ask|net
leading in global eCommerce

Accelerate your eSales in the Digital Marketplace.

Half Year Report 2011

Content

Letter to Shareholders

Dear Shareholders,

Business developments in the first half of 2011 were marked by challenges and unscheduled charges. This is also clearly reflected in our earnings. After interest and taxes, our company made a loss of 1.8 million euros in the first half of the year. This decline in earnings is mainly due to an unscheduled provision, which was set aside for a notification of interest charge due to a formal error during VAT calculations for software publishers by tax authorities. One-off fees for Executive Board reorganization and strategic consultancy services also impacted the net result for the first half of the year. We are currently assessing our legal options against this notification of interest charges. In accordance with a judgment of the European Court, we have already applied for a suspension of execution, which the Karlsruhe tax authority approved in a letter dated July 27, 2011.

The growth in our eDistribution segment has regressed in the first half of the year, while the ePortals segment recorded more growth. All in all, we generated gross profits of 5 million euros in the first six months of the year, exactly the same as in the first six months of 2010.

We are operating in an interesting and intact growth market with software and electronic software distribution. The trend to supplement and substitute stationary trade in the software market through the Internet as a sales channel continues. We are meeting growing competition by expanding and constantly improving our product and services portfolio as well as technologically adapting new market trends. At the same time, we are pursuing strict cost control to achieve sustainable profitability in our eDistribution segment. In order to achieve this, we are scaling down our processes and structures and are increasingly standardizing our product range. In contrast, our focus in the ePortals segment is clearly on growth. We aim to further consolidate our market leadership in Germany and to accelerate the expansion of our software portals in Switzerland and Austria. The continuous expansion of our portfolio as well as the standard functions of our portals also ensures future growth prospects.

We would like to welcome you, dear shareholders, to accompany asknet AG along its path and thank you for placing your trust in us.

Sincerely,

The Executive Board of asknet AG

Michael Konrad

Dr. Dietmar Waudig

Business Developments

Results of operations

In the first half of 2011, the asknet Group generated sales revenues of 32.5 million euros, of which 21.7 million euros came from the eDistribution segment and 10.8 million euros from ePortals. The whole Group saw sales decline by 4.8 percent or 1.6 million euros year on year. When looking at sales, it must be taken into consideration that part of these sales in the eDistribution segment were concluded via service provider agreements. These agreements mean that only the service fee is recorded as sales in asknet's income statement.

Gross profits, which represent the growth of the Group, were the same as in the previous year at 5.0 million euros in the reporting period, of which 3.5 million euros came from eDistribution and 1.5 million euros from ePortals. asknet Group's operating result (EBIT) was -1.0 million euros. Earnings before taxes (EBT) came to -1.8 million euros. The decline in earnings is mainly due to an unscheduled provision of 763 thousand euros, which was set aside for an interest charge due to a formal error during VAT calculations for software publishers by tax authorities. One-off fees for Executive Board reorganization and strategic consultancy services also impacted the net result for the first half of the year. After interest and taxes, asknet made a loss in the first half of the year of 1.8 million euros.

asknet Group generated approximately 65 percent of transaction revenues abroad during the reporting period, with the USA being the largest market after Germany at 16 percent.

Net assets and financial position

Liquid assets amounted to 5.6 million euros on the reporting date June 30, 2011. Total equity went down from 4.4 million euros at the end of 2010 to 2.6 million at the end of the reporting period on account of operating losses and unscheduled provisions in the reporting period, corresponding to an equity ratio of 24 percent as of June 30, 2011. Consolidated cash flows from operating activities in the first half of 2011 were negative at -3.1 million euros, which is mainly due to operating losses and temporary changes in working capital.

Employees

As of the reporting date June 30, 2011, asknet Group employed 99 people, including the Executive Board. 89 worked at asknet AG and 10 at the subsidiaries asknet Inc., USA, and asknet K.K., Japan. When trainees and temporary employees are included in the figure, as of June 30, 2011, asknet Group had 120 employees.

