

**NetOnNet AB (publ)**  
**Interim report January–June 2002**

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

## **Strong growth in low season**

- **Sales amounted to SEK 117.6 (61.6) million, an increase of 91 %.**
- **Sales in Sweden amounted to SEK 81.3 (42.9) million, an increase of 90 %. Sales in Germany amounted to SEK 36.3 (17.5) million, an increase of 107 %.**
- **The result for the period totalled SEK –2.4 (-14.7) million, of which the result in Sweden accounted for SEK 1.8 (-4.7) million and Germany for SEK –4.2 (-8.0) million.**
- **The profit margin in Sweden reached 2.3 %, and for operations including Germany, the profit margin was –2.0 %.**
- **A decision has been taken to establish a new Warehouse Shop in Ullared, with the opening date scheduled for the end of 2002.**
- **The cash balance as of June 30 was SEK 58.1 million. Cash flow during the period was positive, and totalled SEK 1.9 (-24.2) million.**
- **Sales in July amounted to SEK 23.7 (11.1) million, which was period with the highest turnover since January. Read more about it in the Sales report which is also released today.**

*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. Checks are carried out regularly to ensure that work is performed within the framework of the model.

- Focus on the customers: All staff needs to have a solid interest in what the customers needs and requests. All offers, solutions and services shall be made with focus on the customers.
- Focus on products and sales: Marketing & Product staff needs to have a solid interest in the products since they are the most important tool to fulfil the vision that is to offer the best quality products at the lowest price. All product activities shall generate sales. If they don't do so there is a risk of this affecting prices in the long term. All measures generating sales must take the range of products, as their starting point. Offering the right products at the right prices means sales that create satisfied customers who will contemplate buying from us again.
- Knowledge of the industry: Staff in product, sales and marketing departments shall have a good sense of how the industry works. The knowledge shall be used to invent new, different and better solutions than the other companies in the industry.
- Think different and think large: Be prepared to work hard and to challenge the unwritten rules of common thinking in order to create advantages versus the other companies in the industry.
- Low costs: NetOnNet has a Low-cost-concept that enables lower prices than those of its competitors, all running costs such as salaries, travel, premises etc. must be kept to a minimum. For all the staff it is important to compete about having the lowest costs and to find it fun and stimulating.
- Our own logistics in our own premises with our own staff means opportunities for very fast rectification of any shortcomings in terms of supply of products. Logistics is seen as core business.
- Sharp focus on control and follow-up of business: in simple terms, cost mass must decrease in relation to sales and gross profit. The key figures are broken down at levels and in ways that provide quick indications of any deviations. It is a matter of correct selection and frequent follow-up so that all key figures always develop in the right direction.

## The market

During 2001, the market for domestic electronics for indicate that the sector lost approximately 5 per cent compared to the previous year. This reduction is principally attributable to the major increases in 2000 combined with a general deterioration of market conditions, which affected capital goods consumption to an extent. In addition, the terrorist attack on the United States on September 11 further contributed to the short-term recession. In 2002, the market is expected to continue to decline by around 3-5 %, as market conditions are still difficult to predict.

During the first half-year of 2002, sales in Sweden remained unchanged compared to the same period in 2001 for the industry as a whole, although the overall rate is expected to decline following an increase of around 13 per cent in January. Sales in Germany for the industry as a whole are expected to have declined by 14%.

The fact that the second quarter generally seen is the weakest is due to increased competition from other industries during spring and early summer. The competitive industries are for example gardening and sport activities.

A comparison between Sweden and Germany shows that the effects of the recession are greater in Germany. It should be stated that the recession might create opportunities in the form of better access to products and reduced competition, etc. These conditions often favour companies that have small but rapidly developing market shares. In addition, as NetOnNet has a distinctive low-price profile, poor market conditions should favour the company's position on the market.

Sources: SRL, Branschkansliets Marknadsinformation AB, NetOnNet AB

## Sales

The sales during the period were SEK 117.6 (61.6) million.

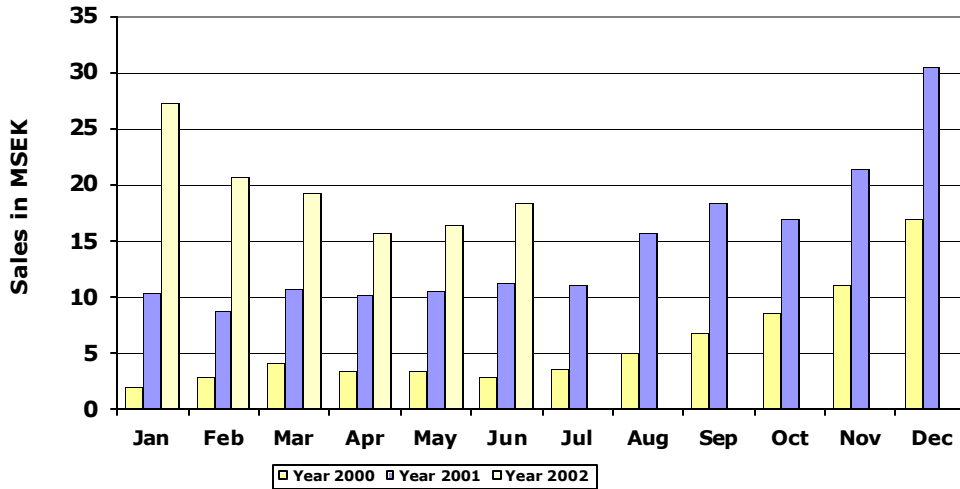
Compared to the first half-year this corresponds to an increase of 91 %.

