
Pension expense	0	0	0	0	0	0
Total compensation	**264**	**268**	**298**	**240**	**240**	**740**

	Thierry Delesalle (until 05.09.2018)					
	Inflows		Donations			
in € thousand	2018	2019	2018	2019	2019 (min)	2019 (Max)
Fixed compensation	220	95	220	0	0	0
Additional compensation	0	0	0	0	0	0
Total	**220**	**95**	**220**	**0**	**0**	**0**
One-year compensation	540	0	635	0	0	0
Multi-year compensation	24	0	42	0	0	0
Components with long-term incentive effect	24	0	27	0	0	0
Garanted stock options	0	0	15	0	0	0
Total	**784**	**95**	**897**	**0**	**0**	**0**
Pension expense	1	0	1	0	0	0
Total compensation	**785**	**95**	**898**	**0**	**0**	**0**

	Philip von Grolman					
	Inflows		Donations			
in € thousand	2018	2019	2018	2019	2019 (min)	2019 (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	69	63	93	0	0	500
Components with long-term incentive	69	63	62	0	0	500
Garanted stock options	0	0	31	0	0	0
Total	**312**	**306**	**336**	**243**	**243**	**743**
Pension expense	0	0	0	0	0	0
Total compensation	**312**	**306**	**336**	**243**	**243**	**743**

	Andreas Prüfer					
	Inflows		Donations			
in € thousand	2018	2019	2018	2019	2019 (min)	2019 (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	139	125	155	0	0	750
Components with long-term incentive effect	139	125	124	0	0	750
Garanted stock options	0	0	31	0	0	0
Total	**614**	**600**	**630**	**475**	**475**	**1,225**
Pension expense	0	0	0	0	0	0
Total compensation	**614**	**600**	**630**	**475**	**475**	**1,225**

The remuneration of the Management Board consists of a non-performance-related component, a performance-related component, generally with a long-term incentive effect, and a share-based payment, which are presented below:

in € thousand	Non-performance related compensation 2019	Non-performance related compensation 2018	Performance-related compensation 2019	Performance-related compensation 2018	Long-term incentive 2019	Long-term incentive 2018
Susann Dörsel-Müller	240	240	0	27	0	31
Philip von Grolman	243	243	0	62	0	31
Thierry Delesalle	0	220	0	27	0	15
Thomas Loock	102	0	37	0	0	0
Andreas Prüfer	475	475	0	124	0	31
Total	**1,060**	**1,178**	**37**	**240**	**0**	**108**

In the 2019 financial year, short-term benefits due to members of the Management Board amounted to € 1,060 thousand (previous year € 1,178 thousand) and other long-term benefits of € 12 thousand (previous year € 240 thousand). A variable short-term remuneration of € 25 thousand is granted to Mr. Loock. The share-based remuneration amounts to a total of € 0 thousand (previous year: € 108 thousand).

The number of stock options granted to members of the Management Board developed as follows:

In € thousand	1st tranche 05.01.2017	2nd tranche 10.01.2018	3rd tranche 28.12.2018	total 31.12.2019
Susann Dörsel-Müller	8,000	8,000	8,000	24,000
Philip von Grolman	8,000	8,000	8,000	24,000
Andreas Prüfer	8,000	8,000	8,000	24,000
Thierry Delesalle	8,000	8,000	0	16,000

The fair values at the grant date of the stock options granted to the members of the Management Board are as follows:

in € thousand	Fairvalue 1st tranche 05.01.2017	Fair value 2nd tranche 10.01.2018	Fair value 3rd tranche 28.12.2018
Susann Dörsel-Müller	30,000	23,040	15,280
Philip von Grolman	30,000	23,040	15,280
Andreas Prüfer	30,000	23,040	15,280
Thierry Delesalle	30,000	23,040	0

The fair values per share at the respective grant dates were € 3.75 (05.01.2017), € 2.88 (10.01.2018) and € 1.91 (28.12.2018). No stock options were issued to members of the Management Board in 2019. Due to the retirement of Thierry Delesalle, a total of 11,000 of his stock options have expired in accordance with the stock option plan.

