

## **NetOnNet AB (publ)**

Corporate Identity Number: 556520-4137

### **Interim report May-October 2006**

Unless otherwise stated, the comparative figures in the report relate to fiscal year 2005.  
NetOnNets fiscal year is 1 May – 30 April.

## **NetOnNet opens new Warehouse Shops in Malmö and Stockholm**

### **SECOND QUARTER (Aug-Oct)**

- Sales amounted to SEK 314.4 (307.4) millions, an increase of 2.3 %
- Pre tax profit amounted to SEK 16.3 (7.7) millions, including a capital gain from the sale of real estate of SEK 14.2 millions
- Net profit amounted to SEK 11.7 (5.4) millions
- Earnings per share amounted to SEK 1.93 (0.90)

### **INTERIM PERIOD (May-Oct)**

- Sales amounted to SEK 572.2 (576.6) millions, a decrease of 0.8 %
- Pre tax profit amounted to SEK 8.6 (10.7) millions
- Net profit amounted to SEK 6.5 (7.6) millions
- Earnings per share amounted to SEK 1.07 (1.27)

### **ACTIONS DURING THE SECOND QUARTER**

- Sale of real estate property Ullared for SEK 34.1 million resulting in a pre tax profit of SEK 14.2 million
- German branch office for Internet sales will be moved to Borås during autumn

### **EVENTS AFTER THE SECOND QUARTER**

- The new Warehouse Shop in Malmö of 4 800 m<sup>2</sup> was opened 3<sup>rd</sup> of November and the sales to date exceed expectations
- A new Warehouse Shop in Stockholm of 6 100 m<sup>2</sup> opens December 1st

*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 and in Norway since May 2006.*

## Strong development of NetOnNet's business model

After a period of building a new platform for expansion, the company is now ready to expand both with new assortments as well as distribution channels. During the interim period May-October new product categories have been launched and the assortment has expanded from 3 500 articles up to 8 000. Preparations have been made to secure strong expansion of new Warehouse Shops. Three new Warehouse Shops will be opened during November-February in Malmö, Stockholm and Göteborg. The average Net Sales for the NetOnNet Warehouse Shops in Borås and Ullared is approximately SEK 160 million per Shop.

### Net Sales

The net sales during the second quarter amounted to SEK 314.4 (307.4) millions. Compared with same period previous year this is a sales increase of 2.3%. Of the total sales increase -9.9 % refers to change in volumes, +12.5 % refers to price changes and -0.3 % refers to changes in exchanges rates.

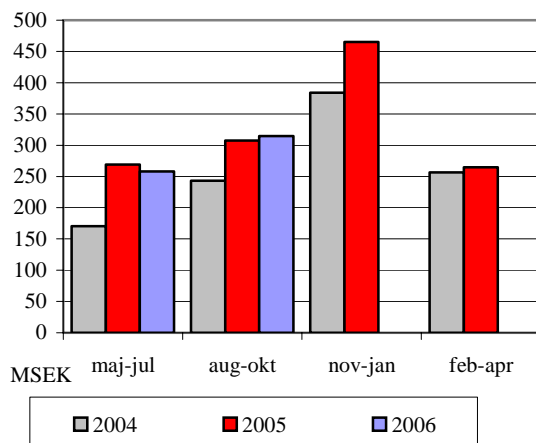
Compared to the same period last year NetOnNet has had an increased sales within TV. The demand on flat TV is continuously high, which also is the explanation to why the average price for the whole range has increased during the interim period.

Net Sales Aug-Oct (SEK million)	2006	2005
Sweden	249.9	223.4
Germany	55.5	84.0
Norway	9.0	-
<b>Total</b>	<b>314.4</b>	<b>307.4</b>

The net sales during the interim period May-October amounted to SEK 572.2 (576.6) millions. Compared with same period previous year this is a sales decrease of 0.8%. Of the total sales decrease -14.2 % refers to change in volumes, +13.6 % refers to price changes and -0.2 % refers to changes in exchanges rates.

