

NetOnNet AB (publ)

Corporate Identity Number: 556520-4137

Interim report, January – September 2005

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

NetOnNet shows higher profit in the 3rd quarter

THIRD QUARTER (July - September)

- Sales amounted to SEK 296.1 (215.6) millions, an increase of 37.3 %.
- Net profit amounted to SEK 6.2 (4.6) millions.
- Earnings per share amounted to SEK 1.03 (0.76).

HALF-YEAR (January – September)

- Sales amounted to SEK 833.0 (632.1) millions, an increase of 31.8 %.
- Net profit amounted to SEK -1.3 (5.1) millions.
- Earnings per share amounted to SEK -0.21 (0.85).

ROLLING 12 MONTHS (October-September)

- Sales for rolling 12 months amounted to SEK 1 205.9 (935.8) millions, an increase of 28.9%
- Net profit for rolling 12 months amounted to SEK 8.4 (17.4) millions.
- Earnings per share amounted to SEK 1.39 (2.89).

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 nine months amounted to SEK 833.0 (632.1) millions. Compared to the same period 2004, this is an increase by 31.8 %. Of the total sales increase 0.2 % refers to changes in exchanges rates, 24.8 % to increase in volumes and 6.8% to price changes.

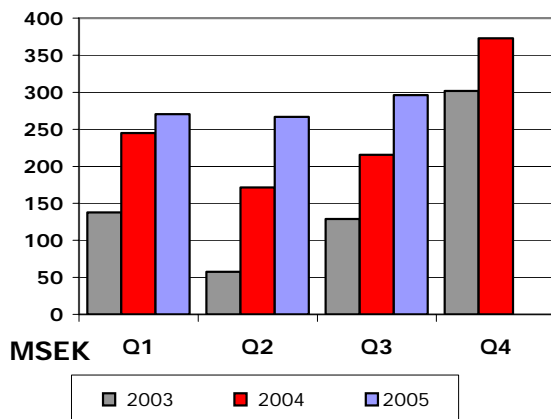
Net Sales Jan-Sept (SEK million)	2005	2004
Sweden	590.4	441.8
Germany	242.6	190.3
Total	833.0	632.1

Of the interim period net sales the third quarter, July-Sept, amounts to SEK 296.1 (215.6) millions, which is an increase by 37.3 %. Of the total sales increase 0.6 % refers to changes in exchanges rates, 27.1 % to increase in volumes and 9.6% to price changes.

Net Sales July-Sept (SEK million)	2005	2004
Sweden	217.2	165.3
Germany	78.9	50.3
Total	296.1	215.6

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

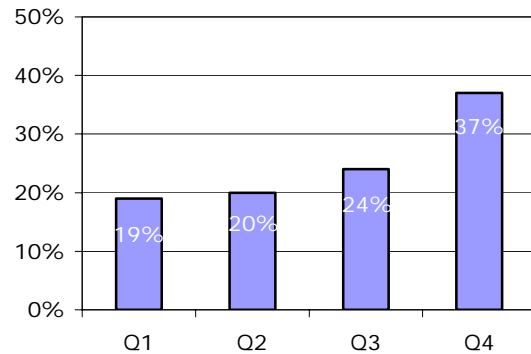
Net Sales quarterly 2003 - 2004



Seasonal variations

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

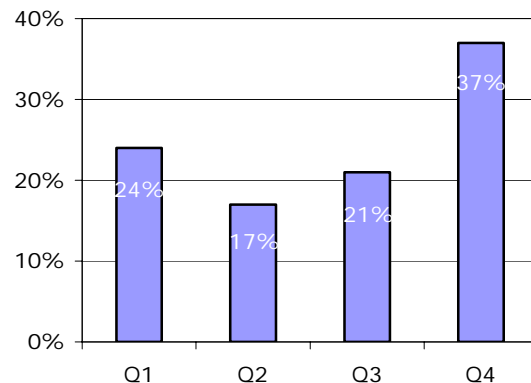
Seasonal variations within the consumer electronics industry



Source: CE Konsumentelektronikbransch

NetOnNet's seasonal variation has been the following

Seasonal variation NetOnNet 2004



Operating income and gross margin

Operating income for the interim period, January-September, amounted to SEK -3.3 (7.6) millions.

Operating income Jan - Sep (SEK million)	2005	2004
Sweden	6.6	17.0
Germany	-9.9	-9.4
Total	-3.3	7.6

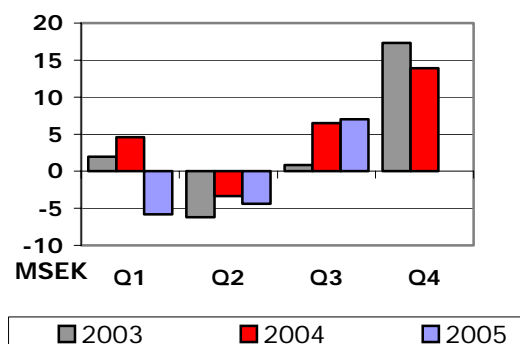
Gross margin amounted to 20.0 (21.8) % during the interim period.

