

NetOnNet AB (publ)

Corporate Identity Number: 556520-4137

Interim report May-July 2006

Unless otherwise stated, the comparative figures in the report relate to fiscal year 2005.

NetOnNets fiscal year is 1 May – 30 April.

NetOnNet's result for the first quarter was SEK -5.2 million

FIRST QUARTER (May-July)

- Sales amounted to SEK 257.9 (269.2) millions, a decrease of 4.2 %
- Net profit amounted to SEK -5.2 (2.0) millions
- Earnings per share amounted to SEK -0.86 (0.33)

ACTIONS DURING THE FIRST QUARTER

- Opening of Internet Shop Norway
- Launch of small household appliances

EVENTS AFTER THE FIRST QUARTER

- Sale of real estate property Ullared for SEK 34.1 million resulting in a profit of SEK 14 million
- German branch office for Internet sales will be moved to Borås during autumn

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.

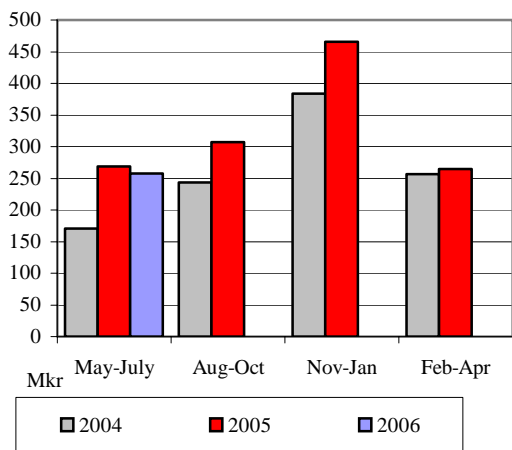
Net Sales

The net sales during the first quarter amounted to SEK 257.9 (269.2) millions. Of the total sales decrease -18.9 % refers to change in volumes, 14.7 % refers to price changes and 0.0 % refers to changes in exchanges rates.

Net Sales May-July (SEK million)	2006	2005
Sweden	189.6	195.4
Germany	64.1	73.8
Norway	4.2	0
Total	257.9	269.2

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. Another product group that shows strong growth is Tele. Photo and Audio has decreased their sales.

Net Sales quarterly 2004 – 2006*

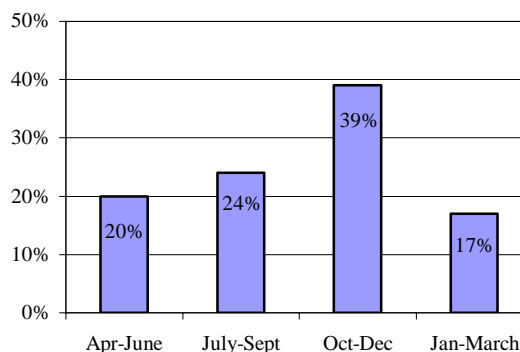


*Due to the new fiscal year (May-April), the fiscal quarters have been changed from calendar quarters. Q1 is May-July, Q2 is Aug-Oct, Q3 is Nov-Jan and Q4 is Feb-Apr.

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

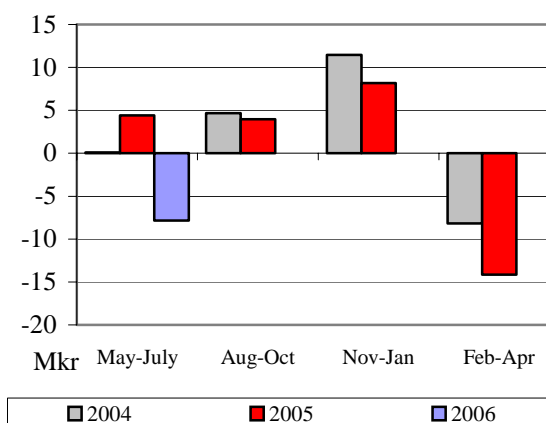
Operating income and gross margin

Operating income for the first quarter May-July, amounted to SEK -7.8 (4.4) millions.

Operating income (SEK million)	2006	2005
Sweden	0.6	7.2
Germany	-6.7	-2.8
Norway	-1.7	0
Total	-7.8	4.4

Gross margin amounted to 18.7 (20.8) % during the interim period. During latter part of the quarter gross margin has increased as a result of several actions taken in order to improve margins.

Operating income quarterly 2004 – 2006*



*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.

The lower operating result during the interim period is mainly due to lower sales and lower gross margin. This is due to the over stock situation from last winter which has affected our margin negatively in the first part of actual quarter. Furthermore the competition is also stronger than one year ago. The comparable costs of the operations are in level with previous year and the increased costs are due to expansion.

The marketing costs amounted to 4.3 (2.9) % of the total sales. Concerning Sweden the ratio was 3.6 (2.5) %, for Germany 4.0 (4.0) % and for Norway 37.0 (0) %.

