

## **NetOnNet AB (publ)**

Corporate Identity Number: 556520-4137

### **Interim report – prolonged fiscal year**

#### **January 2005 – April 2006**

Unless otherwise stated, the comparative figures in the report relate to fiscal year 2004, which was a 12-month period.

## **NetOnNet's result for the prolonged fiscal year was SEK -8.3 million**

### **Last four months (January-April)**

- Sales amounted to SEK 380.0 (355.5) millions, an increase of 6.9 %
- Net profit amounted to SEK -13.6 (-7.8) millions
- Earnings per share amounted to SEK -2.26 (1.30)

### **Fiscal Year (January 2005 – April 2006 versus January-December 2004)**

- Sales amounted to SEK 1 662.0 (1 005.0) millions
- Net profit amounted to SEK -8.3 (18.9) millions
- Earnings per share amounted to SEK -1.38 (3.14)
- The Board suggest no dividend

### **FOCUS AREAS FOR THE NEW FISCAL YEAR 2006/2007**

- Launch of small household appliances
- Launch of Financial Services and Insurances
- Opening new Warehouse shops

*NetOnNet (www.netonnet.com) is the first Internet-based shop for consumer electronic appliances in Europe. NetOnNet supplies TV, video, mobile phones, etc. from leading manufacturers such as Sony, Philips etc as well as own brands such as Andersson, Avant, Centrum, Pepp and Skantic. The products are delivered directly home both for consumers and companies. The company was established in 1999, and its Headquarter is in Borås, Sweden. The company operates in Germany since September 2000.*

**Net Sales**

The net sales during the fiscal year amounted to SEK 1 662.0 (1 005.0) millions. Of the total sales increase 1.8 % refers to changes in exchanges rates, 61.8 % to change in volumes and 1.8 % to price changes.

Net Sales Fiscal Year      2005/06      2004  
(SEK million)

Sweden                      1 168.8      700.8  
Germany                    493.2      304.2

Total                              1 662.0      1 005.0

Of the fiscal year net sales the last four months, Jan-Apr, amounts to SEK 380.0 (355.5) millions, which is an increase by 6.9 %. Of the total sales increase 2.1 % refers to changes in exchanges rates, -6.9 % to change in volumes and 11.7 % to price changes.

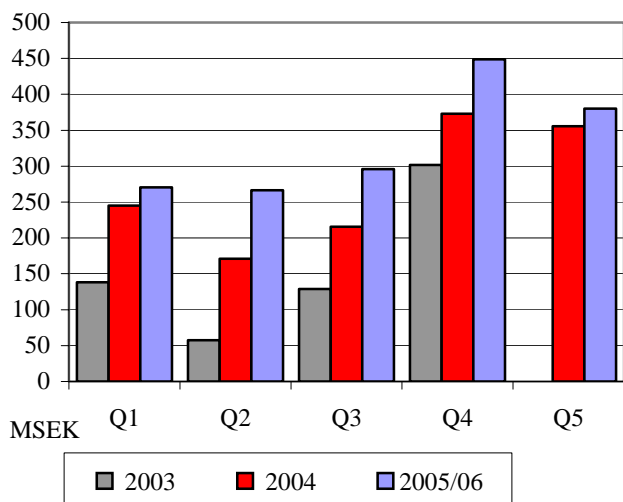
Net Sales Jan-Apr              2006      2005  
(SEK million)

Sweden                      273.4      241.4  
Germany                    106.6      114.1

Total                              380.0      355.5

Sales were higher within almost all product areas compared to previous year. Strongest increases were within TV due to the great demand for flat-TV, which also is the reason why average prices have gone up for the whole assortment. Other areas with good growth have been Data and Telecom. The sales have decreased within Audio, where lower market values can be noticed for mainly home cinema.

