

Interim report, January-September 2000

Unless otherwise indicated, comparative figures in the report are for the same period in 1999.

Sales up 60% on second quarter

- Sales showed an encouraging trend, totalling SEK 33.5m (1.1m) for the first nine months of 2000.
- Third-quarter sales amounted to SEK 15.2m, compared with SEK 9.5m for the second quarter - a 60% increase.
- The net margin rose to 19.8% in Q3 from 13.9% in Q2.
- Losses were reduced to SEK 6.7m in Q3 from SEK 9.9m in Q2
- Sales in Germany got under way at the end of September.
- The Swedish operation is expected to be in profit from Q3 2001.
- Existing liquid assets are expected to be sufficient to see the company into profit.
- At 30 September 2000, NetOnNet's net liquid assets totalled SEK 18.11 per share.

The NetOnNet model

- *Focus on sales*
- *Industry know-how: Between them, the company's senior managers have over 60 years' experience of the consumer electronics sector.*
- *Low cost base: Premises cost just over SEK 300/m². Swedish and international operations currently run by a staff of 21 people based in Borås.*
- *Own logistics, own premises, own staff.*
- *High average order value (currently over SEK 3 000 excluding VAT).*
- *Sharp focus on managing and monitoring the business.*

NetOnNet (www.netonnet.se) is Europe's first online store dedicated to consumer electronics. NetOnNet offers TVs, VCRs, mobile phones and other products from leading brands such as Sony and Philips. Goods are delivered direct to consumers and companies. The company began operations in March 1999 and is based in Borås, a centre for logistics. NetOnNet currently operates in Sweden and Germany and is preparing to launch in Belgium.

Market

The consumer electronics market in which NetOnNet operates is currently enjoying strong growth, thanks to a number of new products. These include traditional product segments such as TV, where the trend is primarily towards the new widescreen format and larger models. The move to digital formats has also heralded the advent of several new product segments such as MiniDisc, DVD and MP3. Taken together, these developments have led to an increase in both sales volumes and average prices. This is reflected in NetOnNet's average order value, which has risen to over SEK 3 000 (excluding VAT) since the previous interim report. What is more, the consumer electronics sector is not as well established in e-commerce terms as areas such as books and CDs. In the light also of the growth forecasts for e-commerce as a whole, the company's management continues to foresee excellent growth prospects for NetOnNet.

The NetOnNet model

Given that e-commerce is a relatively new phenomenon, and that the medium of the internet opens up a range of new possibilities for quick, accurate monitoring, various measuring techniques are in the spotlight because of their potential for analysing the performance of e-commerce companies. The number of website hits is one of the statistics monitored by the media every month. To maintain the right focus, NetOnNet has developed its own model for managing the business.

Our attitude to the various parameters can be summed up as follows:

- **Focus on sales:** Management and staff have an impressive track record in sales, and all

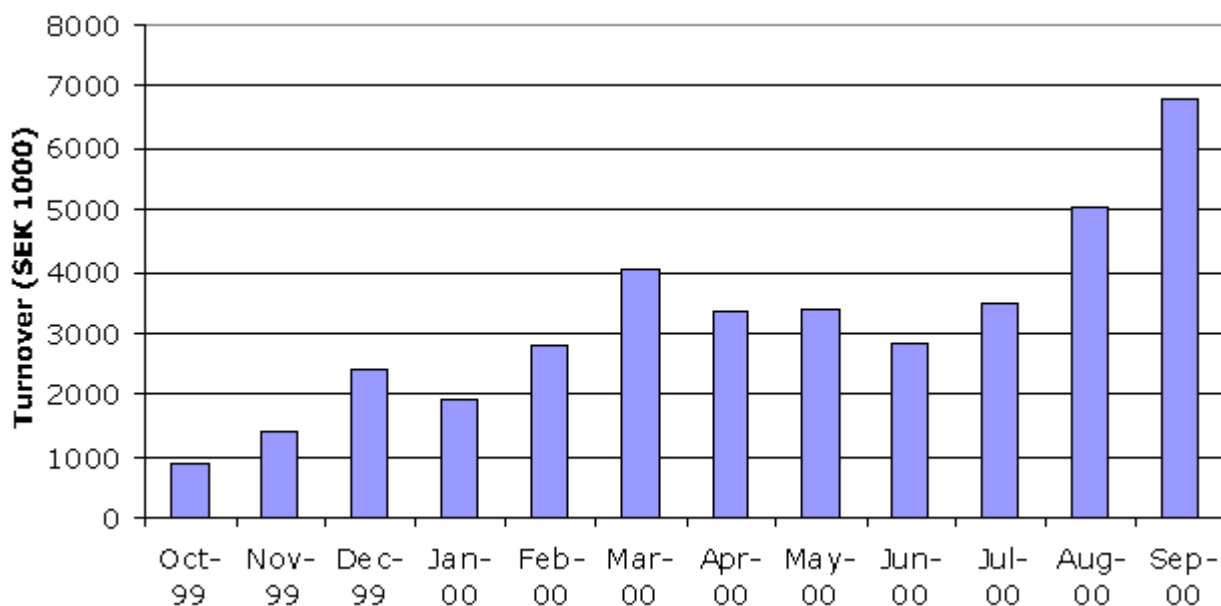
activities are intended to generate transactions.