Operating income for the third quarter, July-September, amounted to SEK 7.0 (6.5) millions.

<u>Operating income July-Sep</u> (SEK million)	<u>2005</u>	<u>2004</u>
Sweden	10.0	10.0
Germany	-3.0	-3.5
Total	7.0	6.5

Gross margin totaled 21.4 (22.9) % during the third 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 and due to lower gross margin. The largest cost increases are staff SEK 15.9 million, marketing SEK 8.1 million and the new ERP-system which have meant increased costs including depreciation with SEK 4.7 million. The opening of a warehouse shop in Nürnberg affects the result with SEK 1.5 million.

The marketing costs amounted to 3.5 (3.3)% of the total sales. Concerning Sweden the ratio was 3.0 (2.0) % and for Germany 4.5 (3.5) %.

Staff costs amounted to 6.9 (6.8) % of net sales. In Sweden the ratio was 7.3 (7.0) % and in Germany 6.0 (6.3) %

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 1.1 (3.9) %.

Germany

The lower result in Germany during the interim period is in line with actions for the entire company i.e. efforts round staff, marketing and IT. The opening of a warehouse shop in Nürnberg affects the result with SEK 1.5 million.

The operating margin for the nine month period was -4.1 (-5.0) %.

Rolling twelve months

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

<u>Rolling twelve months</u> (SEK million)	<u>Sep</u> <u>2005</u>	<u>Sep</u> <u>2004</u>
Net sales	1 205.9	935.8
Operating expenses	-1 195.2	-910.8
Operating profit	10.7	25.0

Significant events during the interim period

During the entire period focus the company has prioritized strengthening 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 buying office was opened in China.

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

During the interim period two warehouse shop contracts have been signed. In Nürnberg a warehouse shop was opened in September 2005. The opening of a Warehouse shop in Gothenburg is estimated to spring 2006.

The Board of Directors of Netonnet AB (publ) decided at a Board meeting 23rd of September according to the mandate given at the Shareholders Annual General Meeting on 27th of April 2005 to take a debenture loan at maximum SEK 2 000 issuing maximum 20 notes, each of nominal value SEK 100,00. Each note is connected with 2 000 detachable warrants as subscription for new shares in the company. Those debentures connected with detachable warrants have been offered to three key employees in the company.

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. The Board has made a valuation according to the Black & Scholes-method and settled a price of SEK 10.00 per warrant. The debenture loan will expire at latest 30th of September 2005.

Staff

The total number of employees at the end of September was 165 (147) where of 115 (111) in Sweden and 50 (36) in Germany. The average number of employees for the nine month period was 160 (127).

Financial position and liquidity

As per September 30th the net cash reserves amounted to SEK 25.1 (45.5) million equivalents to SEK 4.17 (7.56) per share. The equity ratio was 47.5 (45.9) %. Total equity amounted to SEK 131.9 (119.8) million, equivalent to SEK 21.92 (19.91) per share.

Cash flow from operations amounted to SEK -46.2 (-9.5) million during the interim period. Cash flow after investments and financial operations amounted to SEK -57.0 (-27.0) 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 nine months amounted to SEK 10.3 (15.5) million. During the third quarter investments amounted SEK 5.7 (8.9). The main investments are connected with opening of the Warehouse shop in Nürnberg, expanding the Central Warehouse and IT.

The parent company

The net sales of the parent company during the first nine months amounted to SEK 833.0 (632.1) million and the income after financial items amounted to SEK -1.7 (7.1) million. Capital expenditures during the interim period amounted to SEK 10.3 (15.5) million.

Development of the share

The number of shareholders has increased from 1 825 to 1 872 since December 31st 2004. This means an increase by 2.6%. The share price has during the same period decreased from SEK 94.00 to SEK 82.00, or by 12.8%.

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 – August 2005 the home electronics business (including white goods) is estimated to have decreased by 3.8 % 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, +4% for the second quarter and +1.7% for the third quarter compared to corresponding period previous year. For the period January-September the sales value to retailers diminished with 2% 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 of 5-6% for the first three quarters of the year. The main reason for the decrease is believed to be the weak economic development in Germany. The political elections in Autumn is judged to have effected the retail negatively.

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.

