

NetOnNet AB (publ)
Interim report January–December 2002

Unless otherwise stated, the comparative figures in the report relate to the same period in 2001.

Profit for NetOnNet 2002. Profit in Germany for the 4th quarter

- **Sales amounted to SEK 392.9 (175.4) million, an increase of 124 %. Sweden accounted for SEK 244.9 (120.8) million, an increase of 103 % and Germany for SEK 148.0 (51.6) million, an increase of 187 %.**
- **The result for the period amounted to SEK 1.3 (-20.5) million, of which the result in Sweden accounted for SEK 6.6 (-2.9) million and Germany for SEK -5.3 (-12.0) million.**
- **The result for the fourth quarter amounted to SEK 1.7 (-3.3) million. Germany shows a profit of SEK 0.9 (-1.8) million and Sweden a profit of SEK 0.8 (1.2) million.**
- **During the period, the profit margin reached 0.3 % whereof the profit margin was 2.7 % in Sweden and -3.6 % in Germany.**
- **The cash balance as of December 31 was SEK 54.3 (56.2) million. Cash flow from operations amounted to 2.1 (-34.5) during the period.**

NetOnNet (www.netonnet.com) is the first Internet-based shop for domestic electronic appliances in Europe. NetOnNet supplies TV, video, mobile phones, etc. from leading manufacturers such as Sony and Philips. The items are delivered directly to private customers and businesses. The company was established in 1999, and its Headquarters are in Borås, Sweden. Operations have also been run in Germany since September 2000.

The NetOnNet model

In order to develop the business and maintain focus on the appropriate areas, NetOnNet has developed its own model as an overall set of guidelines: Focus on the customers - Focus on products and sales - Knowledge of the industry - Think different and think large - Low costs - In-house logistics - Sharp focus on control and follow-up of business

The market

During 2002, the market for consumer electronics was estimated to have decreased by 3-5 % due to the uncertainty in the business climate, which was expected to lead to insecurity and lower consumption.

A comparison between Sweden and Germany shows that the effects of the recession are deeper in Germany. The market developed according to the gloom forecasts for the industry as a whole during the first nine months of 2002, but thereafter an improvement was noticed during the last quarter.

In Sweden, one marketing research company (Branschkansliets Marknadnadsinformation) made an estimation of the Industry of consumer electronics to have increased by 3.2% during the period, while Gfk Marketing Services evaluated the increase to be 6.6%. The estimations for Germany also vary between different sources. Gfk states a decrease of 3.1% while the industry entity GFU showed a zero development of the industry as a whole in Germany. Nevertheless, all of the above investigations show a substantial growth in the fourth quarter in both Germany and Sweden.

The growth of the industry takes mainly place in new technical areas for example in Widescreen TV, DVD-players, digital cameras, digital audio products (e.g. MP3) and Home cinema systems. One could clearly see a strong development within these areas both in Sweden and Germany during the period. Product areas that decreases in sales during the corresponding period of time are the ones that are replaced by new technologies, for example VCR-players, TV-sets with 4:3 format and 50 Hz, and portable analogue sound systems.

Branschkansliets Marknadnadsinformation estimates the Swedish market for consumer electronics to increase by at least 3% during 2003, while Gfk is a little bit more cautious and believes in an increase by 1.4%. GFU estimates the market size to be unchanged in Germany while Gfk foresee a decrease by 3.1%.

NetOnNet is well positioned with a substantial growth on a market that generally does not increase. Even if the market for consumer electronics should decline, the company management appraise that it could be favourable to NetOnNet thanks to its low cost concept with lower prices.

Sources: Gfk Marketing Services, Branschkansliets Marknadnadsinformation AB, Die Gesellschaft für Unterhaltungs- und Kommunikationselektronik (GFU), NetOnNet AB

Sales

The sales during the *period* were SEK 392.9 (175.4) million.