- Industry know-how: Between them, the company's senior managers have over 60 years' experience of the consumer electronics sector. When recruiting sales and marketing staff, we give preference to candidates with a background in the industry.
- Low cost base: Since trading often involves winning over customers with low prices, all ongoing costs such as salaries, travel and premises must be kept to a minimum. For instance, NetOnNet rents office and warehouse premises in Borås for little more than SEK 300/m².
- In-house logistics on our own premises with our own staff allows us to rectify any problems with goods supply very quickly. Logistics is regarded as a core business.
- High average order value means lower handling costs per order and reduces the overall requirement for sales volume. Average order value is currently over SEK 3 000 excluding VAT.
- Sharp focus on managing and monitoring the business: Important key indicators serve as targets in the areas listed above. It is a question of making the right choices and reviewing them frequently. For instance, NetOnNet attaches great importance to the acquisition cost per customer (see diagram under Marketing), but much less to the number of hits.

Turnover

Turnover for the first nine months of the year totalled SEK 33.5m (1.1m). Third-quarter sales amounted to SEK 15.2m, compared with SEK 9.5m in the second quarter.

Turnover October 1999 - September 2000



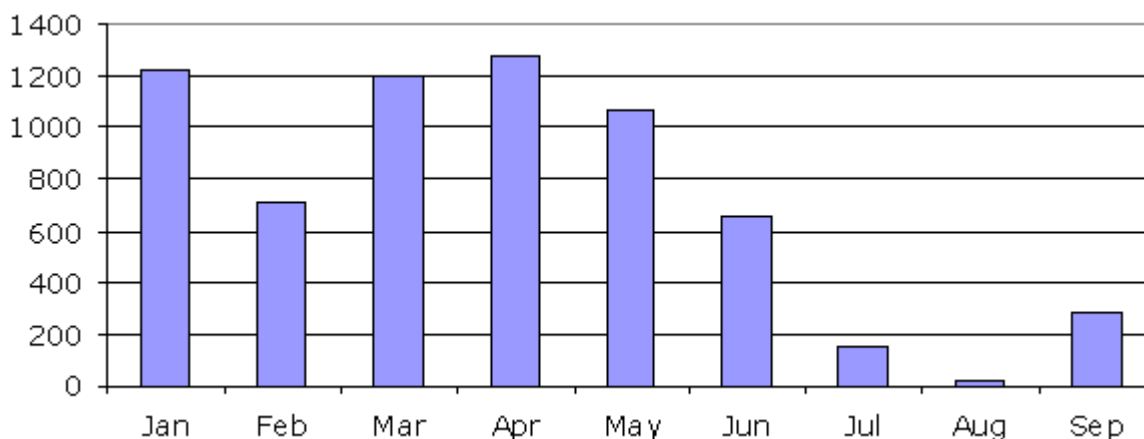
Products The three best-selling product segments during the nine-month period were TV (42% of sales), DVD and video (19%) and hi-fi (13%). The biggest rises in sales from Q2 to Q3 were in hi-fi (+116%), games (+82%) and in-car entertainment (+73%).

Marketing

Marketing costs for the nine-month period totalled SEK 13.2m (0.37m), of which Q3 accounted for SEK 2.7m.

The reduced expenditure on marketing, coupled with the rise in sales, led to a steady reduction in the acquisition cost per new customer over the nine-month period, from around SEK 1 200 in January to less than SEK 300 in Q3.

Acquisition cost per new customer



Note: Acquisition cost per new customer is defined as total marketing costs for the period divided by the number of new customers minus the contribution margin per new customer.

Total membership stands at 75 084 people.