Staff costs amounted to 8.4 (6.8) % of net sales. In Sweden the ratio was 8.1 (7.0) %, in Germany 8.9 (6.2) % and in Norway 14.6 %.

Sweden

In Sweden the lower result during the interim period is connected to lower sales and lower gross margin. Also future expansions in new Warehouse shops reduces the result in Sweden. The operating margin for the interim period was 0.3 (3.7) %.

Germany

In Germany the lower result during the interim period is connected to lower sales and lower gross margin. The new warehouse shop in Nürnberg reduces the result with SEK 2.0 million.

The operating margin for the interim period was -10.5 (-3.8) %.

Norway

The sales in Norway have started according to expectations. The highest cost is marketing. The operating margin for the interim period was -40.5 %.

Significant events during the interim period

In the beginning of May the company opened Internet Shop Norway and development is according to plan.

In June small household appliances was launched as a completely new assortment with focus on new customer categories.

During the interim period preparations for the new business area Finance & Insurance have started. Sales have not been generated yet but is to be expected later in the fiscal year.

Preparations for new Warehouse Shops in Sweden have also started.

Staff

The total number of employees at the end of July was 211 (174) where of 156 (137) in Sweden, 46 (35) in Germany, 5 (2) in China and 4 (0) in Norway. The average number of employees for the interim period was 200 (163).

Financial position and liquidity

As per July 31 2006 the net cash reserves amounted to SEK 36.9 (44.6) million equivalents to SEK 6.10 (7.41) per share. The unused bank overdraft facilities granted amounted to SEK 47.9 (60.0) million. The equity ratio was 37.9 (49.0) %. Total equity amounted to SEK 122.5

(126.6) million, equivalent to SEK 20.27 (21.05) per share.

Cash flow from operations amounted to SEK 11.5 (6.4) million during the interim period. Cash flow after investments and financial operations amounted to SEK 23.8 (5.1) million. The main reasons to the positive cash flow are that the company's short term-liabilities have increased and a higher usage of the granted bank overdraft facilities.

Stock

The Stock amounted to SEK 188.5 (124.0) million. During the interim period the Stock has grown only with SEK 1.0 million, although the Stock mix has changed with a strong growth in peripherals and accessories as well as the new assortment within small household appliances.

Capital expenditures

Total investments during the interim period amounted to SEK 2.6 (1.0) million. The investments are mainly connected to the establishment in Norway.

The parent company

The net sales of the parent company during the interim period amounted to SEK 257.9 (269.2) million and the income after financial items amounted to SEK -7.7 (4.0) million. Capital expenditures during the interim period amounted to SEK 2.6 (1.0) million. The liquidity was SEK 36.8 (44.5) million, equity amounted to SEK 122.4 (127.9) million and long term debts amounted to SEK 0 (0) million.

Development of the share

The number of shareholders has increased from 1 473 to 1 525 since April 30 2006. This means an increase by 3.5 %. The share price has during the same period increased from SEK 69.00 to SEK 70.00, or by 1.4 %.

Events after the close of the period

The company has sold the real estate property in Ullared for SEK 34.1 million with a profit of SEK 14 million during second quarter. The company has also decided to centralise all Internet sales to the headquarter in Borås and will therefore close the office in Germany during the autumn. This action will according to expectations bring out cost savings approximately SEK 6 – 8 million on full year basis.

Market, Industry statistics

Sweden

Published statistics

During May-July the home electronics business is estimated to have increased by 22.0 % compared with corresponding period previous year according to CE Konsumentelektronikbranschen. The main reason to the increase is to the sales of flat TV that has a higher average price compared to traditional CRT TV. The sales of TV increased very much in May and June due to the football World Cup and reached an increase of 76 % compared to the same period last year. During the interim period sales of TV increased with 56 % compared to the same period last year.

The CE industry suppliers Branch Association (SRL) reported in the period April-June that the sales value to retailers increased by 33 % compared with the corresponding period previous year. TV was the category that increased the most thanks to the flat-panel TV, that amounted to 158 % of the total value compared to the corresponding period previous year. The number of sold flat-panel TV increased by 187 % during the period. Also home cinema systems showed an increase of 21 % in value.

HUI/SEB reports that home electronics business has increased by 7.6 % in May and 6.6 % in June compared to the corresponding period previous year. The statistics also includes 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).