There were no changes in value due to changes in the exercise conditions.

During fiscal year 2019, the Supervisory Board was composed as follows:

- Rainer Binder, entrepreneur, Hanover: Member of the Supervisory Board and Chairman (until 29.02.2020)
- Alan Revie, entrepreneur, Hamilton / UK: Member of the Supervisory Board (until 29.02.2020)
- Michael Thöne-Flöge, entrepreneur, Hanover: Deputy Chairman of the Supervisory Board

In the 2019 financial year, the remuneration of Supervisory Board members Rainer Binder amounted to € 50 thousand (previous year: € 50 thousand), Michael Thöne-Flöge to € 20 thousand (previous year: € 20 thousand) and Alan Revie to € 10 thousand (previous year: € 10 thousand). This exclusively comprises a fixed remuneration without performance-related components.

Alexander Gebler was appointed to follow Mr. Binder as Chairman of the Supervisory Board and Mr. Revie Karl-Otto Lang as his successor.

Dividend

The Annual General Meeting on 12 August 2019 resolved not to pay a dividend for the 2018 financial year and to carry forward the 2018 unappropriated surplus of € 15,936 thousand to new account.

Proposal for the appropriation of profits

In view of the development of earnings last year and the tight liquidity situation, no dividend will be paid for the 2019 financial year.

Exempting Consolidated Financial Statements

Pnebo Gesellschaft für Reifengroßhandel und Logistik mbH, Tirendo Holding GmbH, Giga GmbH, Deltiparts GmbH, TyresNet GmbH, DeltiLog GmbH, All you need GmbH and DeltiStorage GmbH have fulfilled the conditions of Section 264 (3) of the German Commercial Code (HGB) by being included in the consolidated financial statements and make use of the exemption provision as far as possible. Tirendo Deutschland GmbH uses the exemption rule of § 264 (3) HGB.

Shareholdings

Consolidated subsidiaries:

Consolidated subsidiaries:

	Fixed capital interest %	
Name, registered office	2019	2018
Direct		
All you need GmbH, Berlin	100	100
DeltiCar SAS, Paris (France)	100	100
Delticom North America Inc., Benicia (USA)	75	75
Delticom O.E. S.R.L., Timisoara (Romania)	100	100
Delticom Russland OOO, Moskau (Russia)	100	100
Deltiparts GmbH, Hanover	100	100
DeltiLog Ltd., Witney (Great Britain)	100	100
DeltiLog GmbH, Hanover	100	100
DeltiStorage GmbH, Hanover	100	100
DS Road GmbH (CH), Pratteln (Switzerland)	100	0
Giga GmbH, Hamburg	100	100
Gourmondo Food GmbH, Munich	88	88
MobileMech GmbH, Hanover	100	100
Pnebo Company for tyre wholesale and logistics mbH, Hannover	100	100
Tirendo Holding GmbH, Berlin	100	100
Toroleo Tyres GmbH, Gadebusch	100	100
Toroleo Tyres TT GmbH & Co.KG Gadebusch	100	100
TyresNet GmbH, Munich	100	100
Indirect		
Delticom TOV, Lwiw (Ukraine) (über Delticom O.E. SRL)	99	99
Extor GmbH, Hannover (über DeltiLog GmbH)	60	60
Ringway GmbH, Hannover (über DeltiLog GmbH)	100	80
Gigatires LLC, Benicia (USA) (über Delticom North America Inc.)	100	100
Tireseasy LLC, Benicia (USA) (über Delticom North America Inc.)	100	100
Tirendo Deutschland GmbH, Berlin (über Tirendo Holding GmbH)	100	100