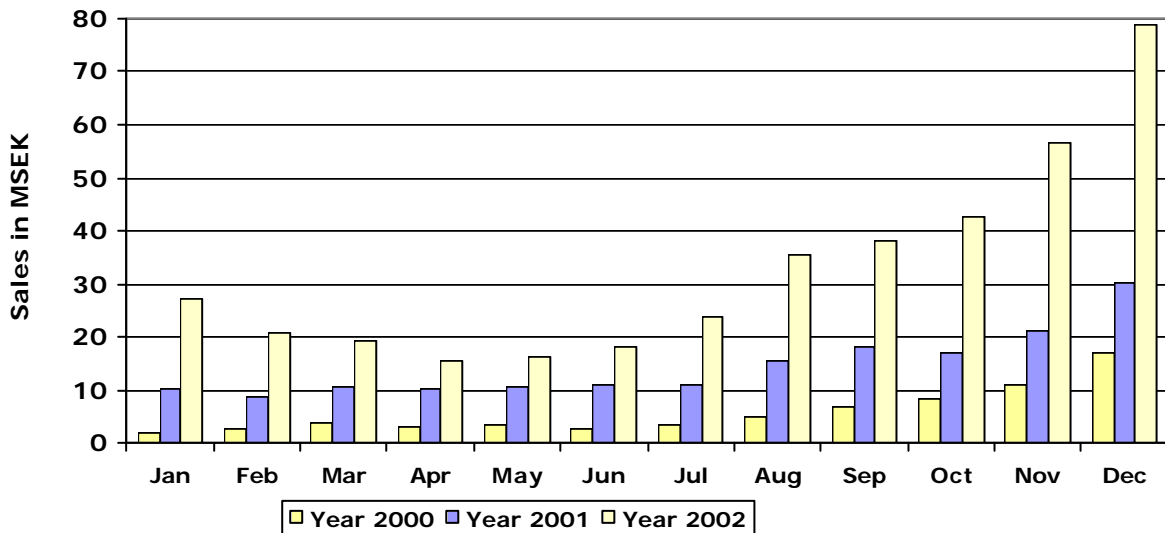
Compared to the same period 2001 this corresponds to an increase of 124 %.

<u>Sales Jan-Dec</u>	<u>2002</u>	<u>2001</u>
(MSEK)		
Sweden	244.9	120.8
Germany	148.0	51.6
Belgium	-	3.0
Total	392.9	175.4

Of the total sales during the period, the *fourth* quarter amounts to SEK 178.0 (68.7) million, which corresponds to an increase of 159 %.

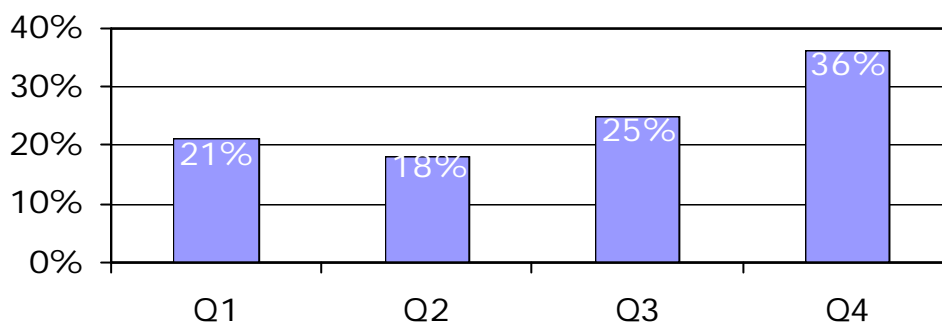
<u>Sales Oct-Dec</u>	<u>2002</u>	<u>2001</u>
(MSEK)		
Sweden	97.9	45.8
Germany	80.1	22.0
Belgium	-	0.9
Total	178.0	68.7

Sales Jan 2000 - Dec 2002



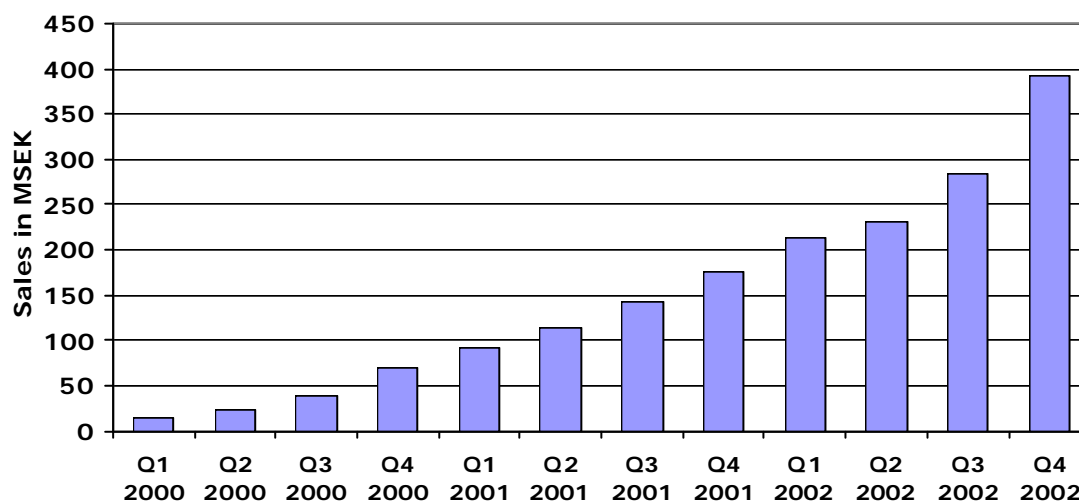
To facilitate evaluation of the make-up of the turnover, the diagrams below illustrate the seasonal variations that influence the consumer electronics industry and yearly sales on 4-quarter basis.