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

Focus areas for 2006/2007

The company will during the 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-Oct 2006/07	30 Nov 2006
Interim Report May-Jan 2006/07	5 Mar 2007
Interim Report May-April 2006/07	14 Jun 2007

Borås, September 7th 2006

NetOnNet AB (publ)
The Board

For further information about this report

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**INCOME STATEMENTS OF THE GROUP
IN SUMMARY**

	May-July 2006	May-July 2005
SEK thousand	2006	2005
Net Sales	257 859	269 167
<i>Operating expenses:</i>		
Cost of goods sold	-209 586	-213 247
Other external costs	-31 840	-31 066
Personnel costs	-21 707	-18 272
Depreciations	-2 567	-2 162
	-265 700	-264 747
Operating profit	-7 841	4 420
Result from financial investments *	170	-1 399
Pre-tax profit	-7 671	3 021
Tax	2 476	-1 046
Net profit for the period	-5 195	1 975
Amount connected with parent company shareholders	-5 195	1 975
Earnings per share, SEK	-0,86	0,33
Earnings per share after dilution	-0,86	0,33
Average number of shares before dilution	6 040 680	6 015 680
Average number of shares after dilution	6 040 680	6 031 730
Number of shares at the end of the period	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 May-July 2006: SEK 502 thousand, May-July 2005: SEK -994.

BALANCE SHEETS OF THE GROUP

IN SUMMARY

SEK thousand	31 July 2006	31 July 2005	30 April 2006
Assets			
Fixed assets			
Intangible assets	13 090	15 426	13 064
Tangible assets	37 646	31 329	37 680
Financial assets	17 022	13 770	14 512
Total fixed assets	67 758	60 525	65 256
Current assets			
Inventories etc.	188 466	124 035	187 504
Current receivables	30 328	29 327	28 947
Cash and bank balances	36 875	44 572	13 119
Total current assets	255 669	197 934	229 570
Total assets	323 427	258 459	294 826
Equity and liabilities			
Equity	122 457	126 643	126 779
Rent bearing long-term liabilities	16 000	17 000	16 250
Long-term liabilities, not rent bearing	6 815	1 081	5 648
Rent bearing, short-term liabilities	32 970	1 533	17 843
Short term liabilities, not rent bearing	145 185	112 202	128 306
Total equity and liabilities	323 427	258 459	294 826

CHANGE IN SHAREHOLDERS EQUITY OF THE GROUP

IN SUMMARY

SEK thousand	May-July 2006	Maj-July 2005	Jan-April 2005/2006
Opening balance according to adopted balance sheet	126 779	125 489	133 667
Effects of re-calculation to IAS 39	0	0	-47
Share-warrant premium	0	0	300
Re-buying of issued share-warrant	-73	0	0
New issue	0	0	1623
Translation difference	946	-821	-465
Net profit for the period	-5 195	1 975	-8 299
Closing balance	122 457	126 643	126 779

CASH FLOW OF GROUP

IN SUMMARY

SEK thousand	May-July 2006	May-July 2005
Operations activities		
Cash flow from operation activities before changes in working capital	-3 029	4 248
Changes in working capital	14 572	2 108
Cash flow from operations activities	11 543	6 356
Investment activities		
Purchase of fixed assets	-2 558	-1 024
Cash flow from investment activities	-2 558	-1 024
Financial activities		
Amortization	-250	-250
Change in bank overdraft facilities granted	15 128	0
Re-buying of issued share-warrant	-73	0
Cash flow from financial activities	14 805	-250
CASH FLOW DURING THE PERIOD	23 790	5 082
Cash and cash equivalent at the beginning of the period	13 119	39 337
Exchange rate differences in cash and cash equivalent	-34	153
Cash and cash equivalent at the end of the period	36 875	44 572
Unused bank overdraft facilities granted	47 882	60 000

REPORTING BY GEOGRAPHIC SEGMENT

LAST THREE MONTHS MAY-JULY

SEK thousand	Sweden		Germany		Norway		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	May-July	May-July	May-July	May-July	May-July	May-July	May-July	May-July
Net sales	189 542	195 375	64 091	73 792	4 226	0	257 859	269 167
Operating income	618	7 176	-6 778	-2 756	-1 681	0	-7 841	4 420
Operating margin, %	0,3	3,7	-10,6	-3,7	-39,8	0,0	-3,0	1,6
Net financial income/expense	158	-1 408	11	9	1	0	170	-1 399
Pre-tax profit	776	5 768	-6 767	-2 747	-1 680	0	-7 671	3 021

CONSOLIDATED KEY RATIOS

	May-July 2006	May-July 2005
Net sales, SEK thousand	257 859	269 167
Gross margin, %	18,7	20,8
Operating margin, %	-3,0	1,6
Profit margin, %	-3,0	1,1
Profit after financial items, SEK thousand	-7 671	3 021
Return on average capital employed %	-4,5	1,9
Return on average equity %	-4,2	1,6
Equity ratio, %	37,9	49,0
Debt/Equity ratio	0,5	0,2
Interest coverage ratio	-39,2	11,7
Capital employed, SEK thousand	171 427	145 176
Investment in tangible assets, SEK thousand	2 558	1 024
Investments in intangible assets, SEK thousand	0	0
Equity per share, SEK	20,27	21,05
Liquid funds per share, SEK	6,10	7,41
Total outstanding options at the end of the period	30 000	82 000
Employees at the end of the period	211	174
Average number of employees	200	163

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.