Supplementary report

Due to the constantly growing proportion of tyres sold online, Delticom AG intends to further increase its logistics performance. A new tyre warehouse is scheduled to open at the end of 2020 in the French town of Ensisheim, not far from the border with both Germany and Switzerland. A project company was commissioned to construct the new logistics centre according to Delticom AG's specifications. The project consultant has already successfully sold the entire industrial property comprising two halls to an investor. Delticom AG will lease one of the two halls under construction on a long-term basis and will participate in the income from the sale to the investor. In 2019, other operating income totaling € 13,952 thousand was generated accordingly. A further € 2,248 thousand will be recognized in income over the coming twelve years. Of this € 16,200 thousand, € 10,000 thousand has already been paid to Delticom AG in cash in the current fiscal year 2020. The remaining difference is initially granted as a cash deposit, the claims arising from this are secured by a guarantee. At the beginning of the use of the warehouse, the cash deposit is converted into a rent deposit.

At the beginning of the year, the novel corona virus spread at high speed in China. Asian tyre manufacturers now produce a certain proportion of European tyre replacement demand in the low price segment. Due to the comprehensive measures taken by the Chinese government to contain the new virus, Chinese tyre factories were closed at the beginning of the year, but production has since resumed. Due to the sea route of between 4 and 6 weeks, it must be assumed that there will be a corresponding delay in the delivery of Chinese tyres for the European market. Accordingly, together with our European market companions, we may face the challenge of not being able to offer our customers the entire portfolio of tyres at the start of the season in April. In the short term, this could result in market-wide price increases for part of the product range.

The increasing spread of corona in Europe poses great challenges for trade in many places. In the member states, the private lives of European consumers are increasingly restricted, and major events are cancelled in many places.

An estimate of whether or to what extent the corona virus will have a negative impact on business development in the current year can only be made with considerable uncertainty at the present time. At this point we refer to the explanations in the forecast report in the section "Forecast 2020 - COVID-19". Delticom AG's management continues to keep a close eye on the information situation and will manage business in the coming week depending on developments. Delticom's organization has taken far-reaching measures to ensure that its operating processes are also secure in the event of a further spread of the virus in Germany. The majority of Delticom's employees are already working from home with the appropriate equipment, and are familiar with the necessary rules of conduct and communication procedures. Wherever a presence in the organization is required (e.g. in the warehouses), work is performed in teams that do not come into personal contact with each other. Delticom hopes that the measures it has taken will help to at least delay the spread of the virus throughout Germany.

Auditor's fees

In 2019, the following fees were recorded for the auditor PricewaterhouseCoopers GmbH, Hanover:

in € thousand	2019
Audits of the financial statements	459
Other confirmation and valuation services	2
Tax consultancy services	0
Other services	1
Total	**462**

The audit services primarily include the fees for the audit of the consolidated financial statements, the audit of the dependent company report and the statutory audit of Delticom AG.

The fees reported under other audit services relate to services in connection with regulatory requirements of the German Packaging Ordinance. The other services include general questions on the IT environment.

In addition, expenses for audit services for the previous year's auditors KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, amounting to € 356 thousand were recognised in 2019. These prior-year audit services mostly comprise the fees for the audit of the consolidated financial statements, the audit of the dependent company report and the statutory audit of Delticom AG.

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

The declaration required by Section 161 of the German Stock Corporation Act (AktG) was submitted by the Management Board and Supervisory Board on 24 March 2020 and made available to shareholders on our website 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	31.12.2018	Cash changes	Non-cash changes			31.12.2019
			First-time adoption of IFRS 16	'Exchange rate related Changes	Additions to leasing liabilities	
Long term bank loans	3,750	1,667	0	0	0	5,417
Short term bank loans	27,119	31,301	0	0	0	58,420
Leasing liabilities	0	-4,505	27,262	0	6,534	29,291
Total	**30,869**	**28,463**	**27,262**	**0**	**6,534**	**93,128**

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, 24 March 2020

Susann Dörse-Müller Philip v. Grolman Thomas Loock Andreas Prüfer

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 balance sheet as at December 31, 2019, the consolidated income statement, the consolidated statement of recognised income and expenses, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from January 1, 2019 to December 31, 2019 and the 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 combined with the Company's management report, for the financial year from January 1, 2019 to December 31, 2019. In accordance with German legal requirements, we have not audited the content of the components of the Group management report mentioned in the "Other information" section of our audit opinion.