	Sweden	Germany	Belgium	Total
Sales – Jan-Jun 2002	81.3	36.3	-	MSEK 117.6
Sales – Jan-Jun 2001	42.9	17.5	1.2	MSEK 61.6

Of the total sales during the period, the second quarter amounts to SEK 50.3 (31.8) million, which corresponds to an increase of 58 %.

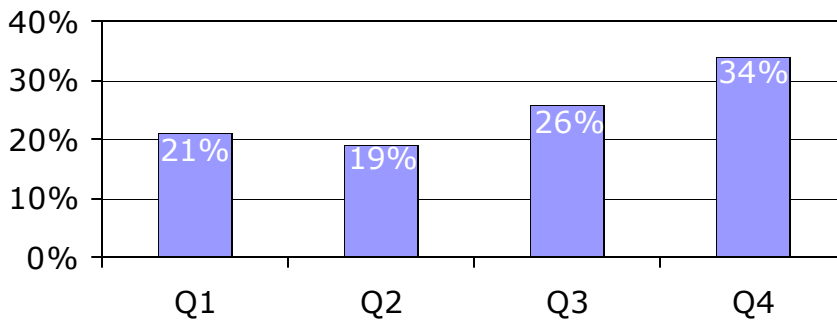
	Sweden	Germany	Belgium	Total
Sales – Apr-Jun 2002	32.7	17.6	-	MSEK 50.3
Sales – Apr-Jun 2001	20.6	10.3	0.9	MSEK 31.8

### Sales Jan 2000 - Jun 2002



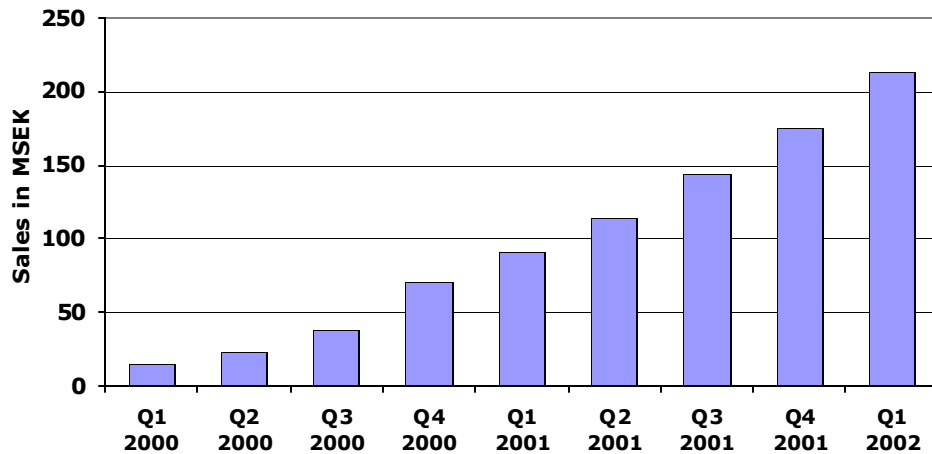
To facilitate evaluation of the make-up of the turnover, the diagrams below illustrates the seasonal variations that influence the domestic electronics industry and rolling 12-month sales.

### Seasonal variation within the domestic electronics industry



Sources: Branschkansliets Marknadsinformation AB

### Rolling 12-month sales Q1 2000 - Q2 2002



The diagram above shows a summary of the recent four quarters to illustrate the development in annual sales. The rolling 12-month-sales increased by 31.9 per cent since year-end 2001.

#### 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 June 30 was SEK 22.4 million, has been adjusted for obsolescence. This represents a decrease since December 31 by SEK 7.3 million.

