

## **NetOnNet AB (publ)**

Corporate Identity Number: 556520-4137

### **Interim report, January – December 2005**

*Unless otherwise stated, the comparative figures in the interim report relate to corresponding period in 2004.*

## **NetOnNet's profit for the fourth quarter was SEK 6.6 million**

### **FOURTH QUARTER (October-December)**

- Sales amounted to SEK 448.9 (372.9) millions, an increase of 20.4 %.
- Net profit amounted to SEK 6.6 (13.8) millions.
- Earnings per share amounted to SEK 1.10 (2.29).

### **INTERIM PERIOD (January – December)**

- Sales amounted to SEK 1 282.0 (1 005.0) millions, an increase of 27.6 %.
- Net profit amounted to SEK 5.3 (18.9) millions.
- Earnings per share amounted to SEK 0.89 (3.14).

NetOnNet has an extended fiscal year 1.1.2005-30.4.2006.

*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 first twelve months amounted to SEK 1 282.0 (1 005.0) millions. Compared to the same period 2004, this is an increase by 27.6 %. Of the total sales increase 1.1 % refers to changes in exchanges rates, 19.7 % to increase in volumes and 6.8 % to price changes.

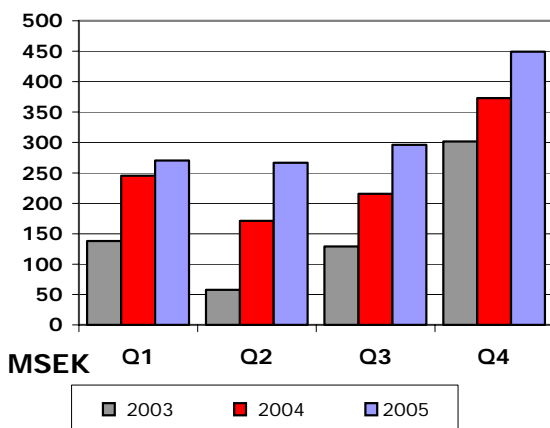
Net Sales Jan-Dec (SEK million)	2005	2004
Sweden	895.4	700.8
Germany	386.6	304.2
<b>Total</b>	<b>1 282.0</b>	<b>1 005.0</b>

Of the interim period net sales the fourth quarter, Oct-Dec, amounts to SEK 448.9 (372.9) millions, which is an increase by 20.4 %. Of the total sales increase 0.3 % refers to changes in exchanges rates, 11.4 % to increase in volumes and 8.7 % to price changes.

Net Sales Oct-Dec (SEK million)	2005	2004
Sweden	305.0	258.9
Germany	143.9	114.0
<b>Total</b>	<b>448.9</b>	<b>372.9</b>

Sales were higher within almost all product areas compared to previous year. Strongest increases were within TV, Data and Telecom. The sales have decreased within audio and video, where lower market values can be noticed for DVD-players and home cinema.

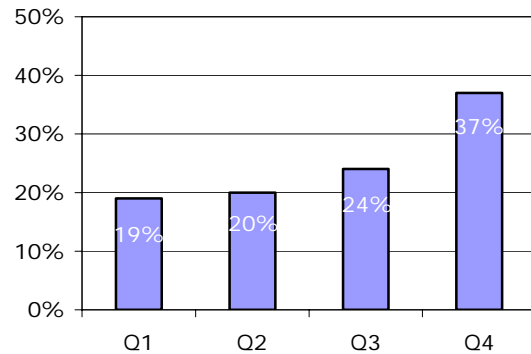
**Net Sales quarterly 2003 - 2005**



*Seasonal variations*

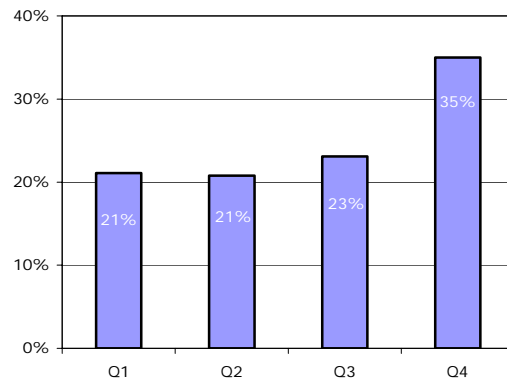
To simplify evaluation of the report, the diagram below illustrates the seasonal variations that influence the consumer electronics industry.