Seasonal variations in the consumer electronics industry



Source: Branschkansliets Marknadsinformation AB

Yearly sales on 4-quarter basis Q1 2000 - Q4 2002



The diagram above shows a summary of the recent four quarters to illustrate the development in annual sales. The yearly sales are SEK 392.9 million, which is an increase by 124 % since year-end 2001. Compared to quarter three where the yearly sales amounted to SEK 283.6 million, the growth rate is 39 % (22 %).

Products

The product areas consist of the following product groups:

Audio (stereo, HiFi, portable music and car stereos).

Video (TV, VCR, DVD players and satellite systems).

Photo & Camcorders (systems and compact cameras, digital cameras, video cameras and accessories).

Telecom (phones, mobile phones and accessories).

Accessories & Others (audio & video accessories, DVD films, storage media and computer accessories).

The stock value, which as of December 31 was SEK 68.7 million, has been adjusted for obsolescence. The increase is a natural consequence of the sales growth by 124% and the stock build-up because of the increased Warehouse Shop in Borås and the new Warehouse Shop in Ullared.

Marketing

Marketing costs for the period amounted to 12.1 (12.5) million, of which SEK 7.9 (6.8) million was used in Sweden and SEK 4.2 (5.0) million in Germany. In last years total figure for marketing, Belgium is included by SEK 0.7 million.

In Sweden advertising with product offers in evening papers accounted for the majority of the marketing costs during quarter one. During the second to the fourth quarter, the main marketing actions consisted of brand-building advertisement and product offers in nationwide TV4. During the fourth quarter, Sweden completed the media mix by a product catalogue of 116 pages. The effect of the marketing mix has been successful which is obvious when looking at the strong sales growth of the company.

In Germany, a considerably narrower media mix was used, concentrated almost exclusively on online advertising. NetOnNet's fundamental message is to encourage price comparing before purchasing, as NetOnNet has a well-documented history of lower prices compared to its competitors.

Investments in marketing are becoming more efficient, and costs amounted to 3.1 % (7.1 %) of the total sales. The corresponding figure for Sweden was 3.2 % (6.3 %), while for Germany it was 2.8 % (9.7 %).

Customer Service & Logistics

During quarter four NetOnNet has moved the operations of the Central Warehouse in Sweden to new and more functional premises in the Post terminal in Borås. The warehouse is located together with the new and bigger Warehouse Shop of approximately 2000 m². Furthermore, a new Warehouse Shop has been opened in Ullared. Investments in the new real estate in Ullared amounted to SEK 22.1 million. Investments in other fixed assets in Borås and Ullared added up to SEK 5.3 million. Costs for moving the operations, development of IT-systems and establishing costs added up to approximately SEK 3.1 million. Thus, the total amount of these costs and investments totalled SEK 30.5 million.

Result and Gross margins

The result before tax for the *period* was SEK 1.3 (-20.5) million.

Split of the result by country:

<u>Result Jan - Dec</u>	<u>2002</u>	<u>2001</u>
(MSEK)		
Sweden	6.6	-2.9
Germany	-5.3	-12.0
Belgium	-	-5.6
<u>Total</u>	<u>1.3</u>	<u>-20.5</u>

The gross margin totalled 19.0 % (20.6 %).

