

NetOnNet AB (publ)

556520-4137

Interim report, January – June 2005

Unless otherwise stated, the comparative figures in the interim report relate to corresponding period in 2004. This interim report is made according to International Financial Reporting Standards, IFRS.

NetOnNet shows strong growth in the 2nd quarter

SECOND QUARTER (April – June)

- Sales amounted to SEK 266.5 (171.3) millions, an increase of 55.6 %.
- Net income amounted to SEK –3.6 (-2.6) millions.
- Earnings per share amounted to SEK -0.60 (-0.43).

HALF-YEAR (Jan – June)

- Sales amounted to SEK 536,9 (416,5) millions, an increase of 28.9 %.
- Net income amounted to SEK – 7.5 (0,5) millions.
- Earnings per share amounted to SEK – 1.25 (0,09).

ROLLING 12 MONTHS (July – June)

- Sales for rolling 12 months amounted to SEK 1 125.5 (848.9) millions, an increase of 32.6%
- Net income for rolling 12 months amounted to SEK 10.8 (13.1) millions.
- Earnings per share amounted to SEK 1.80 (2.18).

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 six months amounted to SEK 536.9 (416.5) millions. Compared to the same period 2004, this is an increase by 28.9 %. Of the total sales increase 0 % refers to changes in exchange rates, 27% to increase in volumes and to price changes by 1.9 %.

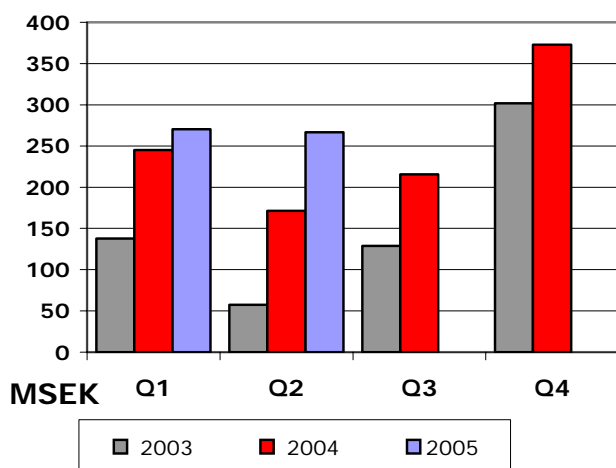
Net Sales Jan-June	2005	2004
(SEK million)		
Sweden	373.2	276.6
Germany	163.7	139.9
Total	536.9	416.5

Of the half-year's net sales the second quarter, April-June, amounts to SEK 266.5 (171.3) millions, which is an increase by 55.6 %. Of the total sales increase all refers to increase in volumes.

Net Sales April-June	2005	2004
(SEK million)		
Sweden	188.7	119.5
Germany	77.8	51.8
Total	266.5	171.3

Sales were higher within all product areas compared to previous year. Strongest increases were within Telecom and TV.

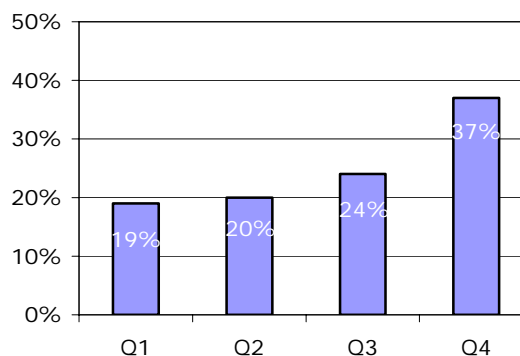
Net Sales quarterly 2003 - 2004



Seasonal variations

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

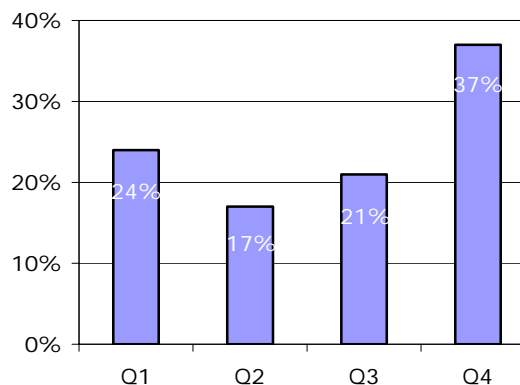
Seasonal variations within the consumer electronics industry



Source: CE Konsumentelektronikbransch

NetOnNet's seasonal variation has been the following

Seasonal variation NetOnNet 2004



Operating income and gross margin

Operating income for the half-year, January-June, amounted to SEK - 10.3 (1.1) millions.