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 IFRS 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, 2019 and of its financial performance for the financial year from January 1, 2019 to December 31, 2019, 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 include the content of the components of the group management report mentioned in the section "Other information".

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.

Material uncertainty in connection with going concern

We refer to the disclosures in the section "Liquidity risk - risk threatening the existence of the Group" of the notes to the consolidated financial statements and in the section "Risk and opportunity report - risk threatening the existence of the Group" of the Group management report, in which the legal representatives describe that going concern of the Group depends on the successful implementation of the restructuring and the realisation of additional financing components. As described in the section "Liquidity risk - risk threatening the existence of the company" and the section "Risk and opportunity report - risk threatening the existence of the company", these events and circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to going concern and which constitutes a risk threatening the existence of the company as a going concern within the meaning of section 322 (2) sentence 3 of the German Commercial Code. Within the scope of our audit, we have, among other things, acknowledged the restructuring expert opinion obtained by the Company and the professional qualifications of the external expert. In this context, we also assessed the appropriateness of the assumptions made in the expert restructuring opinion and whether the measures described in the expert restructuring opinion were properly derived on the basis of these assumptions. Our audit opinion has not been modified with respect to this matter.

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 1. Januar 2019 to December 31, 2019. 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 addition to the matters described in the section entitled

"Significant uncertainty relating to going concern", we have identified the matters described below as those matters of particular importance to be disclosed in our opinion.

- Accounting for revenues
- Impairment test for intangible assets (including goodwill) and property, plant and equipment
- Effects of the first-time application of IFRS 16 on the accounting of leases

We have structured our presentation of these particularly important audit issues as follows:

- Facts and problem definition
- Audit procedure and findings
- Reference to further information

In the following, we present the particularly important audit issues:

Accounting for revenues
Facts and problem definition

Delticom is an e-commerce company with expertise in tyres and car accessories, efood and warehouse logistics. The group generates the largest part of its revenues from selling tyres to private and commercial customers via the Internet, with the most important part of its revenues being generated with private customers. The revenues generated represent mass transactions and shape the Group's earnings position. The processing and monitoring of these mass transactions is automated.

The sales are classic delivery transactions, which involve a transfer of opportunities and risks to the customer upon receipt of the goods, with Delticom using various logistics service providers for deliveries.

In view of the high level of revenues in the tyre segment, they are a key factor in the Group's earnings situation. As a result of the mass transactions, increased requirements are placed on the IT systems and processes to ensure that sales are recognized on an accrual basis. Against this background, the accounting of sales revenues is a particularly important audit issue.

Audit procedure and findings

Among other things, our audit focused on the appropriateness and effectiveness of the internal control system in place for the processing and realisation of revenue, including the IT systems used in the Tyres division.

In addition, the sales of goods have been examined on a test basis using analytical procedures and on a case-by-case basis. We were able to satisfy ourselves that the IT systems and processes established and the controls are appropriate and that the estimates and assumptions made by the legal representatives are adequately documented and justified in order to ensure the proper accounting of revenues in accordance with IFRS 15.

Reference to further information

Further information on revenues is provided in the section "Notes to the income statement - Revenues" in the notes to the consolidated financial statements.

Impairment test for intangible assets (including goodwill) and property, plant and equipment

Facts and problem definition

In the Company's consolidated financial statements, the balance sheet items "Intangible assets" and "Property, plant and equipment" include a total of € 41.6 million (22.1 % of the balance sheet total or 501.2 % of equity). The goodwill reported under intangible assets amounts to € 35.3 million.