**Seasonal variations within the consumer electronics industry**



Source: CE Konsumentelektronikbranschen 2004

**Seasonal variations NetOnNet 2005**



**Operating income and gross margin**

Operating income for the interim period, January-December, amounted to SEK 8.3 (21.6) millions.

Operating income Jan - Sep (SEK million)	2005	2004
Sweden	23.1	34.1
Germany	-14.8	-12.5
<b>Total</b>	<b>8.3</b>	<b>21.6</b>

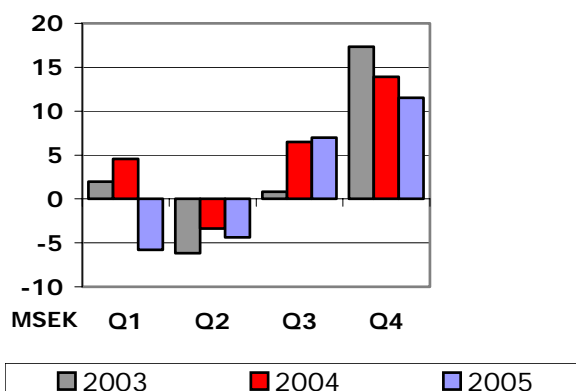
Gross margin amounted to 20.0 (21.5) % during the interim period.

Operating income for the fourth quarter, October-December amounted to SEK 11.5 (13.9) millions.

<u>Operating income Oct-Dec</u> (SEK million)	<u>2005</u>	<u>2004</u>
Sweden	16.5	17.0
Germany	-5.0	-3.1
<b>Total</b>	<b>11.5</b>	<b>13.9</b>

Gross margin totaled 20.0 (20.9) % during the fourth quarter.

#### Operating income quarterly 2003 - 2005



The lower operating income during the interim period 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 resulted in a lower gross margin. The largest cost increases are staff SEK 17.3 million, marketing SEK 10.2 million and the new ERP-system which have meant increased costs including depreciation with SEK 9.3 million.

The marketing costs amounted to 3.5 (3.4) % of the total sales. Concerning Sweden the ratio was 3.1 (3.1) % and for Germany 4.2 (4.0) %.

Staff costs amounted to 6.3 (6.4) % of net sales. In Sweden the ratio was 6.7 (6.9) % and in Germany 5.6 (4.3) %

#### Sweden

In Sweden the lower result during interim period is connected with forward aiming investments in the group's internal efficiency. The operating margin for the interim period was 2.6 (4.9) %.

#### Germany

The lower result in Germany during the interim period is due to efforts related to staff, marketing and IT. The opening of a warehouse shop in Nürnberg affects the result with SEK 3.9 million.

The operating margin for the interim period was -3.8 (-4.1) %.

#### Significant events during the interim period

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. Among others, the management has been strengthened during the first quarter with new logistics manager, new IT-manager and new CFO. In the beginning of the second quarter a manager for the warehouse concept was hired. In April a purchasing office was opened in China.

An agreement has been signed with 3G operator 3 regarding sales of mobile phones and subscriptions.

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 squaremetres, 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.

#### Staff

The total number of employees at the end of December was 203 (173) where of 144 (129) in Sweden and 59 (44) in Germany. The average number of employees for the twelve month period was 167 (143).

#### Financial position and liquidity

As per December 31st the net cash reserves amounted to SEK 55.6 (81.7) million equivalents to SEK 9.25 (13.59) per share. The equity ratio was 31.0 (34.1) %. Total equity amounted to SEK 138.2 (133.6) million, equivalent to SEK 22.96 (22.22) per share.

Cash flow from operations amounted to SEK -16.4 (34.8) million during the interim period. Cash flow after investments and financial operations amounted to SEK -26.7 (9.4) million.

The main reason for the negative cash flow is that the company's inventory has been increased during the period.

