



# Half Year Report 2008

TECHNOLOGY | QUALITY | SERVICE  
SCALABLE INTERNATIONAL GROWTH



## Content

- 2** Letter to our Shareholders
- 4** Business Developments
- 7** Market and Environment
- 10** Financial Statements
- 14** Contact Information



## Letter to our Shareholders

### Dear Shareholders,

“Well-engineered online shops benefit everyone equally – the end customer, the manufacturer and the store operator.”

This simple statement describes the win-win situation that characterizes the market for eDistribution and ePortals – both of which are business segments of asknet AG, the world’s second-largest provider of outsourcing solutions for software sales on the Internet. And this simple statement is proven by asknet’s technology, expertise and reliable services, for example our new Shop 2.0 solution and our Mobile Shopping Cart. End customers don’t just value online shops because they are quick to offer the most up-to-date technological innovations – shopping online also saves time and requires little effort. For the manufacturers themselves, it is easier and more economical to sell their software on the Internet. It allows them to offer the end customer excellent prices without cutting into their own margins. Taken together, these factors make the market for online software sales extremely attractive.

asknet’s most important capital is our ability to meet the needs of this market with our products and services. This forms the basis for consistent sales growth, which in turn allows us to expect a long-term improvement in profits. As we continue to win over new customers, we can take full advantage of the scalability our business model. For this reason our last quarterly report defined the strategic goal of expanding our customer base, not just numerically, but also by gaining larger companies as customers. By this we also mean international customers; asknet services are ideal for their needs. For this reason, asknet has invested massively in worldwide availability in recent years: shop solutions in a variety of languages, for a range of currencies and payment methods; global sales centers; and finance, risk management and marketing services. In other words, we offer a full range of services and support to make international sales as easy as doing business locally.

The international scope of our services was one of the deciding factors that led PANDA Security to select asknet as their eCommerce partner in the first half of 2008. asknet’s outstanding technological competence, our global marketing network and, most importantly, the expertise in international eCommerce that we have accumulated in recent years are further significant criteria that made working together with asknet the preferred choice.

With more than 2.5 million private and business customers, PANDA Security offers one of the world's most popular anti-virus software packages. PANDA is one of the fastest growing software companies in Europe, with correspondingly high sales potential in online commerce. The company has a presence in 200 countries around the globe.

asknet's internationalization is not just being driven by large customers, however. In the first half of 2008 our sales grew by around 39%, with 66% of these orders coming from end customers located outside of Germany. We were able to strengthen and expand our business in the USA despite the continuing weakness of the dollar and America's economic slowdown. Our subsidiary asknet K.K. has the goal of increasing our business in Japan and Asia as a whole. asknet K.K will build on its partnership with SOFTBANK B.B., which is very well established in Japan.

The recent turbulence in the international markets and the overall weakness of the economy have resulted in a slowdown in growth in our business segment, electronic software distribution; however, these economic trends also go hand in hand with two developments that are positive for our business. First, manufacturers are placing more value on direct sales channels because direct selling is significantly more economical – it cuts out the middleman, resulting in better margins. Second, the more the prices for raw materials explode, the more attractive online sales become, because they completely do away with logistics processes. This also appeals to the increasing environmental awareness of the customer.

Successful partnerships, growth and efficient use of resources will continue to prove the advantages of our scalable business model in the future. Another reason for optimism is the dedication of our employees, who have achieved an excellent position in the market as well as growth of 39% in the first half of 2008 compared to the same period of the previous year. All this means that the management team of the asknet Group has no hesitation in predicting double-digit percentage growth for the year of 2008 as a whole, with significantly lower losses in the second half of 2008 than in the first half.

We thank you, our shareholders, for the trust you have placed in us and in asknet.

Sincerely,  
The Executive Board of asknet AG.

  
Gerald Prior

  
Dr. Dietmar Waudig

  
Michael Konrad

### Business Developments in the first half of 2008

#### Results of operations

In the first half of 2008, the asknet Group had sales of €36.3 million. Compared to the previous year this was an increase of €10.1 million, or 39%. This growth is primarily the result of new customer accounts in 2007 and 2008.