Growth and outlook

Business developments at asknet AG in the second quarter of 2011 were marked by challenges and unscheduled charges. Apart from a slight decline in growth in the eDistribution segment due to weaker growth of existing customers and a lack of new customer agreements with major software developers, the ePortals segment continued to develop positively. In the first half of the year, the company's gross profits were on a par with the comparable prior-year period.

However, the result was particularly impacted by an unscheduled provision. As part of an internal audit of the billing modalities for software publishers, the company discovered that formal errors were found under tax law that resulted in incorrect credit notes being sent to individual software publishers. asknet corrected these credit notes and sent them to the software publishers as soon as the errors had been discovered. The matter was reported to the Karlsruhe tax authority as part of the corrective measures, who issued a notification of interest charges on July 19, 2011 to the amount of 763 thousand euros. asknet is assessing its legal options against this notification of interest charges, as according to the judgment of the European Court, interest should not be applied for corresponding formal errors and the company has therefore applied for a suspension of execution with the tax authorities in question. The Karlsruhe tax authority approved the suspension of execution in a letter dated July 27, 2011. Tax authorities usually only approve a suspension of execution when there are serious doubts about the lawfulness of a notice. No interest payments will be due until further notice on account of the suspension of execution, and no additional interest will be incurred during the period of suspension. The Federal Fiscal Court (Bundesfinanzhof) is already revising a case similar in nature to that of asknet AG. Regardless of the potential outcome of the proceedings, this interest is being recognized as an expense in the half-yearly financial statements, impacting the net result for the first half of the year.

asknet is putting more emphasis on the expansion and ongoing improvement of its product and services portfolio as an effective action against growing competition while at the same time tightening up on cost control. The eDistribution segment's strategic focus is clearly on profitability. The company's processes and structures will be scaled down and its range of products will be standardized to generate profits in a timely and sustainable manner. Furthermore, asknet will offer self-service solutions to small- and medium-sized software publishers and technologically adapt other current trends such as social media commerce and mobile commerce. asknet's new in-application cart has already been implemented, executed for the first time in April for a major existing customer. The in-application cart allows customers to execute their purchase decision directly within the application, without the need to jump between the application and the browser-based shop site.

Self-service functions for A/B and multivariate tests will be added to asknet's eCommerce platform. Here, asknet offers predetermined customer segmentation options for A/B and multivariate testing based on best practices for the eShop channel. In addition to customer segmentation, asknet provides the ability to test layout variations and to compare design elements, order workflows and product placement.

In ePortals, asknet keeps putting emphasis on growth. As well as expanding the existing customer basis – e.g. the University of Cologne has commissioned asknet to upgrade and enhance their existing portal – asknet aims to expand the customer base in Switzerland and Austria. The company already supplies around 80 percent of all German universities with software products, meaning that it continues to be the market leader in Germany. Two new customer groups will be added to this segment – students as well as research and education employees. The continuous expansion of the standard functions of asknet's software portal and the extension of asknet's portfolio to include, among other things, eBooks, mobile applications and hardware as well as the validation and verification services for student and employee programs of software publishers also ensure future growth prospects.

The company continues to operate in an intact growth market with software and electronic software distribution. The trend to supplement and substitute stationary trade in the software market through eCommerce continues. The experienced and well-versed executive duo Michael Konrad and Dr. Dietmar Waudig will continue to consistently improve results regarding sustainable profitability following CEO Michael Scheib's resignation effective July 15, 2011. Michael Konrad has taken on Michael Scheib's responsibilities, the eDistribution segment, in addition to his own duties. Dr. Dietmar Waudig remains responsible for the ePortals segment as well as Technology and Infrastructure.

The reduction of the Supervisory Board from six members to three was also resolved at the annual general meeting on July 29, 2011. The elections saw the existing Supervisory Board members Dr. Joachim Bernecker, Thomas Krüger and Marc Wurster chosen by the annual general meeting. The Executive and Supervisory Boards share the same goal: to continuously improve results and achieve sustainable profitability. The company expects to generate positive operating cash flow as early as the fourth quarter of this year with the help of stringent cost control.

Market Development

The development of the global economy in the current year is marked by both high momentum and ambivalence. According to the latest economic forecast by the International Monetary Fund (IMF), global growth in 2011 is likely to amount to 4.3 percent, with growth of 4.5 percent predicted for 2012 – a more positive tone. However, at the same time the IMF also identified increased risks and attests them to the global economy's vulnerability.