Operating income Jan - Jun	2005	2004
(SEK million)		
Sweden	-3.4	7.1
Germany	-6.9	-6.0
Total	-10.3	1.1

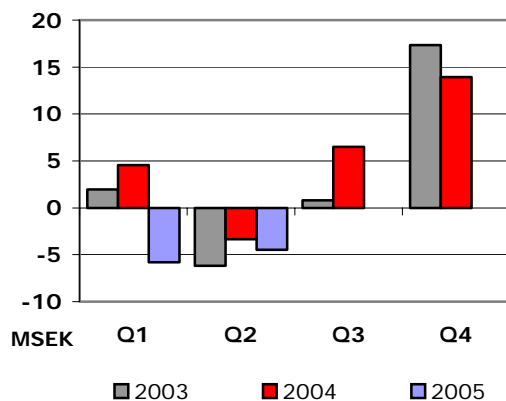
Gross margin amounted to 19.2 (21.3) % during the half-year.

Operating income for the second quarter, April-June, amounted to SEK -4.5 (-3.4) millions.

Operating income Apr - Jun (SEK million)	2005	2004
Sweden	-0.8	0.0
Germany	-3.7	-3.4
Total	-4.5	-3.4

Gross margin totaled 18.9 (21.0) % during the second quarter.

Operating income quarterly 2003 - 2005



The lower operating income during the half year period is mainly due to increased costs that have been taken on purpose to build up the company for long-term growth and due to lower gross margin. The largest cost increases are staff SEK 9.9 million, marketing SEK 5.6 million and the new ERP-system which have meant increased costs including depreciation with SEK 4.1 million.

The marketing costs amounted to 3.7 (3.4) % of the total sales. Concerning Sweden the ratio was 3.1 (2.1) % and for Germany 4.9 (4.6) %.

Staff costs amounted to 7.1 (6.9) % of net sales. In Sweden the ratio was 7.7 (7.5)% and in Germany 5.8 (5.5) %

Sweden

In Sweden the lower result during first half-year is connected with efforts to strengthen up the whole company's internal efficiency. In Sweden the gross margin has also been charged with customs duty of SEK 0.6 million relating to previous years. The operating margin for the half year period was -0.9 (2.6)%.

Germany

The lower result in Germany during the first half-year goes hand in hand with the company i.e. efforts round staff, marketing and IT. The operating margin for the half year period was -4.2 (-4.3)%.

Rolling twelve months

The following table shows the development of operating profit the last twelve months.

Rolling twelve months(SEK million)	June 2005	June 2004
Net sales	1 125,5	848,9
Operating expenses	- 1 115,4	-829,6
Operating profit	10,1	19,3

Significant events during the half year period

During the whole period focus has laid on strengthening the organization and to improve internal processes to enable future business development and long-term growth. Among others the management has been added 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 buying office was opened in China.

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

During this interim period two warehouse shop contracts have been signed. In Nürnberg a warehouse shop will be opened during September 2005. The opening of a Warehouse shop in Gothenburg is estimated to spring 2006 instead of winter 2005/2006 that has been announced before.

Before to the Shareholders Annual General meeting, that was held 27th of April, the board member Risto Silander declined re-election. As a new board member Jean-Francois Baril was elected. He has a long and solid background in product development and purchase. Jean-Francois Baril is Senior Vice President – sourcing and procurement at Nokia. Before he has had equivalent positions at Compaq and Hewlett Packard. Board member Jan Friedman declined re-election as a Chairman of the Board. As new Chairman of the Board Ebbe Pelle Jacobsen was elected.

The Annual General meeting decided for a new Articles of association, where §11 would be changed as follows: "The company's financial year shall be 1st of May to 30th of April". When the tax authorities has now accepted this change a new financial year will start at 1.5.2006. This means that current financial year will be 16 months.

The Annual General meeting also decided to issue a Stock Option programme with separable warrants as subscription for new shares in the company until the next Annual General meeting. The Stock Option programme, that was given for the Board to execute, shall be directed towards employees in the company, which means an exception to shareholders preferential rights. The Board owns the right to give out warrants as subscription for new shares among employees as the Board finds appropriate.