The value of goodwill and other intangible assets and property, plant and equipment was reviewed on the balance sheet date by means of impairment tests in accordance with IAS 36. While goodwill is subject to an impairment test by the company once a year or as and when required in order to determine a possible need for impairment, other intangible assets and property, plant and equipment are only subject to such tests as and when required.

The basis of this review is the present value of the future cash flows of the cash-generating units to which the corresponding assets are allocated. This present value is compared with the carrying amount of the respective cash-generating units as the recoverable amount in the impairment test. The present value is generally determined on the basis of fair value less costs to sell. The cash-generating units were combined at Group level for the purpose of impairment testing.

The present value is determined using discounted cash flow models, based on the Group's four-year operating plan prepared by the legal representatives and approved by the Supervisory Board, and extrapolated using assumptions about, for example, long-term growth rates in order to reflect a sustainable situation (so-called "perpetual annuity"). Discounting is based on the weighted cost of capital of the respective cash-generating unit.

As a result of the impairment test, even after taking into account the value in use, the cash-generating units Online Food Retail and Deltilog (Logistics) were impaired by a total of € 22.1 million.

The result of this valuation is highly dependent on the assessment of future cash inflows and outflows of the respective cash-generating unit by the Company's legal representatives and the discount rate used and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the methodological requirements for impairment tests, this issue was of particular importance in the context of our audit.

Audit procedure and findings

Within the scope of our audit, we have, with the support of our internal specialists, comprehended, among other things, the methodical procedure for carrying out the impairment test. After comparing the future cash inflows used in the calculation with the Group's approved medium-term planning, we assessed the appropriateness of the calculation, in particular by comparing it with general and sector-specific market expectations. In doing so, we also used the analyses and results of a current expert third-party restructuring report, which was prepared in compliance with the minimum requirements set by the highest court of law and the basic principles for the preparation of restructuring reports defined in the IDW S6 standard.

In addition, we have also assessed the proper recognition of the costs of corporate functions. With the knowledge 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 have intensively studied the parameters used in determining the discount rate used and comprehended the calculation scheme. In order to consider forecast uncertainties, we have comprehended the sensitivity analyses prepared by the Company and performed our own sensitivity analyses for the groups of cash-generating units with low headroom (carrying amount compared to recoverable amount).

Overall, the valuation parameters and assumptions applied by the legal representatives are in line with our expectations and are also within the ranges that we consider reasonable.

For cash-generating units for which a possible change in an assumption would result in a recoverable amount below the carrying amount of the cash-generating units including the allocated goodwill, we have satisfied ourselves that the necessary disclosures have been made in the notes.

Reference to further information

The Company's disclosures on the impairment test for the balance sheet items "Intangible assets (including goodwill)" and "Property, plant and equipment" are contained in the sections "Significant accounting policies - goodwill", "Significant accounting policies - goodwill" and "Notes to the income statement" in the notes to the consolidated financial statements.

Effects of the first-time application of IFRS 16 on the accounting treatment of leases

Facts and problem definition

The consolidated financial statements of the company show rights of use of € 24.3 million and leasing liabilities of € 29.3 million as of the balance sheet date. The leasing liabilities represent 15.6% of the balance sheet total. During the business year, the first-time application of the new accounting standard on leases (IFRS 16) had a significant impact on the opening balance sheet values and their updating during the fiscal year. The conversion to IFRS 16 was carried out according to the modified retrospective approach. The comparative figures for the previous year's periods have not been adjusted. Due to the high value of the leases, the Company has established Group-wide processes and controls to ensure complete and correct recognition of leases. In addition, the first-time adoption required special measures to record and account the leases. The new accounting standard IFRS 16 requires estimates and discretionary decisions by the legal representatives for certain areas, the appropriateness of which had to be assessed in the course of our audit. This applies in particular to estimates concerning the exercise of options with an impact on the term of the lease. Against this background, and due to the complexity of the new requirements of IFRS 16, the accounting treatment of leases was of particular importance within the scope of our audit.