When broken down into regions, it is clear that there has been a consolidation of the asknet Group's trend toward increasing internationalization. For example, 66% of end customer sales were generated abroad in the first half of 2008. Despite the continuing decline in the strength of the dollar, the weak economy and the corresponding slowdown in domestic demand in the USA, we have succeeded in significantly expanding our business in that country. We also expect our newly founded Japanese subsidiary in Tokyo, asknet K.K., to provide important impetus to our business in Japan.

The number of paid transactions rose by 49%, from 527,000 to 785,000.

Our gross profits also grew by 20% in comparison to the same period of the previous year, totaling 4.45 million in the first half of 2008. Gross profit growth was not as strong as

growth in sales volume because at present we are only able to realize lower margins with large customers in our target segment.

At €-1.8 million, the results from ordinary activities lagged behind the previous year's results in the amount of €-1.5 million. This was due to three factors. First, the lower large customer margins that were mentioned above. Second, higher personnel costs, especially at our subsidiary in the USA (€0.2 million); and third, non-recurring costs associated with restructuring measures undertaken in the first half of 2008 (€0.2 million).

#### Net assets and financial position

As of June 30, 2008, liquidity was €8.2 million. Total equity decreased from €9.0 million at the end of 2007 to €7.2 million at the end of the reporting period. This corresponds to an equity ratio of a sound 51% as of June 30, 2008.

The company's operative cash flow was negative in the amount of €-1.6 million, which can primarily be attributed to the operating loss and changes in working capital. The higher negative cash flow is representative of the reporting day and not of the future course of the asknet Group's working capital in 2008.

### Employees

As of June 30, 2008, the asknet Company had 100 employees (2007: 92), of which 91 were at asknet AG (2007: 87) and nine at our subsidiary asknet Inc. in the USA. Our joint venture asknet B.B. in Japan had 3 employees as of that date. If the executive board, trainees and temporary employees are included in the figure, then as of June 30, 2008, the asknet Company employed a total of 130 people. This number will be reduced by approximately seven employees in the second half of the year due to the restructuring measures implemented in the first half of 2008.

### Growth and outlook

At the end of June 2008 asknet gained a major international customer, PANDA Security. We are planning to go live with the first online shops for this customer at the end of the third quarter. With more than 2.5 million customers around the globe, PANDA Security provides one of the most popular anti-virus software packages for home and business use. PANDA Security has a presence in 200 countries, offers its services in 23 different languages and is one of the fastest growing software companies in Europe. PANDA plans to further expand its online business, and the internationalism of asknet Group was a major factor in their decision to work with our company. Our provision of services around the globe is one of two im-

portant reasons that PANDA Security considers us an attractive partner. The other is asknet's modular technology, which can be quickly and easily adapted to PANDA Security's existing systems.

We have also gained numerous mid-sized companies as new customers in the first half of 2008. Our list of customers includes the following five new additions: First, Steinberg Media Technologies, a manufacturer of professional media solutions. Second, SecurStar GmbH, market leader for hard drive encryption software and computer security. Third, visionapp AG, which specializes in application delivery infrastructures. Fourth, Lexware GmbH & Co. KG of Freiburg, Germany, will start to offer some items from its product line for download using the asknet shop solution. And finally, our eCommerce competence has won over CollabNet, a market leader in its field. CollabNet provides collaboration solutions for distributed software development and has 1.5 million users and over 5000 B2B customers, giving it the potential to rise into the top five of our customer ranking.

Among our established customers, several have expanded our existing business relationship, including F-Secure, H&H Software GmbH and Ipswitch, Inc.

## Business Developments

asknet remains the undisputed market leader for procurement portals for research and educational institutions. Following our above-average growth last year, we received an award from the software manufacturer Adobe. The Adobe Channel Education Partner Award honors asknet as the most successful Adobe sales partner for education licenses. We can expect an even better endorsement of our sales from Symantec. We have reached Gold Partner Status with this company, thanks to our sales and technical certificates and by reaching the required level of sales.