The warrants connected to the Stock options, with a nominal value of SEK 7 500, shall totally give a right to subscribe maximum 150 000 new shares in the company, each share with a nominal value of SEK 0.10. The dilution at full utilization for this proposed Stock option

programme will be 2.4%. The total dilution including the Stock Option programme from year 2003 will be 3.7%. The Stock option program shall be issued with market-value and the strike-price shall be determined according to generally accepted methods like Black&Scholes-method or equal. The period of application concerning subscription for new shares in the company using these warrants shall be during 1st of January 2009 to 30th of June 2009.

Staff

The total number of employees at the end of June was 156 (131) where of 119 (100) in Sweden and 37 (31) in Germany. The average number of employees for the last rolling 12 month period was 158 (128).

Financial position and liquidity

As per June 30th the net cash reserves amounted to SEK 44,1 (42,2) million equivalent to SEK 7.33 (7.02) per share. The equity ratio was 48.1 (52.5) %. Total equity amounted to SEK 125,1 (115,1) million, equivalent to SEK 20.79 (19.13) per share.

Cash flow from operations amounted to SEK -33,1 (-22,3) million during the half year period. Cash flow after investments and financial operations amounted to SEK - 38,2 (-30,3) million.

The main reason for the negative cash flow is that the company's current liabilities have been reduced during the period.

Capital expenditures

Total investments during the first six months amounted to SEK 4,6 (6,6) million. The main investments are connected with IT.

The parent company

The net sales of the parent company during the first six months amounts to SEK 536,9 (416,5) million and the income after financial items amounted to SEK -10,1 (0,7) million. Capital expenditures during the financial year amounted to SEK 4,6 (6,6) million.

Development of the share

The number of shareholders was 1 910 at 30th of June 2005. The share price has during this half year period decreased from SEK 94.00 to SEK 77.00, or by 18%.

Events after the close of the period

No events to report.

Market, Industry statistics

Sweden

Published statistics from the start of the year:

During January – June 2005 the home electronics business (including white goods) is estimated to have decreased by 3.5 % compared to corresponding period previous year according to SCB/HUI.

The suppliers reported sales value to retailers (excluding digital cameras) of -10% for the first quarter and +4% for the second quarter compared to corresponding period previous year according to Branschkansliets Marknadsinformation AB.

Germany

Estimates made by representatives for suppliers to the business indicate the German market to be continuously weak with decreased sales for both the first and the second quarter. The main reason for the decrease is believed to be the weak economic development in Germany.

The industry earlier forecasts

For 2005 Branschkansliets Marknadsinformation AB believed that the Swedish market should increase by 8% during 2005. There are so far no revise made of these forecasts.

E-commerce and distance shopping

For the period January-June 2005 the distance shopping in Sweden has decreased with 0.3% compared to 2004. E-commerce which represents 40% of the total distance shopping sales increased with 30% during the same period according to The Swedish Mail Order Association.

Sources: SCB Statistics Sweden in cooperation with Handels Utredningsinstitut, SPF Swedish Mail Order Association and Branschkansliets Marknadsinformation and NetOnNet AB

Outlook for 2005

During 2005 operations will be focusing on keeping present market position on the Internet, at the same time as a number of actions will be taken to increase growth during coming years. This means for instance that NetOnNet plans to strengthen the distribution model with additional Warehouse Shops both in Sweden and in Germany.

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 1st NetOnNet uses in the consolidated accounts IFRS and this report is the second 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 1st 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	
	1.4 - 30.6	1.1 - 30.6	1.1 - 31.12	
Net profit according to Swedish accounting principles	-2 563	546	18 874	
Effects of transforming to IFRS	0	0	0	
Net profit according to IFRS	-2 563	546	18 874	

Equity (SEK thousand)	2 004		2 004	
	31.12	30.6	1.1	
Equity according to Swedish accounting principles	133 667	115 102	114 558	
Effects of transforming to IFRS	-47	0	0	
Equity according to IFRS	133 620	115 102	114 558	

Total assets (SEK thousand)	2 004		2 004	
	31.12	30.6	1.1	
Total assets according to Swedish accounting principles	392 295	219 382	254 891	
Effects of transforming to IFRS	18	0	0	
Total assets according to IFRS	392 313	219 382	254 891	

Review

The auditors of the company have not reviewed this report.