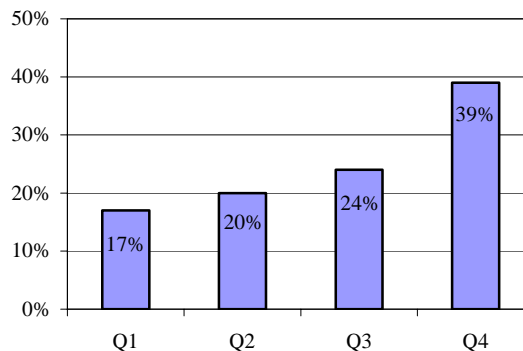
**Net Sales quarterly 2003 – 2005/06**



*Seasonal variations*

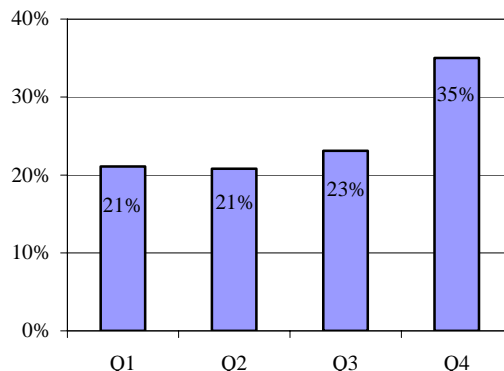
To simplify evaluation of the report, the diagram below illustrates the seasonal variations that influence the consumer electronics industry.

Seasonal variations within the consumer electronics industry



Source: CE Konsumentelektronikbranschen 2005

Seasonal variations NetOnNet 2005



**Operating income and gross margin**

Operating income for the fiscal year January-April, amounted to SEK -8.9 (21.6) millions.

Operating income                      2005/06      2004  
(SEK million)

Sweden                      17.8      34.1  
Germany                    -26.7      -12.5

Total                              -8.9      21.6

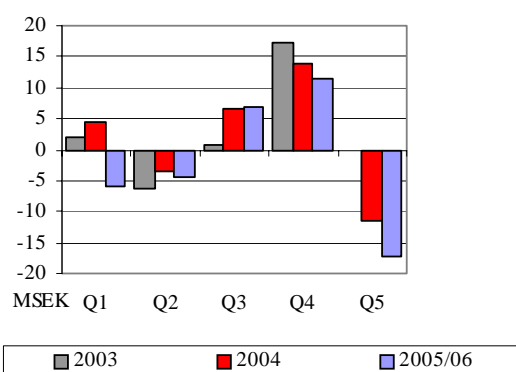
Gross margin amounted to 19.3 (21.5) % during the fiscal year.

Operating income for the last four months, January-April amounted to SEK -17.2 (-11.4) millions.

<u>Operating income Jan-Apr</u> (SEK million)	<u>2006</u>	<u>2005</u>
Sweden	-5.3	-6.2
Germany	-11.9	-5.2
<b>Total</b>	<b>-17.2</b>	<b>-11.4</b>

Gross margin totaled 16.9 (18.8) % during the last four months.

### Operating income quarterly 2003 – 2005/06



The lower operating income during the fiscal year is mainly due to increased costs that have been taken with the intent to build up the company for long-term growth. The stronger competition with continued price pressure as well as an over-stock situation after the Christmas period 2005 resulted in a lower gross margin. The largest cost increases are staff, marketing and the new ERP-system which have meant increased costs including depreciation.

The marketing costs amounted to 3.6 (3.4) % of the total sales. Concerning Sweden the ratio was 3.3 (3.1) % and for Germany 4.1 (4.0) %.

Staff costs amounted to 6.6 (6.4) % of net sales. In Sweden the ratio was 6.8 (6.9) % and in Germany 6.0 (4.3) %.

#### Sweden

In Sweden the lower result during fiscal year is connected with forward aiming investments in the group's internal efficiency. The operating margin for the fiscal year was 1.5 (4.9) %.

#### Germany

The lower result in Germany during the fiscal year is due to efforts related to staff, marketing and IT. The opening of a warehouse shop in Nürnberg affects the result with SEK 6.7 million.

The operating margin for the fiscal year was -5.4 (-4.1) %.

### Significant events during the fiscal year

During the entire period the focus of the company has been to strengthen the organization and to improve internal processes to enable future business development and long-term growth. A new ERP system was established in November 2004 and during 2005 has work been done for securing reliability and for development. During spring 2005 the management has been strengthened with new logistics manager, new IT-manager, new CFO and a new manager for the expansion of the warehouse concept. In April a purchasing office was opened in China.

In Nürnberg a warehouse shop was opened in September 2005. The opening of a Warehouse shop in Gothenburg was estimated to spring 2006, but is postponed due to the delayed planning permission.

The central warehouse has been expanded with additional 5 000 square meters, which was taken in use in October.

In November a new position was established in the management group, Chief Merchandising and Operations Officer, to be able to co-ordinate the total operations for purchasing, sales and marketing.