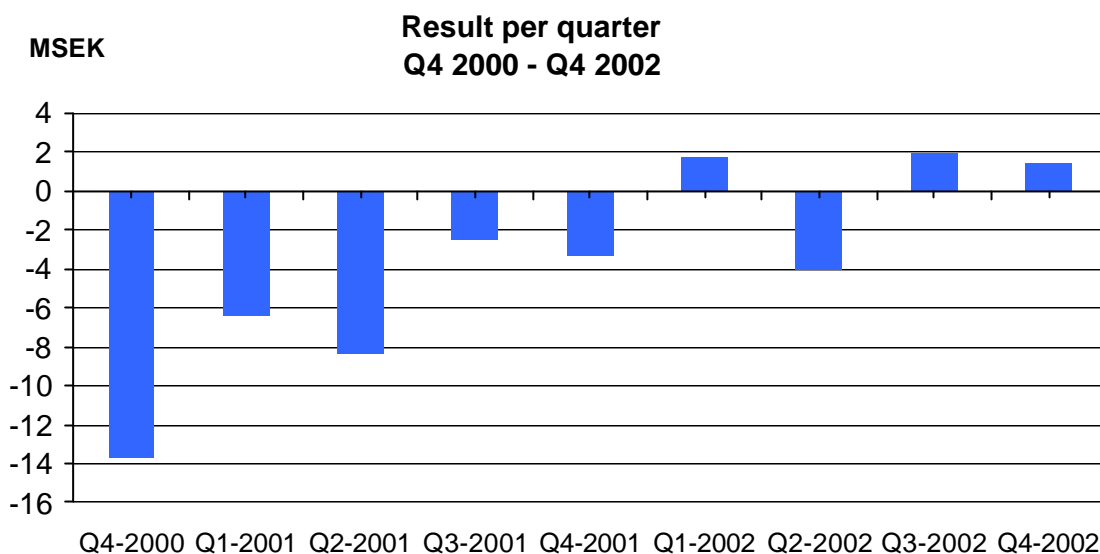
The result before tax for *the fourth quarter* was SEK 1.7 (-3.3) million.

<u>Result Oct - Dec</u>	<u>2002</u>	<u>2001</u>
(MSEK)		
Sweden	0.8	1.2
Germany	0.9	-1.8
Belgium	-	-2.7
<u>Total</u>	<u>1.7</u>	<u>-3.3</u>

The gross margin totalled 17.9 % (20.6 %).

The result in Sweden has during quarter four been charged by SEK 3.1 million derived from costs in connection with moving the operations to new premises and new establishments as explained under the item Customer Service and Logistics.

The lower gross margin during the period is mainly due to the more aggressive pricing policy in Germany. As the turnover in Germany gradually increases compared to Sweden, the lower margin in Germany will have a higher impact on the total gross margin than before.



Financial position and liquidity

As per 31st December 2002, net cash reserves amounted to SEK 54.8 million equivalent to SEK 9.18 per share. The equity/assets ratio was 47.7 percent. Total equity amounted to SEK 103.1 million, equivalent to SEK 17.26 per share after the current subscription of shares due to the redemption of the stock option program for employees at NetOnNet.

The total equity is affected by a deferred tax claim of SEK 16.1 million which the company included in the accounts for 2002, following the recommendation of the Swedish Accountancy Council (RR9). The taxable deficiency of NetOnNet amounts to SEK 64.0 million.

Cash flow from operations totalled SEK 2.1 (-34.5) million. Cash flow after investments and financial operations amounted to SEK -1.4 (-36.7) million.

Financial risks

Financing risk

The policy of NetOnNet is that the financing of the coming year should be covered by funds derived from own operations and through bank financing.

Credit / counterparty risk

NetOnNet places liquid funds in bank deposits or interest bearing security papers with very low risk levels. Transactions with security papers are only made with counterparties with very high credit rating.

Currency risk

As the company during the period has increased the import share of the purchases, the policy is to forward cover at the time of the purchase. These purchases are mainly made in USD and EUR. Consequently, the company can calculate with an accurate currency rate of the products.

Personnel

The total number of employees was 108 whereof 82 in Sweden and 26 in Germany. On the 30th of September the number of employees was 68. During the period the number of employees has increased due to extensive projects, as previously mentioned, moving of premises, new establishment in Ullared. Parallel to these projects, the growth rate of sales has been very high. During 2003 a lower growth rate of the work force compared to 2002 is estimated.