These substantial increases in our sales figures, which have been achieved despite the weak dollar and the economic slowdown, are a stimulus and motivation for the second half of 2008, in which we expect additional new contracts with international customers. Overall, the management is expecting slower, but still strong growth for all of 2008 compared with the previous year. We anticipate that our losses in the second half of the year will be significantly lower than in the first half.



## Market and Environment

Forrester Research has predicted growth of 17% in 2008 for the online market as a whole. The electronic software distribution (ESD) segment is expected to grow even more strongly, according to a prognosis made by the International Data Corporation (IDC).

Electronic software distribution saves time and money for the manufacturer and the end customer, which makes it equally attractive to both. The unique advantage is that demand for software can be supplied immediately; customers can download the products they have purchased and use them within a matter of minutes. Concentrating on online sales offers myriad benefits to the software manufacturer. Sales margins are significantly higher in comparison to indirect sales via stores and distributors, and expensive manufacturing costs and returns management systems are eliminated. In addition, the acquisition of new customers takes only a few minutes, from first contact to delivery of the paid product.

The continuously increasing sales in the consumer segment of the hardware market also have a positive influence on the attractiveness of online software purchasing. According to IDC reports, worldwide sales of PCs rose by 15.3% compared to the second quarter of 2007. Gartner claims the increase was actually 16%. The demand for hardware inevitably influ-

ences the demand for software; therefore, the market for online software sales will profit directly from this development. In addition, broadband is becoming more widely available and connecting to the Internet is increasingly less expensive. All of these reasons explain the changing purchasing behavior of consumers, who don't just turn to online shopping because it saves them time and money, but above all because they consider it easy and convenient.

As the Internet undergoes the Web 2.0 revolution, asknet has responded to the changing environment with solutions such as our new Shop 2.0. Just like Web 2.0 solutions themselves, it is based on Ajax technology. asknet AG utilizes all the technical advantages of Ajax technology, resulting in even faster loading times for the shop sites. Consumers are guided intuitively through the buying process. Short and self-explanatory purchasing processes make the sites user-friendly for buyers and in turn significantly reduce the number of transactions that are broken off before completion. A lower break-off rate leads to a higher volume of sales. Both the manufacturer and asknet AG profit as a result.

There is a new trend toward subscription models, which allow manufacturers to increase software sales and encourage customers to make a long-term commitment to a product. Under

## Market and Environment

such models, the software is sold as a subscription, i.e. with a license that must be renewed after a certain period of time. In order to meet the customer demand for quickness and ease of use, the manufacturer must offer a degree of automation and structure that can only be achieved at such comparatively low costs by online sales.

This cost awareness is also what makes online software sales so attractive for a new group of manufacturers: providers of business to business (B2B) software. Traditionally these manufacturers have served their customers using well-established networks that include sales, telesales measures, etc. In times of eroding margins, online sales are an attractive means to reduce costs because they require less personnel and are easy to outsource. For this market, asknet offers B2B portals and up-to-date models to reactivate existing customers or increase automated resale and renewal by means of subscriptions.

Another market need is being met by asknet AG with our Mobile Shopping Cart: the customer desire to buy software using a mobile terminal or even download it directly onto their cellular phones. According to a study done by Nielson, the world's leading market research institute for telecommunications and mobile media, in April 2008 approximately 40.2 million Americans used the mobile Web regu-

larly, compared to 29.3 million in the same month of the previous year. In the same period of time (April 2007 to April 2008), the number of visitors accessing online shops using their cell phones increased from under three to more than five million. Customers are not only shopping online more while they are on the go. It is especially important for them to be able to download software for mobile terminals directly to the devices on which they wish to use the software.

### **Positioning**

asknet places great value on long-term partnerships with manufacturers and technology, service and marketing providers. This requires us to position ourselves as high-quality providers who are able to measurably and continuously increase manufactures' sales figures. To accomplish this, we must offer an intelligent and flexible platform technology which has three distinguishing features: it is scalable, individual and global.

### **Modular and scalable**

asknet's technology has a modular structure and can therefore be expanded to almost any size to correspond to the number of transactions to be completed. Therefore, an increase in sales volume doesn't mean an increase in costs. At the same time, our modular platform technology allows applications for new services to be inte-

grated with a minimum of effort. Development costs are only incurred once, while every new service can be used by multiple customers.