During spring 2006 a new functionality for subscriptions for Internet has been developed. The idea is to simplify for the customer to find between different subscriptions offers. Contracts have been made with many operators concerning sales of mobile phones with subscriptions. Above this also preparations has been done to launch Internet sales in Norway.

The Stock Option Programme that was launched 2003 has the period of application concerning subscription for new shares between 1.1 – 30.6.2006 at a strike-price of SEK 65.00 per share. In total 82.000 Stock Options was launched whereof per 30.4.2006 amount of 25.000 Stock Options has been converted to shares.

The Shareholders Annual General Meeting on 27<sup>th</sup> of April 2005 decided to launch a new Stock Option Programme of maximum 150.000 Stock Options until the next AGM, which shall be directed towards key employees in the company and means an exception to the shareholders' preferential rights.

The period of application concerning subscription for new shares shall be during 2009-01-01 to 2009-06-30 at a strike-price of SEK 135.00 per share. Per April 30<sup>th</sup> 2006 an amount of 30.000 Stock Options has been issued.

### Staff

The total number of employees at the end of April was 190 (156) where of 144 (119) in Sweden, 41 (37) in Germany and 5 (0) in China. The average number of employees for the fiscal year was 175 (143).

### Financial position and liquidity

As per April 30th the net cash reserves amounted to SEK 13.1 (81.7) million equivalents to SEK 2.17 (13.59) per share. The unused bank overdraft facilities granted amounted to SEK 63.2 (60.0) million. The equity ratio was 43.0 (34.1) %. Total equity amounted to SEK 126.8

(133.6) million, equivalent to SEK 20.99 (22.22) per share.

Cash flow from operations amounted to SEK -70.4 (34.8) million during the interim period. Cash flow after investments and financial operations amounted to SEK -68.7 (9.4) million. The main reason for the negative cash flow is that the company's short term-liabilities have decreased to a large extent.

#### Capital expenditures

Total investments during the fiscal year amounted to SEK 13.4 (22.8) million. The main investments are connected with opening of the Warehouse shop in Nürnberg, expanding the Central Warehouse, Security and Surveillance and IT.

During the last four months investments amounted to SEK 1.6 (1.1) million. The main investments have been connected to IT and future expansion.

#### The parent company

The net sales of the parent company during the fiscal year amounted to SEK 1 662 (1 005) million and the income after financial items amounted to SEK -10.8 (20.5) million. Capital expenditures during the fiscal year amounted to SEK 13.4 (22.4) million. The liquidity was SEK 13.1 (81.7) million, equity amounted to SEK 126.8 (133.6) million and long term debts amounted to SEK 0 (0) million.

#### Development of the share

The number of shareholders has decreased from 1 825 to 1 473 since December 31st 2004. This means a decrease by 19.3 %. The share price has during the same period decreased from SEK 94.00 to SEK 69.00, or by 26.6 %.

#### Events after the close of the period

The company started with an Internetshop in Norway in May 2006.

#### Market, Industry statistics

##### Sweden

##### Published statistics

During 2005 the home electronics business is estimated to have decreased by 1.0 % compared with corresponding period previous year according to SCB/HUI. These statistics also include white goods that show very good growth in 2005.

The CE industry suppliers Branch Association (SRL) reported sales value to retailers increased by 2.8 % compared with the corresponding period previous year. TV was the category that increased the most thanks to the flat-panel TV, that amounted to 75 % of total value and 44 % of total volume of total number of TV sold. The second product category with strong growth was camcorders that had a record year 2005.

For period January – March 2006 the home electronic business is estimated to have grown with 11.4% compared with corresponding period previous year according to SCB/HUI. The same figure for April is 6.2%. This statistics also include white goods, which continues to show good growth even in 2006.

The CE industry suppliers Branch Association (SRL) reported sales value to retailers increased by 30.0 % during January-April 2006 compared with the corresponding period previous year. TV was the category that increased the most thanks to the flat-panel TV, that amounted to 87 % of total value and 67 % of total volume of TV sold. Otherwise all other categories decreased except high-end Audio (home-cinema) which increased with 12%.

#### Germany

##### Published statistics

According with GFU ( Gesellschaft für Unterhaltungs- und Kommunikationselektronik) a sales increase of 4.5% during period January-March has been reported. Thanks to the Soccer Championships the sales of TV has increased with 27.0% during January-March 2006 whereof LCD-TV has grown with 139.6%, but old CRT-TV has decreased with 30.5%.