NetOnNet - a world-class model

NetOnNet has invested its capital much more efficiently than most other comparable e-commerce companies in Sweden and worldwide. Marketing costs totalled SEK 13.2m for the first nine months of the year. The Gartner Group recently published a survey of the efficiency of e-commerce companies. According to the Gartner Group, economic efficiency is crucial to future development. The ratio of marketing costs to sales is cited as a measure of a start-up company's efficiency. The Gartner Group indicates 0.40 as the ratio for the most efficient companies. NetOnNet's ratio was 0.40 for the first nine months of the year and 0.18 for Q3.

Customer service and logistics

A series of improvements were made over the nine-month period to reinforce customer loyalty. For example, in association with Sweden Post, NetOnNet now offers its customers home delivery of packages up to 100 kg in the evenings. New payment options have also been introduced, including direct payment through internet banks or by credit/debit card and an interest-free credit scheme.

Financial performance and gross margin

The loss after interest for the nine-month period was SEK 25.4m (1.6m), SEK 5.0m of which was attributable to start-up costs for our operations in Germany and Belgium.

The gross margin was 17.3% (20.5%). The margin for Q3 was 19.8%, compared with 13.9% for Q2. We are making constant efforts to improve our margins, but during special promotions and publicity drives for new product segments, margins may fall temporarily.

Financial and cash position

At 30 September 2000, the company's net liquid assets stood at SEK 106m (equivalent to SEK 18.11 per share) and the equity/assets ratio at 86.1%. The company had total equity of SEK 115.5m.

Staff

The company has a total workforce of 32 people: 21 in Sweden, nine in Germany and two in Belgium.

Outlook for year-end

Throughout the nine-month period, turnover in Sweden increased according to plan, and in this light, we expect turnover in Sweden to reach SEK 55-60m by year-end. Sales in Germany got under way on 19 September, but marketing activities were not scheduled to begin until October, so it is too early to produce any sales forecasts for Germany.

As a result of adjustments during the nine-month period, the company's existing liquid assets are expected to be sufficient to see the company into profit.

A large new computer products department opened in October, run in close association with Computer2000, one of the world's largest distributors of computer products. In addition to the current range of goods and services, NetOnNet has decided to start offering subscription packages for mobile phones and digital TV.

Hemelektroniksbanshens Branschkansli (the organisation representing the consumer electronics

industry in Sweden) predicts growth of 10% for the year as a whole, while a number of market research companies (e.g. Boston Consulting Group) are predicting that e-commerce will expand by around 250% during the year 2000.

This report has not been reviewed by the company's auditors.

Borås, 26 October 2000

Anders Halvarsson
Managing Director

If you have any queries regarding this interim report, please call Anders Halvarsson, Managing Director, on +46 705 485556. The interim report is also available online at www.netonnet.se.

Forthcoming reports

From July 2000 onwards, NetOnNet is issuing monthly reports on sales and financial performance.

Monthly report for: October 16 November 2000

Monthly report for: November 15 December 2000

Unaudited year-end figures: February 2001

PROFIT AND LOSS ACCOUNT

SEK 1000	Jul-Sep 2000	Jul-Sep 1999	Jan-Sep 2000	Jan-Sep 1999
Net sales	15.230	730	33.501	1.105
Goods costs	-12.212	-561	-27.709	-879
Gross profit	3.018	169	5.792	226
Staff costs	-3.718	-144	-8.823	-463
Marketing costs	-2.747	-226	-13.244	-366
Retailer costs	-1.612	-79	-3.902	-346
Other external costs	-2.706	-382	-6.650	-551
Depreciation	-222	-3	-505	-9
Operating loss	-7.987	-665	-27.332	-1.509
Net interest	1.279	-34	1.894	-44
Net loss for the period	-6.708	-699	-25.438	-1.553

BALANCE SHEET

SEK 1000	30 September 2000	31 December 1999
Assets		
Shares subscribed for but not paid up	-	1.016
Tangible fixed assets	2.433	182
Stock	11.251	1.383
Current debtors	7.051	3.553
Cash in hand and at bank	114.339	4.719
Total assets	135.074	10.853

Liabilities and equity		
Equity	115.456	5.704
Long-term liabilities	-	1.000
Short-term liabilities	19.618	4.149
Total liabilities and equity	135.074	10.853

FINANCIAL HIGHLIGHTS

SEK 1000	Jul-Sep 2000	Jan-Sep 2000
Net turnover	15.230	33.501
Gross margin (%)	19,8	17,3
Net loss for the period	-6.708	-25.438
Equity/assets ratio (%)	85,5	85,5
Net capital expenditure	826	2.756
Equity per share (SEK)	19,67	19,67
No. of shares at end of period	5.869.360	5.869.360
No. of employees at end of period	32	32

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