### **Flexible and individual**

Both of these words are heavily overused in advertising, but at asknet they aren't just empty promises – they are important elements of our core strategy. Thanks to its modular structure, asknet can adapt the technology platform to the (existing) systems of the customer. And, if desired, we can set up interfaces with any of the customer's systems that need to be connected to the shop solution, e.g. CRM systems, ERP systems or databases. asknet creates a shop solution for each of our customers that corresponds exactly to that customer's ideas and design. This individuality forms the basis for the third characteristic, globality.

### **Global yet local**

asknet provides every customer with an online shop that is tailored to meet their needs. We don't just take design or corporate identity into account, but also country-specific factors. After all, asknet's customers are international companies whose software is offered in a number of widely differing countries. Therefore, it isn't enough to simply translate the shop into the language of the country in question. asknet goes a step further, making certain the shop meets all local requirements, such as registra-

tion, the appropriate method of payment for the country, the preferred selection of language and currency, etc. At present, asknet operates online shops for customers in 18 languages, using 34 different accounting currencies and 25 different payment and accounting methods. asknet's marketing services, which are designed to increase sales in online shops, are also tailored to the specific national market conditions.

### **The message is clear**

In the continuously growing market for electronic software distribution, asknet has positioned itself as an international company with international customers and technology, marketing and service partners. This position requires us to offer well-engineered technology, a wide variety of services and correspondingly sophisticated expertise. Taken together, this gives asknet an advantage on the market that cannot easily be replicated – but that is highly valued. Especially by fast-growing software manufacturers such as Nero AG and PANDA Security. As asknet AG has already proven, our business model is scalable. One simple conclusion can be drawn from this: asknet will win new customers who need a platform that can be tailored to suit their needs, one that is scalable and global. Based in such successes, we will assume the position of a leading, profitable provider. Our future is clear.

## Financial Statements

### Consolidated Balance Sheet as of June 30, 2008

ASSETS	30.06.2008 in €	31.12.2007 in €
A. FIXED ASSETS		
I. Intangible fixed assets Concessions, industrial and similar rights and assets, and licenses in such rights and assets	146,025.24	125,411.86
II. Tangible fixed assets Other equipment, operating and office equipment	167,003.11	202,492.85
III. Long-term financial assets Shares in associates	80,899.53	91,526.30
	<b>393,927.88</b>	<b>419,431.01</b>
B. CURRENT ASSETS		
I. Inventories Merchandise	411,048.99	371,056.02
II. Receivables and other assets		
1. Trade receivables	4,270,002.01	5,437,313.87
2. Receivables from affiliated companies	0.00	0.00
3. Receivables from associates	7,205.66	10,736.00
4. Other assets	669,782.42	685,274.43
	<b>4,946,990.09</b>	<b>6,133,324.30</b>
III. Cash-in-hand, central bank balances, bank balances, cheques	8,221,924.65	9,945,112.90
	<b>13,579,963.73</b>	<b>16,449,493.22</b>
C. PREPAID EXPENSES	253,130.19	136,196.66
	<b>14,227,021.80</b>	<b>17,005,120.89</b>

<b>EQUITY AND LIABILITIES</b>	<b>30.06.2008 in €</b>	<b>31.12.2007 in €</b>
<b>A. EQUITY</b>		
I. Subscribed capital	5,040,000.00	5,040,000.00
II. Capital reserves	4,318,076.15	4,318,076.15
III. Currency translation differences	32,642.56	20,050.66
IV. Consolidated net accumulated losses	- 2,146,973.79	- 373,404.35
	<b>7,243,744.92</b>	<b>9,004,722.46</b>
<b>B. PROVISIONS</b>		
Other provisions	<b>1,670,699.54</b>	<b>1,601,187.64</b>
<b>C. LIABILITIES</b>		
1. Liabilities to banks	0.00	2,183.02
2. Trade payables	4,833,083.84	5,711,559.36
3. Other liabilities	470.743.50	661,718.41
	<b>5,303,827.34</b>	<b>6,375,460.79</b>
<b>D. DEFERRED INCOME</b>	8,750.00	23,750.00
	<b>14,227,021.80</b>	<b>17,005,120.89</b>