#### E-commerce and distance selling

For January-December 2005 the distance selling in Sweden has decreased with 1.4 % compared to 2004. The earlier signs that E-commerce takes market-shares from the traditional distance selling continued throughout 2005 with an increase of 39 % from 31.7 % to 44 % according to The Swedish Mail Order Association.

For the period January-April 2006 the distance selling has decreased with 1.8% compared with corresponding period previous year. The E-commerce sales share has increased with 36.6% and is now up to 56.9% of total distance selling.

#### Germany

The Turnover in the German Internet shopping amounted to EUR 6 100 million. The Internet shopping increased in Germany with 24%.

Sources: SCB Statistics Sweden in cooperation with Handels Utredningsinstitut, The Swedish Mail Order Association, Statistische Bundesamt, BVH (Bundesverband des Deutschen Versandhandels), GFU (Gesellschaft für Unterhaltungs- und Kommunikationselektronik) and NetOnNet AB

#### Focus areas for 2006/2007

The company will during the year expand its business along three dimensions:

- Widening the product range by adding small household appliances
- Finance- and Insurance will be launched as a new business area
- Building the distribution further by establishing more Warehouse shops and developing the new business in Norway

### Accounting principles

The Interim Report has been made in accordance with IAS 34 - Interim Financial Reporting -which is in accordance with the demands in RR 31 – Interim reporting for groups. From January 1<sup>st</sup>, 2005 NetOnNet uses in the consolidated accounts IFRS (as stated within EU). Comparative figures for 2004 have been prepared in accordance with IFRS 1 and have not caused any result effects compared with previously used accounting principles.

IAS 39 is used from 1.1.2005 which gives following effects on the company equity entering into 2005.

Equity (SEK thousand)	
Equity per 31.12.2004	133 667
Effects of transforming to IAS 39	-47
Equity per 1.1.2005	133 620
Total assets (SEK thousand)	
Total assets per 31.12.2004	392 295
Effects of transforming to IAS 39	18
Total assets per 1.1.2005	392 313

### Review

The auditors have not reviewed the report.

### Share Holders Meeting and dividend

The annual report will be distributed within week 34 and will at the same time be available on the company's homepage.

The Annual share holders meeting will take place on September 7<sup>th</sup> 2006. Reconciliation day for share holders meeting and Shareholders register is August 31<sup>st</sup> 2006. The board recommends no dividend for the financial year 2005/2006.

### Future Reports

NetOnNet publishes interim reports on a quarterly basis. Below the time-schedule for the company next coming reporting:

Annual Report 2005/06	23 Aug 2006
Interim Report May-July 2006	7 Sep 2006
Interim Report May-Oct	30 Nov 2006

Annual General Meeting	7 Sep 2006
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### Borås, June 15<sup>th</sup> 2006

NetOnNet AB (publ)  
*The Board*

### For further information about this report

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The report is available on [www.netonnet.se](http://www.netonnet.se)  
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**INCOME STATEMENTS OF THE GROUP  
IN SUMMARY**

SEK thousand	Jan-Apr 4 months 2006	Jan-Apr 4 months 2005	Jan-Apr 16 months 2005/2006	Jan-Dec 12 months 2004
Net Sales	379 976	355 450	1 661 956	1 004 983
<i>Operating expenses:</i>				
Capitalized labour costs for own purpose	0	0	0	2 315
Cost of goods sold	-315 799	-288 561	-1 341 435	-789 025
Other external costs	-49 757	-49 997	-207 768	-127 888
Personnel costs	-28 370	-25 517	-109 499	-63 861
Depreciations	-3 234	-2 733	-12 176	-4 965
	-397 160	-366 808	-1 670 878	-985 739
<b>Operating profit</b>	<b>-17 184</b>	<b>-11 358</b>	<b>-8 922</b>	<b>21 559</b>
Result from financial investments *	-1 161	520	-1 887	-1 050
<b>Pre-tax profit</b>	<b>-18 345</b>	<b>-10 838</b>	<b>-10 809</b>	<b>20 509</b>
Tax	4 712	3 006	2 510	-1 635
<b>Net profit for the period</b>	<b>-13 633</b>	<b>-7 832</b>	<b>-8 299</b>	<b>18 874</b>
<b>Amount connected with parent company shareholders</b>	<b>-13 633</b>	<b>-7 832</b>	<b>-8 299</b>	<b>18 874</b>
Earnings per share, SEK	-2.26	-1.30	-1.38	3.14
Earnings per share after dilution	-2.25	-1.30	-1.37	3.12
Average number of shares before dilution	6 037 430	6 015 680	6 021 245	6 015 680
Average number of shares after dilution	6 046 379	6 036 576	6 037 245	6 052 602
Number of shares at the end of the period	6 040 680	6 015 680	6 040 680	6 015 680