#### Capital expenditures

Total investments during the first twelve months amounted to SEK 9.6 (22.8) million. During the fourth quarter investments amounted to SEK -0.7 (11.3) million, as some investments has been carried as expense.

The main investments are connected with opening of the Warehouse shop in Nürnberg, expanding the Central Warehouse, Security and Surveillance and IT.

#### The parent company

The net sales of the parent company during the first twelve months amounted to SEK 1 282 (1 005) million and the income after financial items amounted to SEK 7.5 (20.5) million. Capital expenditures during the interim period amounted to SEK 9.6 (22.4) million.

#### **Development of the share**

The number of shareholders has decreased from 1 825 to 1 713 since December 31st 2004. This means a decrease by 6.1 %. The share price has during the same period decreased from SEK 94.00 to SEK 91.50, or by 2.7 %.

#### **Events after the close of the period**

No significant events to report.

#### **Market, Industry statistics**

##### *Sweden*

Published statistics from the start of the year:

During January – November 2005 the home electronics business is estimated to have decreased by 2.5 % compared to corresponding period previous year according to SCB/HUI. These statistics also include white goods that show very good growth in 2005.

The suppliers 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.

##### *E-commerce and distance shopping*

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

The Turnover in the German Internet shopping amounted to EUR 8 600 million, where the biggest player Ebay had a turnover of EUR 2 500 million. Excluding Ebay the Internet shopping increased in Germany with 24%.

Sources: SCB Statistics Sweden in cooperation with Handelsn Utredningsinstitut, The Swedish Mail Order Association, Statistische Bundesamt, BVH (Bundesverband des Deutschen Versandhandels) and NetOnNet AB

#### **Outlook for 2006**

During 2006 the focus will be to increase profitability through increased volumes and to improve the efficiency of the ongoing operations.

Furthermore NetOnNet plans to establish more warehouse-shops and to expand its distribution model to new countries.

E-commerce in general is estimated to grow and to continue to take shares from the traditional trade, though in a slightly decreased speed.

The company estimates, as reported before, that the German operation will show profit in the future, due to the volume potential on the German market.

### Accounting principles

From January 1<sup>st</sup>, 2005 NetOnNet uses in the consolidated accounts IFRS and this report is the fourth interim report where IFRS is used. Comparative figures for 2004 have been re-calculated in accordance with IFRS 1.

IAS 39 – Financial Instruments, accounting and valuation - is used from January 1<sup>st</sup> 2005. Accounting according to IAS 39 has not had any significant influence on result or position compared to previous used 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. The difference between IFRS and prior used accounting principles appears below.

Net profit (SEK thousand)	2004	2004
	1.10-31.12	1.1 - 31.12
Net profit according to Swedish accounting principles	13 757	18 874
Effects of transforming to IFRS	0	0
Net profit according to IFRS	13 757	18 874

Equity (SEK thousand)	2004	2004
	31.12	1.1
Equity according to Swedish accounting principles	133 667	114 558
Effects of transforming to IFRS	-47	0
Equity according to IFRS	133 620	114 558

Total assets (SEK thousand)	2004	2004
	31.12	1.1
Total assets according to Swedish accounting principles	392 295	254 891
Effects of transforming to IFRS	18	0
Total assets according to IFRS	392 313	254 891

### Review

The auditors have not reviewed the report.

### Future reports

NetOnNet publishes sales on a monthly basis and interim reports on a quarterly basis.

As the company has an extended financial year 1.1.2005 – 30.4.2006 no interim report for January-March 2006 will be published. Below the time-schedule for the company's reporting till the next Shareholders Annual General Meeting.