## Financial Statements

### Consolidated Income Statement as of June 30, 2008

	30.06.2008 in €	30.06.2007 in €
1. Sales	36,294,792.46	26,221,966.79
2. Other operating income	304,421.65	147,370.57
	<b>36,599,214.11</b>	<b>26,369,337.36</b>
3. Cost of materials		
a) Cost of purchased merchandise	– 31,876,659.43	– 22,525,155.01
b) Cost of purchased services	– 78,949.43	– 68,124.02
4. Personnel expenses		
a) Wages and salaries	– 2,875,688.94	– 2,415,898.87
b) Social security, post-employment and other employee benefit costs of which in respect of old age pensions	– 422,746.15	– 382,179.81
5. Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of tangible fixed assets	– 91,610.85	– 91,951.64
6. Other operating expenses	– 3,154,665.73	– 2,541,341.84
	<b>– 38,500,320.53</b>	<b>– 28,024,651.19</b>
7. Interest and similar income	148,733.29	175,488.89
8. Expenses from shares in associates	– 9,796.50	– 39,351.48
9. Interest and similar expenses	– 380.63	– 3,449.79
	<b>138,556.16</b>	<b>132,687.62</b>
10. Result from ordinary activities	– 1,762,550.26	– 1,522,626.21
11. Extraordinary expense	0.00	0.00
12. Other taxes	– 11,019.18	– 5,682.67
13. Consolidated net loss for the year	– 1,773,569.44	– 1,528,308.88
14. Accumulated losses brought forward	– 373,404.35	– 516,412.40
15. Withdrawals from capital reserves	0.00	0.00
16. Consolidated net accumulated losses	<b>– 2,146,973.79</b>	<b>– 2,044,721.28</b>

## Consolidated Cash Flow Statement as of June 30, 2008

	30.06.2008 in € thousand	30.06.2007 in € thousand
<b>1. Cash flows from operating activities</b>		
Consolidated net loss for the year before interest paid and extraordinary items	– 1,774	– 1,525
Interest paid	0	– 3
Net loss for the year before extraordinary items	<b>– 1,774</b>	<b>– 1,528</b>
Depreciation, amortization and write-downs	103	131
Loss on disposal of fixed assets	1	2
Increase / decrease in provisions	74	– 154
Increase / decrease in receivables and other assets	1,019	– 1,036
Decrease in accounts payable	– 1,052	– 224
Exchange rate dependent changes in inventory	0	– 55
	<b>– 1,629</b>	<b>– 2,864</b>
<b>2. Cash flows from investing activities</b>		
Proceeds from disposal of fixed assets	0	0
Purchase of intangible fixed assets	– 69	– 22
Purchase of tangible fixed assets	– 9	– 32
	<b>– 78</b>	<b>– 54</b>
<b>3. Cash flows from financing activities</b>		
Capital increases from shareholders	0	0
Capital increases due to IPO	0	0
Cost of the IPO (extraordinary item)	0	0
Repayment of bonds and loans	– 2	0
	<b>– 2</b>	<b>0</b>
<b>4. Cash funds at end of period</b>		
Net change in cash funds (subtotal 1 – 3)	– 1,709	– 2,918
Effect on cash funds of exchange rate movements	– 12	– 2
Cash funds at beginning of period	9,943	12,912
	<b>8,222</b>	<b>9,992</b>
<b>5. Components of cash funds</b>		
Cash	8,222	9,992
Liabilities to banks	0	0
<b>Cash funds at end of period</b>	<b>8,222</b>	<b>9,992</b>

## Contact Information

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Dr. Dietmar Waudig (COO)  
Michael Konrad (CFO)

### **Advisory Board**

Dr. Joachim Bernecker

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### **Commercial Register**

Mannheim Local Court HRB 108713

### **Concept, Design and Realization**

DigitalAgentur mpm, Mainz  
[www.digitalagentur-mpm.de](http://www.digitalagentur-mpm.de)

### **Text**

asknet AG, Karlsruhe, Germany

### **Photos**

Photo archive asknet AG





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