Future reports

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

Sales report Aug	September, 6	2005
Sales report Sep	October, 5	2005
Interim report Jan-Sep	October, 26	2005*
Sales report Oct	November, 3	2005
Sales report Nov	December, 6	2005
* earlier said 27.10.2005		

Borås, August 25th 2005

NetOnNet AB (publ)
The Board

For further information about this report

Anders Halvarsson, CEO,
tfn + 46 70 548 5556

The report is available on www.netonnet.se
Under headline *Press/Finansinfo, Rapportier och Delårsrapporter*
and at www.netonnet.de

NetOnNet AB (publ)
Box 1716
501 17 BORÅS
Telephone: +46 (0) 33 488 400
Telefax: +46 (0) 33 488 420
www.netonnet.se
e-mail: ir@netonnet.com

**INCOME STATEMENTS OF THE GROUP
IN SUMMARY**

SEK thousand	Apr-Jun 2005	Apr-Jun 2004	Jan-Jun 2005	Jan-Jun 2004	Rolling 12 months June 2005	Jan-Dec 2004
Net Sales	266 494	171 282	536 926	416 457	1 125 452	1 004 983
Capitalized labour costs for own purpose		471		471	1 844	2 315
	266 494	171 753	536 926	416 928	1 127 296	1 007 298
<i>Operating expenses:</i>						
Cost of goods sold	-216 110	-135 321	-433 587	-327 934	-894 678	-789 025
Other external costs	-33 286	-24 455	-71 216	-56 808	-142 296	-127 888
Personnel costs	-19 467	-14 246	-38 227	-28 840	-73 248	-63 861
Depreciations	-2 112	-1 165	-4 180	-2 210	-6 935	-4 965
	-270 975	-175 187	-547 210	-415 792	-1 117 157	-985 739
Operating profit	-4 481	-3 434	-10 284	1 136	10 139	21 559
Result from financial investments	-505	-126	31	-378	-641	-1 050
Profit after financial items	-4 986	-3 560	-10 253	758	9 498	20 509
Tax on the income of the period	1 396	997	*2 752	-212	1 328	-1 635
Net profit for the period	-3 590	-2 563	-7 501	546	10 826	18 874
Earnings per share, SEK	-0,60	-0,43	-1,25	0,09	1,80	3,14
Earnings per share after dilution	-0,60	-0,42	-1,24	0,09	1,79	3,12
Average number of shares before dilution	6 015 680	6 015 680	6 015 680	6 015 680	6 015 680	6 015 680
Average number of shares after dilution	6 031 294	6 058 743	6 036 384	6 052 296	6 044 119	6 050 348
Number of shares at the end of the period	6 015 680	6 015 680	6 015 680	6 015 680	6 015 680	6 015 680

* Including a tax correction connected with first quarter, where no tax was reported.

BALANCE SHEETS OF THE GROUP
IN SUMMARY

SEK thousand	30 June 2005	30 June 2004	31 Dec 2004
Assets			
Fixed assets			
Intangible assets	15 748	4 674	17 684
Tangible assets	31 437	31 320	31 864
Financial assets	14 816	13 594	12 032
Total fixed assets	62 001	49 588	61 580
Current assets			
Inventories etc.	120 718	102 477	179 112
Current receivables	32 941	25 113	69 896
Short term placements	0	14 585	0
Cash and bank balances	44 107	27 619	81 725
Total current assets	197 766	169 794	330 733
Total assets	259 767	219 382	392 313
Equity and liabilities			
Equity	125 054	115 102	133 620
Provisions	2 201	4 470	3 360
Long-term liabilities	17 000	18 667	17 500
Current liabilities	115 512	81 143	237 833
Total equity and liabilities	259 767	219 382	392 313

CHANGE IN SHAREHOLDERS' EQUITY OF THE GROUP
IN SUMMARY

SEK thousand	Jan-June 2005	Jan-June 2004	Jan-Dec 2004
Opening balance according to adopted balance sheet	133 620	114 558	114 558
New share issue	0	0	0
Exchange-rate differences	-1 065	-2	235
Effects of re-calculation to IFRS	0	0	-47
Net profit for the period	-7 501	546	18 874
Closing balance	125 054	115 102	133 620