Net Sales May-Oct (SEK million)	2006	2005
Sweden	439.5	418.8
Germany	119.6	157.8
Norway	13.1	-
<b>Total</b>	<b>572.2</b>	<b>576.6</b>

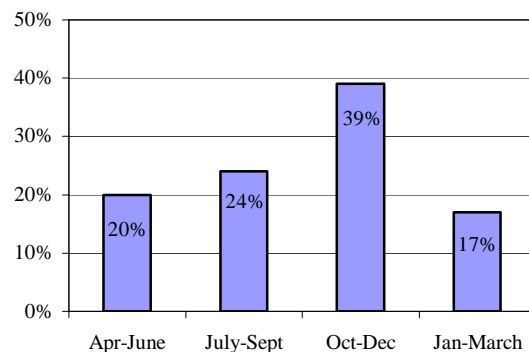
### Net Sales quarterly 2004 – 2006\*



### Seasonal variations

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

Seasonal variations within the consumer electronics industry\*



\*The industry only reports calendar quarters.  
Source: CE Konsumentelektronikbranschen 2005

### Operating income and gross margin

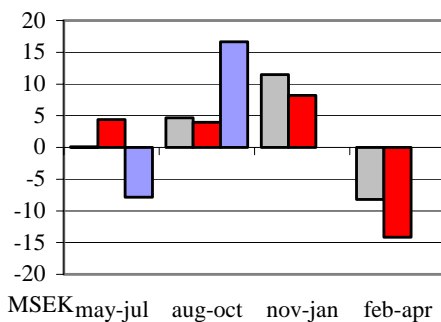
Operating income for the second quarter Aug-Oct, amounted to SEK 16.6 (4.0) millions.

Operating income (SEK million)	2006	2005
Sweden	23.9	8.1
Germany	-6.8	-4.1
Norway	-0.5	-
<b>Total</b>	<b>16.6</b>	<b>4.0</b>

Gross margin amounted to 22.5 (20.9) % during the second quarter. Quarter gross margin has increased as a result of several actions taken in order to improve margins.

\*Due to the new fiscal year (May-April), the fiscal quarters have been changed from calendar quarters. Q1 is May-July, Q2 is Aug-Oct, Q3 is Nov-Jan and Q4 is Feb-Apr.

### Operating income quarterly 2004 – 2006\*



MSEK<sub>may-jul aug-oct nov-jan feb-apr</sub>



\*Due to the new fiscal year (May-April), the fiscal quarters have been changed from calendar quarters.

Q1 is May-July, Q2 is Aug-Oct, Q3 is Nov-Jan and Q4 is Feb-Apr.

Q2 2006 includes sales of real estate

The operating result during the second quarter is affected by the sale of real estate property in Ullared, but also due to better gross margin. The higher gross margin is due to change in assortment mix towards higher margins, and also better purchasing processes. The comparable costs of the operations are in level with previous year and the increased costs are mainly due to expansion of new distribution channels.

The marketing costs amounted to 4.1 (3.2) % of the total sales. Concerning Sweden the ratio was 3.7 (2.8) %, for Germany 4.1 (3.9) % and for Norway 20.6 (0) %.

Staff costs amounted to 8.0 (7.0) % of net sales. In Sweden the ratio was 7.1 (7.1) %, in Germany 12.1 (6.9) % and in Norway 6.7 %.

#### Sweden

The result during the second quarter is affected by the sale of the real estate property in Ullared with a capital gain of SEK 14.2 millions as well as to a stronger margin. At the same time future expansions in new Warehouse Shops reduces the result in Sweden with SEK 2.8 million. Also the work to prepare a new business area Finance & Insurances results costs for Sweden.

The operating margin for the second quarter was 9.6 (3.6) %.

#### Germany

In Germany the lower result during the interim period is connected to lower sales and costs of moving the Internet Branch Office to Sweden which amounts to SEK 1.5 million.

The operating margin for the interim period was -12.2 (-4.9) %.

#### Norway

The sales in Norway have started according to expectations. The largest cost is marketing. The operating margin for the interim period was -5.9 %.

### Significant events during the interim period

The Branch Office for Internet shop in Germany moved to Sweden during September. The business model is to operate all Internet sales, independent of country, from the head quarter in Borås. This model gives synergies and reduces costs. In September the company sold out its Real Estate property in Ullared for SEK 34 million. The sales resulted in a profit of SEK 14.2 million. During the second quarter the new assortment for household appliances has developed well, which together with increased sales of accessories has resulted in a better margin.