The sources of risk are obvious: The national debt crisis affecting the eurozone's peripheral countries continues to plague the monetary union. There is a risk of distortions in the United States as political rivals cannot agree on a medium-term solution for raising the debt ceiling and despite encouraging development Japan's economy may contract in the second half of 2011 as the result of the earthquake disaster.

The global upturn is being driven by the positive trend in the emerging countries as well as in Germany and France where sustainable investments are being made. The investments in particular are the reason why the IMF has increased its forecasts for eurozone growth for 2011 by 0.4 percentage points to 2.0 percent. Despite the fact that the Chinese government is attempting to curb the upturn, growth of 9.6 percent has been predicted, with growth of 8.2 percent forecast for India. Russia (+4.8 percent) and Brazil (+4.1 percent) are continuing their upward trend as part of the BRIC quartet.

The German economy has shown itself to be remarkably robust over the course of the year. Even though in the opinion of German economic researchers the upturn slowed somewhat in the second quarter, economists see the German economy's future development in a positive light overall. According to the IMF, Germany's gross domestic product will grow by 3.2 percent in the current year. Leading German economic research institutes expect even higher growth rates for the full year. Munich's Ifo institute has forecast growth of 3.3 percent, with the Kiel Institute for the World Economy (Kiel Institut für Weltwirtschaft – IfW) even predicting growth of 3.6 percent. Rising employment and growing private consumer demand as well as a strong export economy all work in Germany's favor.

The eCommerce sector continues its upward trend. According to a study conducted by TNS Infratest on behalf of the German E-Commerce and Distance Selling Trade Association (Bundesverband des Deutschen Versandhandels – bvh), online trade amounted to 21.48 billion euros, up 17 percent year on year. eCommerce's share of all mail order business rose by 6 percent to 66 percent.

According to the current forecasts of the European market research company EITO, the global IT market will grow by 4.3 percent in the current year to 963.4 billion euros, with even more growth in 2012. The EITO predicts that the IT market will grow by 5.4 percent in 2012, taking sales past the 1 trillion euro-range for the first time ever. The current driving forces behind this growth are the major emerging countries China, Russia, India and Brazil, some of which have double-figure growth rates. The emerging markets are investing heavily in modern technology. According to the EITO, IT sales in China will grow by 11.3 percent in 2011 to 55 billion euros. Russia and India will both see growth of 14.5 percent, while Brazil will record 8.7 percent growth and the US market is expected to grow by 3.9 percent. Growth in the European Union is at 2.9 percent at 314.6 billion euros. Public sector IT investments are suffering in European countries such as the United Kingdom, Spain, Greece and Ireland as a result of high national debt, and consumer spending is falling. Germany is following a different path, which at 4.3 percent is growing significantly faster in 2011 than the EU average.

Industry association BITKOM expects demand for software in Germany to soar and forecasts growth of 4.5 percent for the industry. Cloud Computing technologies, the focus of this year's CeBIT, provide an additional boost. According to BITKOM estimates, 10 percent of all IT spending in the B2B business in 2015 will be attributable to Cloud Services.

Financial Statements

Financial Statements

Consolidated Balance Sheet

as of June 30

ASSETS		Jun. 30, 2011 in €	Dec. 31, 2010 in €
A.	**FIXED ASSETS**		
I.	Intangible fixed assets		
	Concessions, industrial and similar rights and assets, and licenses in such rights and assets	23,791.75	38,282.27
II.	Tangible fixed assets		
	Other equipment, operating and office equipment	230,486.24	259,914.23
		254,277.99	**298,196.50**
B.	**CURRENT ASSETS**		
I.	Inventories		
	Merchandise	134,439.36	230,092.31
II.	Receivables and other assets		
1.	Trade receivables	4,463,527.47	5,067,248.43
2.	Other assets	302,848.52	283,200.07
		4,766,375.99	**5,350,448.50**
III.	Cash-in-hand, bank balances, cheques	5,639,065.32	8,820,897.14
		10,539,880.67	**14,401,437.95**
C.	**PREPAID EXPENSES**	169,131.33	166,392.50
		10,963,289.99	**14,866,026.95**