Audit procedure and findings

As part of our audit, we assessed the effects of the first-time application of IFRS 16 with the support of our internal accounting specialists. Together, we reviewed the implementation work and assessed the design of the processes to account these transactions in accordance with IFRS 16 and the measures taken to implement the new requirements. In doing so, we inspected leasing agreements on a sample basis, tracked the identification of liabilities and assessed whether these were recorded completely and accurately in the newly implemented central system for depicting leasing relationships.

We were able to satisfy ourselves that the measures taken to apply IFRS 16 and the controls set up are appropriate. Furthermore, we were able to verify that the estimates and assumptions made by the legal representatives are sufficiently documented and justified to ensure that the leases are properly accounted for when IFRS 16 is applied for the first time.

Reference to further information

The Company's disclosures on accounting for leases and the effects of the first-time application of IFRS 16 are contained in the notes to the consolidated financial statements under the headings "Significant Accounting Policies - Standard IFRS 16 Leases", "Significant Accounting Policies - Goodwill" and "Notes to the Balance Sheet".

Other information

The legal representatives are responsible for other information. Other information includes the following unaudited parts of the Group Management Report obtained by us prior to the date of this opinion:

- the reference contained in the section "Group principles" of the Group management report to the declaration on corporate governance pursuant to Section 315d HGB
- the reference to the Corporate Governance Report according to No. 3.10 of the German Corporate Governance Code contained in the section "Group principles" of the Group Management Report

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

In connection with our audit, we have the responsibility to read the other information and to assess whether the other information is free of material misstatement

- there are material discrepancies with the consolidated financial statements, the group management report or the knowledge acquired during the audit, or

- appear to be displayed incorrectly in other ways.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the group management report

The legal representatives are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements of German law pursuant to § 315e Abs. 1 HGB, and for the presentation of the net assets, financial position and results of operations of the Group in accordance with these requirements. In addition, the legal representatives are responsible for the internal controls that they have determined to be 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 legal representatives are responsible for assessing the Group's ability to continue as a going concern. In addition, they are responsible for disclosing matters relating to the continuing operation of the entity, if relevant. In addition, they are responsible for accounting for continuing operations on the basis of the same accounting policy unless there is an intention to liquidate the Group or discontinue operations, or there is no realistic alternative.

In addition, the legal representatives are responsible for the preparation of the group management report, which as a whole provides a suitable view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks of future development. In addition, the legal representatives are responsible for the precautions and measures (systems) they have deemed necessary to permit the preparation of a group management report in accordance with the applicable German legal requirements and to provide sufficient and suitable evidence for the statements in the group management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for preparing the consolidated financial statements and the Group management report.

Responsibility of the auditor for the audit of the consolidated financial statements and the group management report

Our objective is to obtain reasonable assurance whether the consolidated financial statements as a whole are free from material misstatement, whether intentional or unintentional, and whether the group management report as a whole provides a suitable view of the Group's position and is consistent, in all material respects, with the consolidated financial statements and the findings of our audit, complies with German legal requirements and suitably presents the opportunities and risks of future development, and to express an opinion that includes our audit opinion on the consolidated financial statements and the group management report.

Sufficient assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with § 317 HGB and the EU-APrVO and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements can result from violations or inaccuracies and are regarded as material if it could reasonably be expected that they would individually or collectively influence the economic decisions of users made on the basis of these consolidated financial statements and the group management report.