Interim Report January-December	26 Jan 2006
Year-End Report 2005/06	15 Jun 2006
Annual Report 2005/06	23 Aug 2006
Interim Report May-July 2006	7 Sep 2006

Sales Report Jan	7 Feb 2006
Sales Report Feb	7 Mar 2006
Sales Report Mar	5 Apr 2006
Sales Report Apr	4 May 2006
Sales Report May	8 June 2006
Sales Report June	5 July 2006
Sales Report July	3 Aug 2006
Sales Report Aug	6 Sep 2006

Annual General Meeting	7 Sep 2006
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### Borås, January 26<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) under headline Press/*Finansinfo*, *Rapporter och Delårsrapporter* and at [www.netonnet.de](http://www.netonnet.de)

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**INCOME STATEMENTS OF THE GROUP  
IN SUMMARY**

SEK thousand	Oct-Dec 2005	Oct-Dec 2004	Jan-Dec 2005	Jan-Dec 2004
Net Sales	448 939	372 893	1 281 980	1 004 983
Capitalized labour costs for own purpose	0	958	0	2 315
	<b>448 939</b>	<b>373 851</b>	<b>1 281 980</b>	<b>1 007 298</b>
<i>Operating expenses:</i>				
Cost of goods sold	-359 184	-294 848	-1 025 636	-789 025
Other external costs	-52 209	-42 830	-158 011	-127 888
Personnel costs	-23 415	-20 680	-81 129	-63 861
Depreciations	-2 612	-1 566	-8 942	-4 965
	-437 420	-359 924	-1 273 718	-985 739
<b>Operating profit</b>	<b>11 519</b>	<b>13 927</b>	<b>8 262</b>	<b>21 559</b>
Result from financial investments *	-2 320	-526	-726	-1 050
<b>Profit after financial items</b>	<b>9 199</b>	<b>13 401</b>	<b>7 536</b>	<b>20 509</b>
Tax on the income of the period	-2 572	356	-2 202	-1 635
<b>Net profit for the period</b>	<b>6 627</b>	<b>13 757</b>	<b>5 334</b>	<b>18 874</b>
Earnings per share, SEK	1.10	2.29	0.89	3.14
Earnings per share after dilution	1.10	2.27	0.88	3.12
Average number of shares before dilution	6 015 680	6 015 680	6 015 680	6 015 680
Average number of shares after dilution	6 035 762	6 052 071	6 034 459	6 052 602
Number of shares at the end of the period	6 015 680	6 015 680	6 015 680	6 015 680

\* According to IFRS rules opened but not used forward rate agreements are evaluated against avista rate at closing day:  
Effect 2005  
Oct-Dec SEK -1 967 thousand  
Jan-Dec SEK +234 thousand

## BALANCE SHEETS OF THE GROUP

### IN SUMMARY

SEK thousand	31 Dec 2005	31 Dec 2004
<b>Assets</b>		
<b>Fixed assets</b>		
Intangible assets	14 620	17 684
Tangible assets	37 805	31 864
Financial assets	9 814	12 032
<b>Total fixed assets</b>	<b>62 239</b>	<b>61 580</b>
<b>Current assets</b>		
Inventories etc.	268 913	179 112
Current receivables	59 207	69 896
Cash and bank balances	55 644	81 725
<b>Total current assets</b>	<b>383 764</b>	<b>330 733</b>
<b>Total assets</b>	<b>446 003</b>	<b>392 313</b>
<b>Equity and liabilities</b>		
<b>Equity</b>	<b>138 150</b>	<b>133 620</b>
<b>Provisions</b>	<b>5 412</b>	<b>3 360</b>
<b>Long-term liabilities</b>	<b>16 500</b>	<b>17 500</b>
<b>Current liabilities</b>	<b>285 941</b>	<b>237 833</b>
<b>Total equity and liabilities</b>	<b>446 003</b>	<b>392 313</b>

## CHANGE IN SHAREHOLDERS' EQUITY OF THE GROUP

### IN SUMMARY

SEK thousand	Jan-Dec 2005	Jan-Dec 2004
<b>Opening balance according to adopted balance sheet</b>	<b>133 620</b>	<b>114 558</b>
Share-warrant premium	300	0
Translation difference	- 1 104	235
Effects of re-calculation to IFRS	0	-47
Net profit for the period	5 334	18 874
<b>Closing balance</b>	<b>138 150</b>	<b>133 620</b>