Sources: SCB Statistics Sweden in cooperation with Handelns Utredningsinstitut, Branschkansliets Marknadsinformation and NetOnNet AB

Outlook for 2005

During 2005 operations will be focusing on keeping the 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 third 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	
	1.7 - 30.9	1.1 - 30.9	1.1 - 31.12	
Net profit according to Swedish accounting principles	4 574	5 120	18 874	
Effects of transforming to IFRS	0	0	0	
Net profit according to IFRS	4 574	5 120	18 874	

Equity (SEK thousand)	2004		2004	
	31.12	30.9	1.1	
Equity according to Swedish accounting principles	133 667	119 800	114 558	
Effects of transforming to IFRS	-47	0	0	
Equity according to IFRS	133 620	119 800	114 558	

Total assets (SEK thousand)	2004		2004	
	31.12	30.9	1.1	
Total assets according to Swedish accounting principles	392 295	261 116	254 891	
Effects of transforming to IFRS	18	0	0	
Total assets according to IFRS	392 313	261 116	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 reported. 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	Aug 2006
Interim Report May-July 2006	7 Sep 2006
Sales Report Oct	3 Nov 2005
Sales Report Nov	6 Dec 2005
Sales Report Dec	4 Jan 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 Jun 2006
Sales Report Jun	5 Jul 2006
Sales Report Jul	3 Aug 2006
Sales Report Aug	6 Sep 2006
Annual General Meeting	7 Sep 2006

Borås, October 26th 2005

NetOnNet AB (publ)
The Board

For further information about this report

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The report is available on www.netonnet.se
Under headline *Press/Finansinfo, Rapport* och *Delårsrapporter*
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**INCOME STATEMENTS OF THE GROUP
IN SUMMARY**

SEK thousand	July-Sep 2005	July-Sep 2004	Jan-Sep 2005	Jan-Sep 2004	Rolling 12 months Sep 2005	Jan-Dec 2004
Net Sales	296 115	215 633	833 041	632 090	1 205 934	1 004 983
Capitalized labour costs for own purpose	0	886	0	1 357	958	2 315
	296 115	216 519	833 041	633 447	1 206 892	1 007 298
<i>Operating expenses:</i>						
Cost of goods sold	-232 865	-166 243	-666 452	-494 177	-961 300	-789 025
Other external costs	-34 586	-28 246	-105 802	-85 054	-148 636	-127 888
Personnel costs	-19 487	-14 341	-57 714	-43 181	-78 394	-63 861
Depreciations	-2 150	-1 193	-6 330	-3 403	-7 892	-4 965
	-289 088	-210 023	836 298	-625 815	1 196 222	-985 739
Operating profit	7 027	6 496	-3 257	7 632	10 670	21 559
Result from financial investments *	1 562	-143	1 594	-521	1 065	-1 050
Profit after financial items	8 589	6 353	-1 663	7 111	11 735	20 509
Tax on the income of the period	- 2 381	-1 779	370	-1 991	-3 384	-1 635
Net profit for the period	6 208	4 574	-1 293	5 120	8 351	18 874
Earnings per share, SEK	1.03	0.76	-0.21	0.85	1.39	3.14
Earnings per share after dilution	1.03	0.76	-0.21	0.85	1.38	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	6 039 144	6 053 425	6 037 401	6 052 690	6 040 760	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

* According to IFRS rules opened but not used forward rate agreements are evaluated against avista rate at closing day:
 Effect 2005
 July-Sep SEK + 1.556 thousand
 Jan-Sep SEK + 2.201 thousand

BALANCE SHEETS OF THE GROUP
IN SUMMARY

SEK thousand	30 Sep 2005	30 Sep 2004	31 Dec 2004
Assets			
Fixed assets			
Intangible assets	15 490	10 859	17 684
Tangible assets	37 694	32 931	31 864
Financial assets	12 379	11 687	12 032
Total fixed assets	65 563	55 477	61 580
Current assets			
Inventories etc.	151 135	128 692	179 112
Current receivables	35 672	31 479	69 896
Short term placements	0	15 102	0
Cash and bank balances	25 107	30 366	81 725
Total current assets	211 914	205 639	330 733
Total assets	277 477	261 116	392 313
Equity and liabilities			
Equity	131 860	119 800	133 620
Provisions	2 987	4 940	3 360
Long-term liabilities	16 750	18 017	17 500
Current liabilities	125 880	118 359	237 833
Total equity and liabilities	277 477	261 116	392 313

CHANGE IN SHAREHOLDERS' EQUITY OF THE GROUP
IN SUMMARY

SEK thousand	Jan-Sep 2005	Jan-Sep 2004	Jan -Dec 2004
Opening balance according to adopted balance sheet	133 620	114 558	114 558
Share-warrant premium	300	0	0
Exchange-rate differences	-767	122	235
Effects of re-calculation to IFRS	0	0	-47
Net profit for the period	-1 293	5 120	18 874
Closing balance	131 860	119 800	133 620