- According to IFRS rules all forward rate agreements are booked via P/L to market value from 1 Jan 2005  
Effect Jan-April 2006: SEK -750 thousand , Jan-April 2005: SEK 774 thousand, Jan-April 2005/2006: SEK -516 thousand

## BALANCE SHEETS OF THE GROUP

### IN SUMMARY

SEK thousand	30 April 2006	31 Dec 2004
<b>Assets</b>		
<b>Fixed assets</b>		
Intangible assets	13 064	17 684
Tangible assets	37 680	31 864
Financial assets	14 512	12 032
<b>Total fixed assets</b>	<b>65 256</b>	<b>61 580</b>
<b>Current assets</b>		
Inventories etc.	187 504	179 112
Current receivables	28 947	69 878
Cash and bank balances	13 119	81 725
<b>Total current assets</b>	<b>229 570</b>	<b>330 715</b>
<b>Total assets</b>	<b>294 826</b>	<b>392 295</b>
<b>Equity and liabilities</b>		
<b>Equity</b>	<b>126 779</b>	<b>133 667</b>
<b>Rent bearing long-term liabilities</b>	<b>16 250</b>	<b>17 500</b>
<b>Long-term liabilities, provisions</b>	<b>2 104</b>	<b>1 680</b>
<b>Rent bearing, short-term liabilities</b>	<b>17 843</b>	<b>2 467</b>
<b>Current liabilities</b>	<b>131 850</b>	<b>236 981</b>
<b>Total equity and liabilities</b>	<b>294 826</b>	<b>392 295</b>

## CHANGE IN SHAREHOLDERS

### EQUITY OF THE GROUP

#### IN SUMMARY

SEK thousand	Jan-April 2005/2006	Jan-Dec 2004
<b>Opening balance according to adopted balance sheet</b>	<b>133 667</b>	<b>114 558</b>
Effects of re-calculation to IAS 39	-47	0
Share-warrant premium	300	0
New issue	1 623	0
Translation difference	-465	235
Net profit for the period	-8 299	18 874
<b>Closing balance</b>	<b>126 779</b>	<b>133 667</b>

**CASH FLOW OF GROUP  
IN SUMMARY**

SEK thousand	Jan-Apr 4 months 2006	Jan-Apr 4 months 2005	Jan-Apr 16 months 2005/2006	Jan-Dec 12 months 2004
<b>Operations activities</b>				
Cash flow from operation activities before changes in working capital	-15 198	-9 565	1 621	26 558
Changes in working capital	-43 512	-31 672	-74 499	8 261
<b>Cash flow from operations activities</b>	<b>-58 710</b>	<b>-41 237</b>	<b>-72 878</b>	<b>34 819</b>
<b>Investment activities</b>				
Purchase of fixed assets	-1 555	-1 079	-13 374	-22 827
<b>Cash flow from investment activities</b>	<b>-1 555</b>	<b>-1 079</b>	<b>-13 374</b>	<b>-22 827</b>
<b>Financial activities</b>				
Share-warrant premium	0	0	300	0
Change of loans	16 593	-250	15 593	-2 600
New issue	1 623	0	1 623	
<b>Cash flow from financial activities</b>	<b>18 216</b>	<b>-250</b>	<b>17 516</b>	<b>-2 600</b>
<b>CASH FLOW DURING THE PERIOD</b>	<b>-42 049</b>	<b>-42 566</b>	<b>-68 736</b>	<b>9 392</b>
<b>Cash and cash equivalent at the beginning of the period</b>	<b>55 644</b>	<b>81 725</b>	<b>81 725</b>	<b>72 472</b>
Exchange rate differences in cash and cash equivalent	-476	178	130	-139
<b>Cash and cash equivalent at the end of the period</b>	<b>13 119</b>	<b>39 337</b>	<b>13 119</b>	<b>81 725</b>
Unused bank overdraft facilities granted	63 150	60 000	63 150	60 000