## CASH FLOW OF GROUP IN SUMMARY

SEK thousand	Oct-Dec 2005	Oct-Dec 2004	Jan-Dec 2005	Jan-Dec 2004
<b>Operations activities</b>				
Cash flow from operation activities before changes in working capital	13 684	15 958	16 819	26 558
Changes in working capital	16 176	28 395	-33 206	8 262
<b>Cash flow from operations activities</b>	<b>29 860</b>	<b>44 353</b>	<b>-16 387</b>	<b>34 819</b>
<b>Investment activities</b>				
Purchase of fixed assets	713*	-7 317	-9 600	-22 827
<b>Cash flow from investment activities</b>	<b>713</b>	<b>-7 317</b>	<b>-9 600</b>	<b>-22 827</b>
<b>Financial activities</b>				
Share-warrant premium	0	0	300	0
Change of loans	-250	-650	-1 000	-2 600
<b>Cash flow from financial activities</b>	<b>-250</b>	<b>-650</b>	<b>-700</b>	<b>-2 600</b>
<b>CASH FLOW DURING THE PERIOD</b>	<b>30 323</b>	<b>36 386</b>	<b>-26 687</b>	<b>9 392</b>
Cash and cash equivalent at the beginning of the period	25 107	45 468	81 725	72 472
Exchange rate differences in cash and cash equivalent	214	-129	606	-139
<b>Cash and cash equivalent at the end of the period</b>	<b>55 644</b>	<b>81 725</b>	<b>55 644</b>	<b>81 725</b>

\* An investment booked in the third quarter, re-classified to costs 1 274.

## REPORTING BY GEOGRAPHIC SEGMENT

### Jan-Dec

SEK thousand	Sweden		Germany		Total	
	2005	2004	2005	2004	2005	2004
	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
Net sales	895 434	700 745	386 546	304 238	1 281 980	1 004 983
Operating income	23 135	34 078	-14 873	-12 519	8 262	21 559
Operating margin, %	2.6	4.9	-3.8	-4.1	0.6	2.1
Net financial income/expense	-684	-1 088	-42	38	-726	-1 050
Income after financial items	22 451	32 990	-14 915	-12 481	7 536	20 509

### FOURTH QUARTER, Oct-Dec

SEK thousand	Sweden		Germany		Total	
	2005	2004	2005	2004	2005	2004
	Oct-Dec	Oct-Dec	Oct-Dec	Oct-Dec	Oct-Dec	Oct-Dec
Net sales	305 042	258 908	143 897	113 985	448 939	372 893
Operating income	16 507	17 007	-4 988	-3 080	11 519	13 927
Operating margin, %	5.4	6.6	-3.5	-2.7	2.6	3.7
Net financial income/expense	-2 253	-541	-67	15	-2 320	-526
Income after financial items	14 254	16 466	-5 055	-3 065	9 199	13 401

## CONSOLIDATED KEY RATIOS

	Oct-Dec 2005	Oct-Dec 2004	Jan-Dec 2005	Jan-Dec 2004
Net sales, SEK thousand	448 939	372 893	1 281 980	1 004 983
Gross margin, %	20.0	20.9	20.0	21.5
Operating margin, %	2.6	3.7	0.6	2.1
Profit margin, %	2.0	3.6	0.6	2.0
Profit after financial items, SEK thousand	9 199	13 401	7 536	20 509
Return on average equity %	-	-	3.9	15.1
Return on average capital employed %	-	-	5.5	15.2
Equity ratio, %	31.0	34.1	31.0	34.1
Debt/Equity ratio	0.2	0.2	0.2	0.2
Interest coverage ratio	53.9	30.9	9.0	15.0
Capital employed, SEK thousand	155 650	153 640	155 650	153 640
Investment in tangible assets, SEK thousand	*-713	1 348	9 600	4 699
Investments in intangible assets, SEK thousand	0	5 968	0	18 248
Equity per share, SEK	22.96	22.22	22.96	22.22
Liquid funds per share, SEK	9.25	13.59	9.25	13.59
Total outstanding options at the end of the period	112 000	82 000	112 000	82 000
Employees at the end of the period	203	170	203	170
Average number of employees	188	143	167	143

\* An investment booked in the third quarter, re-classified to costs 1 274.

### 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*

Income after financial items 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 cheque accounts 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*

Income after financial items 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.