During the audit, we exercise our best judgment and maintain a critical attitude. In addition

- We identify and evaluate the risks of material misstatement - whether intentional or not - of the consolidated financial statements and the group management report, plan and perform audit procedures in response to those risks, and obtain audit evidence sufficient and appropriate to provide a basis for our audit opinions. The risk that material misstatements will not be detected is greater in the case of violations than in the case of inaccuracies, as violations may involve fraudulent interaction, falsification, intentional incompleteness, misrepresentation or the override of internal control.
- We obtain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of the precautions and measures relevant to the audit of the group management report that are taken to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the reasonableness of accounting estimates made and related disclosures made.
- We draw conclusions about the appropriateness of the accounting principle applied by the legal representatives for the continuation of the company's operations and, on the basis of the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances that could cast significant doubt on the Group's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to express an opinion on the related consolidated financial statements and on the group management report or, if the information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. However, future events or circumstances could cause the Group to cease operating.
- We have audited the overall presentation, the structure and the content of the consolidated financial statements including the disclosures and whether the consolidated financial statements present the underlying transactions and events in such a way that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs as adopted by the EU and the additional requirements of German law pursuant to § 315e Abs. 1 HGB.
- We obtain sufficient suitable audit evidence for the accounting information of the companies or business activities within the Group to express an opinion on the consolidated financial statements and the group management report. We are responsible for the direction, monitoring and

performance of the audit of the consolidated financial statements. We are solely responsible for our audit opinions.

- We assess the consistency of the group management report with the consolidated financial statements, its legal pronouncements and the group management report as a whole.
- we perform audit procedures on the forward-looking statements in the group management report as presented by the legal representatives. On the basis of adequate and suitable audit evidence, we perform in particular the significant assumptions underlying the forward-looking statements made by the legal representatives and assess the proper derivation of the forward-looking statements from these assumptions. We do not express an independent opinion on the forward-looking statements or the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we discuss with those responsible for monitoring the planned scope and timing of the audit and significant findings of the audit, including any deficiencies in the internal control system that we identify during our audit.

We make a declaration to those responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that are reasonably believed to affect our independence and the safeguards that have been put in place to that effect.

From among the matters discussed with those responsible for monitoring, we identify those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and are therefore the most important matters for the audit. We describe these matters in the auditor's report unless required to do so by law or other legal provisions.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditors of the consolidated financial statements by the Annual General Meeting on 12 August 2019. We were assigned by the Supervisory Board on September 24, 2019. We have been the auditors of the consolidated financial statements of Delticom AG, Hanover, without interruption since fiscal year 2019.

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 auditor responsible for the audit is Martin Schröder.

Hanover, 24 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Martin Schröder	ppa. Michael Meseberg
German Public Auditor	German Public Auditor

Year	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Group turnover Mio. €	625.8	645.72	667.70	606.60	559.79	501.70	505.54	456.38	480.01	419.58	311.26
EBITDA Mio. €	-6.6	9.00	9.30	15.10	14.28	15.29	22.18	35.31	55.05	48.91	30.44
EPS (€/Aktie)	-3.27	-0.13	0.09	0.36	0.28	0.24	0.97	1.87	3.04	2.77	1.71
Number of shares outstanding (in Mio.)	12.46	12.46	12.46	12.46	11.95	11.95	11.86	11.85	11.85	11.84	11.84
Dividend per share (€/share)**	0.00	0.00	0.10	0.50	0.50	0.25	0.50	1.90	2.95	2.72	1.70
Number of employees	261	235	185	156	129	247	179	144	116	101	87
Number of installation partners (in thousand)*	39.00	40.00	43.00	43.90	41.90	39.30	36.00	33.30	29.70	25.70	21.90
Number of online shops*	519	469.0	453	387	245	163	137	128	126	120	105
number of custome	14,940	13,601	12,230	10,879	9,583	8,319	7,314	6,160	5,310	4,389	3,431
(Customer base, in thousand)*											

* Number in each case on the balance sheet date 31.12.

** Dividend per share paid for the financial year.

Financial Calendar

Di. 05.05.2020	Annual General Meeting
Do. 14.05.2020	Q1 announcement
Do. 13.08.2020	H1 report
Do. 12.11.2020	Q3 Announcement
16. - 18.11.2020	Equity Forum (investor and analyst event)

Imprint

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