**REPORTING BY GEOGRAPHIC SEGMENT**
**JAN-APR 2005/2006 COMPARED WITH JAN-DEC 2004**

SEK thousand	Sweden		Germany		Total	
	2005/06	2004	2005/06	2004	2005/06	2004
	Jan-Apr	Jan-Dec	Jan-Apr	Jan-Dec	Jan-Apr	Jan-Dec
Net sales	1 168 806	700 745	493 150	304 238	1 661 956	1 004 983
Operating income	17 836	34 078	-26 758	-12 519	-8 922	21 559
Operating margin, %	1.5	4.9	-5.4	-4.1	-0.5	2.1
Net financial income/expense	-1 779	-1 088	-108	38	-1 887	-1 050
Pre-tax profit	16 057	32 990	-26 866	-12 481	-10 809	20 509

**LAST FOUR MONTHS (JAN-APRIL)**

SEK thousand	Sweden		Germany		Total	
	2005	2004	2005	2004	2005	2004
	Jan-Apr	Jan-Apr	Jan-Apr	Jan-Apr	Jan-Apr	Jan-Apr
Net sales	273 372	241 361	106 604	114 089	379 976	355 450
Operating income	-5 299	-6 167	-11 885	-5 191	-17 184	-11 358
Operating margin, %	-1.9	-2.6	-11.1	-4.5	-4.5	-3.2
Net financial income/expense	-1 096	513	-65	7	-1 161	520
Pre-tax profit	-6 395	-5 654	-11 950	-5 184	-18 345	-10 838

## CONSOLIDATED KEY RATIOS

	Jan-Apr 4 months 2006	Jan-Apr 4 months 2005	Jan-Apr 16 months 2005/06	Jan-Apr 12 months 2004
Net sales, SEK thousand	379 976	355 450	1 661 956	1 004 983
Gross margin, %	16.9	18.8	19.3	21.5
Operating margin, %	-4.5	-3.2	-0.5	2.1
Profit margin, %	-4.8	-3.0	-0.7	2.0
Profit after financial items, SEK thousand	-18 345	-10 838	-10 809	20 509
Return on average equity %	-10.3	-6.0	-6.4	15.2
Return on average capital employed %	-10.6	-7.0	-6.1	15.1
Equity ratio, %	43.0	48.0	43.0	34.1
Debt/Equity ratio	0.3	-0.2	0.3	0.2
Interest coverage ratio	-52.1	-31.3	-7.4	15.0
Capital employed, SEK thousand	160 872	144 656	160 872	153 634
Investment in tangible assets, SEK thousand	1 555	1 079	13 374	4 698
Investments in intangible assets, SEK thousand	0	0	0	18 248
Equity per share, SEK	20.99	20.86	20.99	22.22
Liquid funds per share, SEK	2.17	6.54	2.17	13.59
Total outstanding options at the end of the period	87 000	82 000	87 000	82 000
Employees at the end of the period	190	158	190	170
Average number of employees	191	160	175	143

### Definitions

#### *Capital employed*

Total assets reduced for interest bearing debts and other provisions.

#### *Debt/Equity ratio*

Interest bearing debts and provisions in relation to equity.

#### *Equity per share*

Equity in relation to number of outstanding shares.

#### *Equity ratio*

Equity in relation to total assets.

#### *Gross margin*

Net sales minus cost of goods sold in relation to net sales.

#### *Interest coverage ratio*

Pre-tax profit plus financial costs in relation to financial costs.

#### *Liquid funds*

Cash and bank and investments in liquid funds with a maturity date below three months. Approved, unused bank overdraft facilities granted are not reported as liquid funds.

#### *Liquid funds per share*

Liquid funds in relation to number of outstanding shares.

#### *Operating margin*

Operating income in relation to net sales of the period.

#### *Profit margin*

Net profit after financial items in relation to the net sales of the period.

#### *Return on average equity*

The net income of the period in relation to average equity. Average equity is calculated as equity at the beginning of the period plus equity at the end of the period divided by two.

#### *Return on capital employed*

Pre-tax profit plus financial costs in relation to average capital employed. Average capital employed is calculated as capital employed in the beginning of the period plus capital employed at the end of the period divided by two.