Significant events during the period

In October, NetOnNet released for the first time a product catalogue that mainly will be distributed to existing customers. The catalogue will also be distributed to visitors in the Warehouse Shops of Ullared and Borås. The purpose is mainly to promote all the accessories and Do-It-Yourself products that are included in the assortment.

Also in October, the new premises of NetOnNet in Borås was opened with opening speech of among others the founder of the mail-order company Ellos, Olle Blomqvist. The facility hosts Head Office, Central Warehouse and a Warehouse Shop.

In November 2002, NetOnNet opened a Warehouse Shop in Ullared with a storage height of 10 meters and a space of 2500 m² situated close to the shopping centre Ge-Kås that have an annual turnover of SEK 2 billion. There is no other place in Sweden where prices are offered as low as in Ullared on nearly all products within the retail business. Around 3.5 million people visit Ullared every year and the village is situated in the Municipality of Falkenberg.

Another important milestone has been passed during the year, as the company presents profit for the whole group. Furthermore, Germany shows its first quarterly profit. This together with the strong sales growth implies that NetOnNet has established a very good position within the fast growing e-business industry.

The stock option program 2000-2002 with subscription period during July to December was fully subscribed giving the company SEK 3.6 million in liquid funds which is equivalent to 102 920 new shares. The program that was decided during 1999 was directed to the employees and the board members to facilitate the possibility of being shareholders in NetOnNet.

Events after the close of the period

On the fifth of February a sales report for January was released, showing a continuous strong growth rate. Sales amounted to SEK 56.3 (27.3) million, an increase by 106 %. The yearly sales on a 12 months basis as per January 31 totalled SEK 421.8 (192.4) million, an increase by 119 %.

On the 13th of February, NetOnNet received the distinction *Retail Awards* for the third consecutive year. Retail awards concerns different categories of the whole retail business in Sweden and NetOnNet received the award as *E-commerce company of the year*.

Outlook for 2003

Operations during the year will concentrate on improving profitability by improving and further develop the quality of internal processes. The previous years commitment on high growth rate has given the necessary volume prerequisites that is needed to be able to streamline operations.

At the same time, the momentum of growth is expected to be stronger than both the rest of the e-business as whole and the specific market for consumer electronics.

All in all, this gives good conditions for presenting continuous profit improvements during 2003.

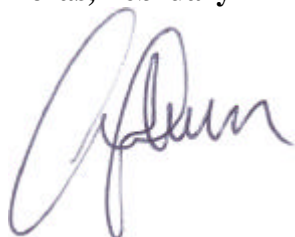
As the organic growth is very high, no further establishments are planned during the year, while, on the other hand, some investments will be done in the German operations to manage the future increase in volumes.

Germany is expected to grow faster than Sweden as the market shares in Germany still are very low considering the total size of the market.

Accounting principles

The accounting principles used for this report are the same as those used in the most recent annual report, except for translation differences which are booked against equity.

Borås, February 21st 2003



Anders Halvarsson
Chief Executive Officer

Please direct enquiries relating to this interim report to Anders Halvarsson, CEO, on phone number +46 33 488 499. This interim report is also published in electronic form at www.netonnet.se and at www.netonnet.de

General meeting and dividend

The annual report for 2002 will be distributed in the beginning of April and will then be available at the Head Office in Borås.

The general meeting will be held Tuesday 29th April 2003, at 1.30 pm in Borås. Record day for the general meeting and the shareholders register is on April 17th 2003. The board of directors proposes that no dividend will be issued for the financial year of 2002.

Upcoming reports

NetOnNet publishes sales reports every month and result reports every quarter.

Sales report for February	5 March 2003
Sales report for March	3 April 2003
General meeting	29 April 2003
Interim report Jan - Mar	29 April 2003