**CASH FLOW OF GROUP
IN SUMMARY**

SEK thousand	July-Sep 2005	July-sep 2004	Jan-Sep 2005	Jan-Sep 2004	Jan-Dec 2004
Operations activities					
Cash flow from operation activities before changes in working capital	11 974	5 817	3 134	10 600	26 558
Changes in working capital	-25 161	6 962	-49 381	-20 133	8 262
Cash flow from operations activities	-13 187	12 779	-46 247	-9 534	34 819
Investment activities					
Purchase of fixed assets	-5 712	-8 861	-10 313	-15 510	-22 827
Cash flow from investment activities	-5 712	-8 861	-10 313	-15 510	-22 827
Financial activities					
Share-warrant premium	300	0	300	0	0
Change of loans	-250	-650	-750	-1 950	-2 600
Cash flow from financial activities	50	-650	-450	-1 950	-2 600
CASH FLOW DURING THE PERIOD	-18 849	3 268	-57 010	-26 994	9 392
Cash and cash equivalent at the beginning of the period	44 107	42 205	81 725	72 472	72 472
Exchange rate differences in cash and cash equivalent	-151	-5	392	-10	-139
Cash and cash equivalent at the end of the period	25 107	45 468	25 107	45 468	81 725

REPORTING BY GEOGRAPHIC SEGMENT

Jan-Sep

SEK thousand

	Sweden			Germany			Total		
	2005	2004	2004	2005	2004	2004	2005	2004	2004
	Jan-Sep	Jan-Sep	Jan-Dec	Jan-Sep	Jan-Sep	Jan-Dec	Jan-Sep	Jan-Sep	Jan-Dec
Net sales	590 392	441 837	700 745	242 649	190 253	304 238	833 041	632 090	1 004 983
Operating income	6 628	17 073	34 078	-9 885	-9 441	-12 519	-3 257	7 632	21 559
Operating margin, %	1.1	3.9	4.9	-4.1	-5.0	-4.1	-0.4	1.2	2.1
Net financial income/expense	1 569	-544	-1 088	25	23	38	1 594	-521	-1 050
Income after financial items	8 197	16 529	32 990	-9 860	-9 418	-12 481	-1 663	7 111	20 509

THIRD QUARTER, July-Sep

SEK thousand

	Sweden			Germany			Total		
	2005	2004	2004	2005	2004	2004	2005	2004	2004
	July-Sep	July-Sep	Jan-Dec	July-Sep	July-Sep	Jan-Dec	July-Sep	July-Sep	Jan-Dec
Net sales	217 224	165 279	700 745	78 891	50 354	304 238	296 115	215 633	1 004 983
Operating income	10 049	9 987	34 078	-3 022	-3 491	-12 519	7 027	6 496	21 559
Operating margin, %	4.6	6.0	4.9	-3.8	-6.9	-4.1	2.4	3.0	2.1
Net financial income/expense	1 157	-149	-1 088	405	6	38	1 562	-143	-1 050
Income after financial items	11 206	9 838	32 990	-2 617	-3 485	-12 481	8 589	6 353	20 509

CONSOLIDATED KEY RATIOS

	July-Sep 2005	July-Sep 2004	Jan-Sep 2005	Jan-Sep 2004	Rolling 12 months Sep 2005	Jan-Dec 2004
Net sales, SEK thousand	296 115	215 633	833 041	632 090	1 205 934	1 004 983
Gross margin, %	21.4	22.9	20.0	21.8	20.3	21,5
Operating margin, %	2.4	3.0	-0.4	1.2	0,9	2,1
Profit margin, %	2.9	2.9	-0.2	1.1	1.0	2,0
Profit after financial items, SEK thousand	8 590	6 353	-1 663	7 111	11 735	20 509
Return on average equity %	-	-	-	-	-	15,1
Return on average capital employed %	-	-	-	-	-	15,2
Equity ratio, %	47.5	45.9	47.5	45.9	47.5	34,1
Debt/Equity ratio	0,2	0,2	0,2	0,2	0,2	0,2
Interest coverage ratio	28,2	25,7	-1,2	8,0	10,7	15,0
Capital employed, SEK thousand	149 610	137 817	149 610	137 817	149 610	153 640
Investment in tangible assets, SEK thousand	5 721	2 561	10 313	4 756	11 661	4 699
Investments in intangible assets, SEK thousand	0	6 300	0	10 754	5 968	18 248
Equity per share, SEK	21.92	19.91	21.92	19.91	21.92	22,22
Liquid funds per share, SEK	4.17	7.56	4.17	7.56	4.17	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	165	147	165	147	165	170
Average number of employees	164	125	160	127	161	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 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.