### Staff

The total number of employees at the end of October was 200 (175) where of 160 (121) in Sweden, 30 (54) in Germany, 4 (0) in Norway and 6 (0) in China. The average number of employees for the second quarter was 199 (170).

### Financial position and liquidity

As per October 31, 2006 the net cash reserves amounted to SEK 42.5 (25.4) million equivalents to SEK 7.00 (4.20) per share. The unused bank overdraft facilities granted amounted to SEK 65.8 (31.0) million. The equity ratio was 31.7 (34.7) %. Total equity amounted to SEK 134.1 (129.6) million, equivalent to SEK 22.19 (21.54) per share.

Cash flow from operations amounted to SEK -3.3 (-38.9) million during the second quarter. Cash flow after investments and financial operations amounted to SEK 5.6 (-19.4) million. The main reason to the positive cash flow is the sale of the real estate property in Ullared.

### Stock

The stock amounted to SEK 278.7 (232.5) million. During the interim period the stock has grown mainly due to the opening of a new Warehouse Shop in Malmö as well as the upcoming high season.

### Capital expenditures

Total investments during the second quarter amounted to SEK 11.3 (9.5) million. The investments are mainly connected to the new Warehouse Shops.

### The parent company

The net sales of the parent company during the interim period amounted to SEK 314.3 (307.4) million and the income after financial items amounted to SEK 2.2 (7.4) million. Capital expenditures during the second quarter amounted to SEK 11.3 (9.5) million. The liquidity was SEK 25.8 (25.3) million, equity amounted to SEK 119.9 (129.5) million and long term debts amounted to SEK 0 (0) million.

### Development of the share

The number of shareholders has decreased from 1 473 to 1 396 since April 30 2006. This means a decrease by 5.2 %. The share price has during the same period increased from SEK 69.00 to SEK 66.50, or by 3.6 %.

### Events after the close of the period

The company opened a new Warehouse Shop of 4 800 m<sup>2</sup> in Malmö on the 3<sup>rd</sup> of November. The sales in Malmö during the opening month has exceeded expectations. Also the opening date for a new Warehouse Shop of 6 100 m<sup>2</sup> in Stockholm has been set to December 1.

### Market, Industry statistics

#### Sweden

Published statistics

HUI/SEB reports that home electronics business in Sweden has increased by 8.2 % in August and 5.9 % in September compared to the corresponding period previous year. The statistics also includes White goods.

GfK that covers ca 80 % of the total market reports that CE industry in Sweden has increased with 10.8 % in sales value in August and up to 22.6 % in September compared with same period previous year. This statistics excludes white-goods.

#### E-commerce and distance selling

For January-June 2006 the distance selling in Sweden has decreased by 0.8 % compared to 2005. The earlier signs that E-commerce takes market-shares from the traditional distance selling continues in 2006 with an increase of 37 % compared to corresponding period previous year. E-commerce now represents 58 % of total sales according to Swedish distance selling (former Swedish Mail Order Association).

No actual statistics for Germany and Norway was found at the reporting time.

Sources: SCB Statistics Sweden in cooperation with Handelsns Utredningsinstitut, Swedish distance selling (former The Swedish Mail Order Association), and NetOnNet AB

### Focus areas for 2006/2007

As communicated before the company will during the fiscal year expand its business along three dimensions:

- Develop the assortment within the current product areas with focus on improvement of the gross margin.
- 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. The accounting principles are the same compared with previous year.

### Review

The auditors have not reviewed the report.

### Future Reports

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

Interim Report May-Jan 2006/07 5 March 2007  
Interim Report May-April 2006/07 14 June 2007

### Borås, November 30<sup>th</sup> 2006

NetOnNet AB (publ)  
*The Board of Directors*

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The report is available on [www.netonnet.se](http://www.netonnet.se) under headline *Press/Finansinfo* and at [www.netonnet.de](http://www.netonnet.de)

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**INCOME STATEMENTS OF THE GROUP**  
IN SUMMARY