#### Marketing

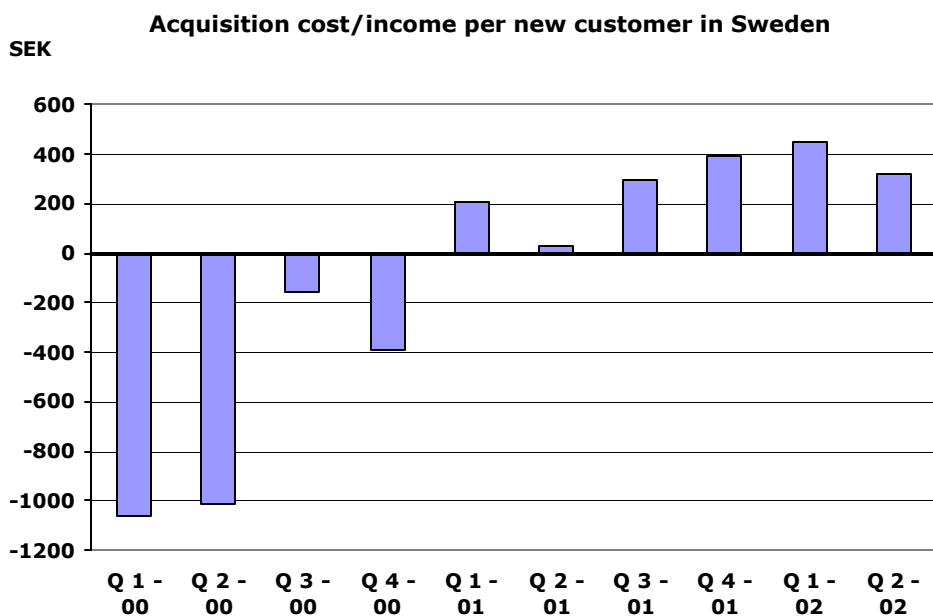
Marketing costs for the period amounted to SEK 4.6 (6.6) million, of which SEK 2.5 (3.4) million was used in Sweden and SEK 2.1 (2.9) million in Germany.

Advertising with product offers accounted for the majority of the marketing costs. In Sweden, the advertising strategy has concentrated heavily on evening papers in Q1. During the second quarter though, the main marketing actions consisted of brand-building advertisements in nation-wide TV4. The effect of the TV ads is expected to give a positive result during the autumn.

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 than its competitors.

Investments in marketing are becoming more efficient, and costs amounted to 3.8 % (10.7 %) of the total sales. The corresponding figure for Sweden was 3.1 % (8.0 %), while for Germany it was 5.4 % (16.4%).

The key ratio for acquiring new customers in Sweden reached an income of SEK 319 (28) per every new customer during quarter of 2002.



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

### Customer Service & Logistics

The rapid growth at present increases the need for effective premises for storage and distribution. Thus far, a number of external warehouses have been used for storage. A project is now underway to consolidate logistics in Sweden in a new, rationalised facility which is scheduled for completion in October 2002.

### Result and Gross margins

The result before tax for the period was SEK -2.4 (-14.7) million.

Breakdown of the result by country:

	Sweden	Germany	Belgium	Total
Result, Jan-Jun 2002	1.8	-4.2	-	-2.4 MSEK
Result, Jan-Jun 2001	-4.7	-8.0	-2.0	-14,7 MSEK

The gross margin totalled 21.2 % (18.9 %).

The result before tax for *the second quarter* was SEK –4.1 (-8.3) million.

Breakdown of the result by country:

	Sweden	Germany	Belgium	Total
Result, Apr-Jun 2002	-1.1	-3.0	-	-4.1 MSEK
Result, Apr-Jun 2001	-3.3	-4.2	-0.8	-8.3 MSEK

The gross margin totalled 19.3 % (17.4%).

The improved gross margin during the first six months is a result of continually improved purchase prices and increased sales of accessories, but during the second quarter the development was effected by the decision to further increase the price advantage towards the other players on the market.

#### **Financial position and liquidity**

Net cash reserves amounted to SEK 58.1 million as of June 30 – equivalent to SEK 9.90 per share. The equity/assets ratio was 74.4 percent. Total equity amounted to SEK 79.3 million, equivalent to SEK 13.51 per share.

Cash flow during the period was positive, and amounted to SEK 1.9 million.

#### **Personnel**

The total number of employees was 49 whereof 33 in Sweden and 16 in Germany.

#### **Significant events during the period**

As mentioned previously, NetOnNet will be establishing additional physical units for warehouse sales. In March, notification was given that the first such establishment outside Borås will be in Ullared. Nowhere else in Sweden can offer prices lower than in Ullared. This applies to almost all retail products. Domestic electronics products are already sold there – although only to a limited extent – and NetOnNet therefore anticipates being able to make an appreciable contribution to the range of goods on sale in this location, which is visited by around 3.5 million people every year. Ullared has a population of a few hundred and is situated in the Municipality of Falkenberg, approximately 35 km from Falkenberg and around 40 km from Varberg. The new premises are expected to open towards the end of 2002.