EQUITY AND LIABILITIES		Jun. 30, 2011 in €	Dec. 31, 2010 in €
A.	**EQUITY**		
I.	Subscribed capital	5,044,283.00	5,044,283.00
II.	Capital reserves	0.00	0.00
III.	Currency translation differences	63,869.95	75,683.36
IV.	Consolidated net accumulated losses	– 2,487,668.47	– 714,380.58
		2,620,484.48	**4,405,585.78**
B.	**PROVISIONS**		
I.	Other provisions	**1,903,145.55**	**1,122,723.93**
C.	**LIABILITIES**		
1.	Trade payables	5,963,435.45	8,362,080.06
2.	Other liabilities of which on taxes: € 652.815 (previous year: € 480 thousand) of which on social security: € 5.724 (previous year: € 6 thousand)	460,682.01	855,540.92
		6,424,117.46	**9,217,620.98**
D.	**DEFERRED INCOME**	15,542.50	120,096.26
		10,963,289.99	**14,866,026.95**

Consolidated Income Statement

as of June 30

		2011 in €	2010 in €
1.	Sales	32,545,686.64	34,195,080.93
2.	Other operating income	141,657.41	163,803.82
		32,687,344.05	**34,358,884.75**
3.	Cost of materials		
	a) Cost of purchased merchandise	– 27,557,508.30	– 29,197,682.98
	b) Cost of purchased services	– 119,408.22	– 131,796.71
4.	Personnel expenses		
	a) Wages and salaries	– 2,956,092.11	– 2,590,500.42
	b) Social security, post-employment and other employee benefit costs of which in respect of old age pensions: € 4,970 (previous year: € 4 thousand)	– 365,249.65	– 365,463.40
5.	Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of tangible fixed assets	– 71,324.54	– 61,108.91
6.	Other operating expenses	– 2,646,729.84	– 2,629,906.76
		– 33,716,312.66	**– 34,976,459.18**
7.	Interest and similar income	24,766.41	42,938.91
8.	Interest and similar expenses	– 763,355.17	– 673.02
		– 738,588.76	**42,265.89**
9.	Result from ordinary activities	– 1,767,557.37	– 575,308.54
10.	Other taxes	– 5,730.52	– 16,065.13
11.	Consolidated net loss for the year	– 1,773,287.89	– 591,373.67
12.	Accumulated losses brought forward	– 714,380.58	– 135,068.00
13.	Withdrawals from capital reserves	0.00	0.00
14.	Consolidated net accumulated losses	**– 2,487,668.47**	**– 726,441.67**

Consolidated Cash Flow Statement

as of June 30

		2011 in € thousands	2010 in € thousands
1.	**Cash flows from operating activities**		
	Consolidated net loss for the year before interest	– 1,010	– 590
	Interest expense	– 763	– 1
	Consolidated net loss	**– 1,773**	**– 591**
	Depreciation, amortization and write-downs	71	61
	Profit on disposal of fixed assets	0	– 106
	Loss on disposal of fixed assets	0	106
	Increase (+) / Decrease (–) in provisions	782	– 27
	Increase (–) / Decrease (+) in receivables and other assets	668	– 1,064
	Increase (+) / Decrease (–) in liabilities	– 2,874	– 1
	Exchange-related change in inventories	1	
		– 3,125	**– 1,622**
2.	**Cash flows from investing activities**		
	Purchase of intangible fixed assets	– 1	– 3
	Purchase of tangible fixed assets	– 28	– 172
	Proceeds from the sale of financial assets	0	106
		– 29	**– 69**
3.	**Cash flows from financing activities**		
	Payments from allocations to equity	0	0
		0	**0**
4.	**Cash funds at end of period**		
	Net change in cash funds (subtotal 1 – 3)	– 3,154	– 1,691
	Effect on cash funds of exchange rate movements	– 28	57
	Cash funds at beginning of period	8,821	7,960
		5,639	**6,326**
5.	**Components of cash funds**		
	Cash	5,639	6,326
	Cash funds at end of period	**5,639**	**6,326**

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