PROFIT AND LOSS FIGURES

SEK '000	Jan-Mar 2002	Apr-Jun 2002	Jul-Sep 2002	Oct-Dec 2002	Jan-Dec 2002	Jan-Dec 2001	Jan-Dec 2000
Net sales	67.258	50.319	97.302	178.066	392.945	175.448	70.086
Cost of goods	-52.080	-40.610	-79.473	-146.134	-318.297	-139.287	-58.257
Gross profit	15.178	9.709	17.829	31.932	74.648	36.161	11.829
Staff costs	-5.466	-5.532	-6.033	-9.907	-26.938	-20.595	-13.139
Marketing costs	-1.934	-2.673	-2.612	-4.830	-12.049	-12.503	-21.616
Shop costs	-591	-497	-822	-800	-2.710	-2.071	-5.309
Close down, Belgium	-	-	-	-	-	-2.325	-
Other external costs	-5.639	-5.242	-6.327	-13.718	-30.926	-20.829	-12.941
Depreciation	-291	-306	-342	-673	-1.612	-1.066	-486
Operating profit/loss	1.257	-4.541	1.693	2.004	413	-23.228	-41.662
Net financial items	462	458	285	-269	936	2.728	2.961
Profit/loss before tax	1.719	-4.083	1.978	1.735	1.349	-20.500	-38.701
Tax 1)	0	0	0	16.100	16.100	0	0
Profit/loss after tax	1.719	-4.083	1.978	17.835	17.449	-20.500	-38.701

1) Deferred tax claim

BALANCE SHEET

SEK '000	31 december 2002	31 december 2001	31 december 2000
Assets			
Fixed assets	31.699	4.052	3.116
Long-term receivables	16.891	756	636
Inventory/Stock	68.656	29.696	18.634
Short-term receivables	43.754	26.148	14.226
Cash and bank	54.829	56.236	92.894
Total assets	215.829	116.888	129.506
Shareholders' equity and liabilities			
Shareholders' equity	103.052	82.117	102.617
Long-term liabilities	22.255	-	-
Current liabilities	90.522	34.771	26.889
Total shareholders' equity and liabilities	215.829	116.888	129.506

CHANGE IN SHAREHOLDERS EQUITY

SEK '000	Jan - Dec 2002	Jan - Dec 2001	Jan - Dec 2000
Opening balance of shareholders' equity	82.117	102.617	5.704
New share issue	3.602	-	135.614
Translation differences	-116	-	-
Result of the period	17.449	-20.500	-38.701
Closing balance	103.052	82.117	102.617

CASH FLOW ANALYSIS

SEK '000	Jan-Dec 2002	Jan-Dec 2001	Jan-Dec 2000
Operations			
Operating profit/loss	413	-23.228	-41.662
Adjustments, depreciation	1.612	1.150	486
Net financial items	936	2.728	2.961
Cash flow prior to change in working capital	2.961	-19.350	-38.215
Change in working capital			
Inventories/Stock	-38.960	-11.062	-17.251
Operating receivables	-17.606	-11.922	-10.672
Operating liabilities	55.751	7.882	22.740
Cash flow from operations	2.146	-33.452	-43.398
Investment operations			
Acquisition of fixed assets	-29.296	-2.206	-4.056
Cash flow from investments	-29.296	-2.206	-4.056
Financial operations			
New share issue	3.602	-	136.629
Received loans	22.255	-	-1.000
Translation differences in equity	-116	-	-
Cash flow from financial operations	25.741	-	135.629
CASH FLOW FOR THE PERIOD	-1.407	-36.658	88.175
Liquid funds, opening balance	56.236	92.894	4.719
Liquid funds, closing balance	54.829	56.236	92.894

KEY FINANCIAL FIGURES

SEK '000	Jan-Mar 2002	Apr-Jun 2002	Jul-Sep 2002	Oct-Dec 2002	Jan-Dec 2002	Jan-Dec 2001	Jan-Dec 2000
Net sales	67.258	50.319	97.302	178.066	392.945	175.448	70.086
Gross margin, %	22,6	19,3	18,3	17,9	19,0	20,6	16,9
Net Profit/loss before tax	1.719	-4.083	1.978	1.735	1.349	-20.500	-38.701
Equity ratio, % Net	75,2 33	74,4 503	58,1 21.344	47,7 7.416	47,7 29,296	70,3 2.206	79,2 3.420
investments							
Equity per share, SEK	14,18	13.51	13,88	17,26	17,26	13.99	17.48
Profit per share bef. tax	0,29	-0,70	0,33	0,29	0,23	-3,49	-6,59
Profit per share after tax	0,29	-0,70	0,33	2,99	2,92	-3,49	-6,59
Number of shares at end of period	5.869.360	5.869.360	5.869.360	5.972.280	5.972.280	5.869.360	5.869.360
Total outstanding options at end of period	183.520	183.520	183.520	80.600	80.600	183.520	183.520
Employees at end of period	49	49	68	108	108	47	35