SEK thousand	August-October 2006	August-October 2005	May-October 2006	May-October 2005
<b>Net Sales</b>	<b>314 381</b>	<b>307 433</b>	<b>572 240</b>	<b>576 600</b>
Other revenues*1	14 203	0	14 203	0
<i>Operating expenses:</i>				
Cost of goods sold	-243 802	-243 066	-453 388	-456 313
Other external costs	-40 416	-36 496	-72 256	-67 562
Personnel costs	-25 024	-21 597	-46 731	-39 870
Depreciations	-2 702	-2 321	-5 269	-4 483
	-311 944	-303 480	-577 644	-568 228
<b>Operating profit</b>	<b>16 640</b>	<b>3 953</b>	<b>8 799</b>	<b>8 372</b>
Result from financial investments *2	-329	3 699	-159	2 300
<b>Pre-tax profit *1</b>	<b>16 311</b>	<b>7 652</b>	<b>8 640</b>	<b>10 672</b>
Tax	-4 635	-2 209	-2 159	-3 049
<b>Net profit for the period</b>	<b>11 676</b>	<b>5 443</b>	<b>6 481</b>	<b>7 623</b>
Amount connected with parent company shareholders	11 676	5 443	6 481	7 623
Earnings per share, SEK	1,93	0,90	1,07	1,27
Earnings per share after dilution	1,93	0,90	1,07	1,26
Average number of shares before dilution	6 040 680	6 015 680	6 040 680	6 015 680
Average number of shares after dilution	6 040 680	6 036 612	6 040 680	6 033 996
Number of shares at the end of the period	6 040 680	6 015 680	6 040 680	6 015 680

\*1 Other revenues are directly connected to sale of real estate property with a profit amounting to SEK 14.2 million.

\*2 According to IFRS rules all forward rate agreements are booked via P/L to market value from 1 Jan 2005

Effect Aug-Oct 2006: SEK 7 thousand, Aug-Oct 2005: SEK 3 694 thousand, May-Oct 2006: SEK 509 thousand, May-Oct 2005: SEK 2 700 thousand.

## BALANCE SHEETS OF THE GROUP

### IN SUMMARY

SEK thousand	31 Oct 2006	31 Oct 2005	30 April 2006
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	13 105	15 115	13 064
Tangible assets	26 351	38 830	37 680
Financial assets	12 386	9 354	14 512
<b>Total fixed assets</b>	<b>51 842</b>	<b>63 299</b>	<b>65 256</b>
<b>Current assets</b>			
Inventories etc.	278 725	232 537	187 504
Current receivables	49 663	52 192	28 947
Cash and bank balances	42 515	25 357	13 119
<b>Total current assets</b>	<b>370 903</b>	<b>310 086</b>	<b>229 570</b>
<b>Total assets</b>	<b>422 745</b>	<b>373 385</b>	<b>294 826</b>
<b>Equity and liabilities</b>			
<b>Equity</b>	<b>134 066</b>	<b>129 590</b>	<b>126 779</b>
Rent bearing long-term liabilities	0	16 750	16 250
Long-term liabilities, not rent bearing	7 588	2 266	5 648
Rent bearing, short-term liabilities	34 051	30 090	17 843
Short term liabilities, not rent bearing	247 040	194 689	128 306
<b>Total equity and liabilities</b>	<b>422 745</b>	<b>373 385</b>	<b>294 826</b>

## CHANGE IN SHAREHOLDERS EQUITY OF THE GROUP

### IN SUMMARY

SEK thousand	May-Oct 2006	May-Oct 2005	Jan-April 2005/2006
<b>Opening balance according to adopted balance sheet</b>	<b>126 779</b>	<b>125 489</b>	<b>133 667</b>
Effects of re-calculation to IAS 39	0	0	-47
Share-warrant premium	85	300	300
Re-buying of issued share-warrant	-73	0	0
New issue	0	0	1 623
Translation difference	794	-3 822	-465
Net profit for the period	6 481	7 623	-8 299
<b>Closing balance</b>	<b>134 066</b>	<b>129 590</b>	<b>126 779</b>