CASH FLOW OF GROUP IN SUMMARY

SEK thousand	Apr-Jun 2005	Apr-Jun 2004	Jan-Jun 2005	Jan-Jun 2004	Jan-Dec 2004
Operations activities					
Cash flow from operations activities before changes in working capital	-4 503	-1 407	-8 839	4 782	26 558
Changes in working capital	888	-12 794	-24 220	-27 095	8 262
Cash flow from operations activities	-3 615	-14 201	-33 059	-22 313	34 819
Investment activities					
Purchase of fixed assets	-4 117	-4 922	-4 601	-6 649	-22 827
Cash flow from investment activities	-4 117	-4 922	-4 601	-6 649	-22 827
Financial activities					
New share issue	0	0	0	0	0
Change of loans	-250	-900	-500	-1300	-2 600
Cash flow from financial activities	-250	-900	-500	-1 300	-2 600
CASH FLOW DURING THE PERIOD	-7982	-20 023	-38 160	-30 262	9 392
Cash and cash equivalent at the beginning of the period	51 709	62 462	81 725	72 472	72 472
Exchange rate differences in cash and cash equivalent	380	-234	542	-5	-139
Cash and cash equivalent at the end of the period	44 107	42 205	44 107	42 205	81 725

REPORTING BY GEOGRAPHIC SEGMENT

HALF-YEAR

SEK thousand

	Sweden			Germany			Total		
	2005	2004	2004	2005	2004	2004	2005	2004	2004
	Jan-Jun	Jan-Jun	Jan-Dec	Jan-Jun	Jan-Jun	Jan-Dec	Jan-Jun	Jan-Jun	Jan-Dec
Net sales	373 168	276 558	700 745	163 758	139 899	304 238	536 926	416 457	1 004 983
Operating income	-3 421	7 086	34 080	-6 863	-5 950	-12 521	-10 284	1 136	21 559
Operating margin, %	-0,9	2,6	4,9	-4,2	-4,3	-4,1	-1,9	0,3	2,1
Net financial income/expense	413	-395	-1 085	-382	17	38	31	-378	-1 050
Income after financial items	-3 008	6 691	32 995	-7 245	-5 933	-12 483	-10 253	758	20 509

SECOND QUARTER

SEK thousand

	Sweden			Germany			Total		
	2005	2004	2004	2005	2004	2004	2005	2004	2004
	Apr-Jun	Apr-Jun	Jan-Dec	Apr-Jun	Apr-Jun	Jan-Dec	Apr-Jun	Apr-Jun	Jan-Dec
Net sales	188 652	119 484	700 745	77 842	51 798	304 238	266 494	171 282	1 004 983
Operating income	-843	7	34 080	-3 638	-3 441	-12 521	-4 481	-3 434	21 559
Operating margin, %	-0,5	0,0	4,9	-4,7	-6,6	-4,1	1,7	-2,0	2,1
Net financial income/expense	-112	-141	-1 085	-393	15	38	-505	-126	-1 050
Income after financial items	-955	-134	32 995	-4 031	-3 426	-12 483	-4 986	-3 560	20 509

CONSOLIDATED KEY RATIOS

	Apr-Jun 2005	Apr-Jun 2004	Jan-Jun 2005	Jan-Jun 2004	Rolling 12 months June 2005	Jan-Dec 2004
Net sales, SEK thousand	266 494	171 282	536 926	416 457	1 125 452	1 004 983
Gross margin, %	18,9	21,0	19,2	21,3	20,5	21,5
Operating margin, %	-1,7	-2,0	-1,9	0,3	0,9	2,1
Profit margin, %	-1,9	-2,0	-1,9	0,2	0,8	2,0
Profit after financial items, SEK thousand	-4 986	-3 560	-10 253	758	9 498	20 509
Return on average equity %	-	-	-	-	-	15,1
Return on average capital employed %	-	-	-	-	-	15,2
Equity ratio, %	48,1	52,5	48,1	52,5	48,1	34,1
Debt/Equity ratio	0,2	0,2	0,2	0,2	0,2	0,2
Interest coverage ratio	-10,4	-12,3	-13,5	1,9	7,7	15,0
Capital employed, SEK thousand	143 054	133 729	143 054	133 729	143 054	153 640
Investment in tangible assets, SEK thousand	4 117	1 105	4 601	2 195	7 105	4 699
Investments in intangible assets, SEK thousand	0	3 817	0	4 454	13 794	18 248
Equity per share, SEK	20,79	19,13	20,79	19,13	20,79	22,22
Liquid funds per share, SEK	7,33	7,02	7,33	7,02	7,33	13,59
Total outstanding options at the end of the period	82 000	82 000	82 000	82 000	82 000	82 000
Employees at the end of the period	156	131	156	131	156	170
Average number of employees	154	126	158	128	151	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

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 income 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.