## CASH FLOW OF GROUP

### IN SUMMARY

SEK thousand	Aug-Oct 2006	Aug-Oct 2005	May-Oct 2006	May-Oct 2005
<b>Operations activities</b>				
Cash flow from operation activities before changes in working capital	4 932	10 869	1 904	15 118
Changes in working capital	-8 239	-49 755	6 333	-47 647
<b>Cash flow from operations activities</b>	<b>-3 307</b>	<b>-38 886</b>	<b>8 237</b>	<b>-32 529</b>
<b>Investment activities</b>				
Purchase of fixed assets	-11 331	-9 511	-13 889	-10 535
Sales of fixed assets	34 112	0	34 112	0
<b>Cash flow from investment activities</b>	<b>22 781</b>	<b>-9 511</b>	<b>20 223</b>	<b>-10 535</b>
<b>Financial activities</b>				
Amortization	-16 000	-250	-16 250	-500
Change in bank overdraft facilities granted	2 081	28 956	17 208	28 956
Share-warrant premium	85	300	85	300
Re-buying of issued share-warrant	0	0	-73	0
<b>Cash flow from financial activities</b>	<b>-13 834</b>	<b>29 006</b>	<b>970</b>	<b>28 756</b>
<b>CASH FLOW DURING THE PERIOD</b>	<b>5 640</b>	<b>-19 391</b>	<b>29 430</b>	<b>-14 308</b>
Cash and cash equivalent at the beginning of the period	36 875	44 572	13 119	39 337
Exchange rate differences in cash and cash equivalent	0	176	-34	328
Cash and cash equivalent at the end of the period	42 515	25 357	42 515	25 357
Unused bank overdraft facilities granted	65 781	31 044	65 781	31 044

## REPORTING BY GEOGRAPHIC SEGMENT

### SECOND QUARTER, AUG-OCT

SEK thousand	Sweden		Germany		Norway		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	Aug-Oct	Aug-Oct	Aug-Oct	Aug-Oct	Aug-Oct	Aug-Oct	Aug-Oct	Aug-Oct
Net sales	249 955	223 410	55 501	84 023	8 925		314 381	307 433
Operating income	23 911	8 086	-6 747	-4 133	-524		16 640	3 953
Operating margin, %	9,6	3,6	-12,2	-4,9	-5,9		5,3	1,3
Net financial income/expense	-268	3 704	-55	-5	-6		-329	3 699
Pre-tax profit	23 643	11 790	-6 802	-4 138	-530		16 311	7 652

### INTERIM PERIOD, MAY-OCT

SEK thousand	Sweden		Germany		Norway		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	May-Oct	May-Oct	May-Oct	May-Oct	May-Oct	May-Oct	May-Oct	May-Oct
Net sales	439 497	418 785	119 592	157 815	13 151		572 240	576 600
Operating income	24 529	15 262	-13 525	-6 890	-2 205		8 799	8 372
Operating margin, %	5,6	3,6	-11,3	-4,4	-16,8		1,5	1,5
Net financial income/expense	-110	2 296	-44	4	-5		-159	2 300
Pre-tax profit	24 419	17 558	-13 569	-6 886	-2 210		8 640	10 672

## CONSOLIDATED KEY RATIOS

	August-October 2006	August-October 2005	May-October 2006	May-October 2005
Net sales, SEK thousand	314 381	307 433	572 240	576 600
Gross margin, %	22,5	20,9	20,8	20,9
Operating margin, %	5,3	1,3	1,5	1,5
Profit margin, %	5,2	2,5	1,5	1,9
Profit after financial items, SEK thousand	16 311	7 652	8 640	10 672
Return on average capital employed %	9,8	4,6	5,5	6,4
Return on average equity %	9,1	4,2	5,0	6,0
Equity ratio, %	31,7	34,7	31,7	34,7
Debt/Equity ratio	0,3	0,4	0,3	0,4
Interest coverage ratio	66,8	26,6	20,7	19,7
Capital employed, SEK thousand	168 117	176 430	168 117	176 430
Investment in tangible assets, SEK thousand	10 121	9 511	12 679	10 535
Investments in intangible assets, SEK thousand	1 210	0	1 210	0
Equity per share, SEK	22,19	21,54	22,19	21,54
Liquid funds per share, SEK	7,04	4,22	7,04	4,22
Total outstanding options at the end of the period	40 000	112 000	40 000	112 000
Employees at the end of the period	200	175	200	175
Average number of employees	199	170	200	167

### 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.