#### **Events after the close of the period**

Together with this interim report, a sales report for July has also been released. The July report shows that the growth rate has even further improved and reaches 114% compared to July 2001. The accumulated figures from January to July 2002 gives an increase of 94%.

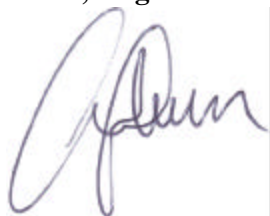
### **Outlook for 2002**

In the beginning of the year operations focused on further improvement of the operating margin. During quarter 2, the aim to improve growth via decreased prices has also begun, primarily in Germany and followed by Sweden. Internet sales are expected to continue to grow more rapidly than conventional sales. The new establishment of a Warehouse Shop in Ullared is scheduled for completion towards the end of this year, which means that it is not expected to have a major effect on growth until 2003. However, it will naturally generate establishment costs during 2002. The development in Germany continues in line with that of Sweden, although around a year behind. This is in keeping with the fact that the German operation was started approximately 18 months after the Swedish business.

### **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, August 22<sup>nd</sup> 2002**



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](http://www.netonnet.se) and at [www.netonnet.de](http://www.netonnet.de)

### **Upcoming reports**

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

Sales report for July	22 August 2002
Sales report for August	5 September 2002
Interim report January–September	24 October 2002
Sales report for October	6 November 2002

## PROFIT AND LOSS FIGURES

SEK '000	Apr-Jun 2002	Apr-Jun 2001	Jan-Jun 2001	Jan-Jun 2001	Jan-Dec 2001
Net sales	50.319	31.798	117.577	61.557	175.448
Cost of goods	-40.610	-26.268	-92.690	-49.943	-139.287
<b>Gross profit</b>	<b>9.709</b>	<b>5.530</b>	<b>24.887</b>	<b>11.614</b>	<b>36.161</b>
Staff costs	-5.532	-4.881	-10.998	-9.603	-20.595
Marketing costs	-2.673	-3.498	-4.607	-6.591	-12.503
Shop costs	-497	-613	-1.088	-1.238	-2.071
Close down, Belgium	-	-	-	-	-2.325
Other external costs	-5.242	-5.276	-10.881	-9.869	-20.829
Depreciation	-306	-313	-597	-539	-1.066
<b>Operating profit/loss</b>	<b>-4.541</b>	<b>-9.051</b>	<b>-3.284</b>	<b>-16.226</b>	<b>-23.228</b>
Net financial items	458	698	920	1.511	2.728
<b>Profit/loss before tax</b>	<b>-4.083</b>	<b>-8.353</b>	<b>-2.364</b>	<b>-14.715</b>	<b>-20.500</b>

## BALANCE SHEET

SEK '000	30 June 2002	31 December 2001
<b>Assets</b>		
Fixed assets	3.965	4.052
Long-term receivables	725	756
Inventories/Stock	22.334	29.696
Short-term receivables	21.410	26.148
Cash and bank	58.096	56.236
<b>Total assets</b>	<b>106.587</b>	<b>116.888</b>
<b>Shareholders' equity and liabilities</b>		
Shareholders' equity	79.294	82.117
Current liabilities	27.293	34.771
<b>Total shareholders' equity and liabilities</b>	<b>106.587</b>	<b>116.888</b>

## CASH FLOW ANALYSIS

SEK '000	Jan-Jun 2002	Jan-Jun 2001	Jan-Dec 2001
<b>Operations</b>			
Operating profit/loss	-3.284	-16.226	-23.228
Adjustments, depreciation	597	539	1.150
Net financial items	920	1.511	2.728
<b>Cash flow prior to change in working capital</b>	<b>-1.767</b>	<b>-14.176</b>	<b>-19.350</b>
Change in working capital			
Inventories/Stock	7.362	347	-11.062
Operating receivables	4.738	1.609	-11.922
Operating liabilities	-7.478	-10.748	7.882
<b>Cash flow from operations</b>	<b>2.855</b>	<b>-22.968</b>	<b>-34.452</b>
Investment operations			
Acquisition of fixed assets	-536	-1.197	-2.206
Translation differences in equity	-459		
<b>Cash flow from investments</b>	<b>-995</b>	<b>-1.197</b>	<b>-2.206</b>
<b>CASH FLOW FOR THE PERIOD</b>	<b>1.860</b>	<b>-24.165</b>	<b>-36.658</b>
<b>Liquid funds, opening balance</b>	<b>56.236</b>	<b>92.894</b>	<b>92.894</b>
<b>Liquid funds, closing balance</b>	<b>58.086</b>	<b>68.729</b>	<b>56.236</b>

## KEY FINANCIAL FIGURES

SEK '000	Apr-Jun 2002	Apr-Jun 2001	Jan-Jun 2002	Jan-Jun 2001	Jan-Dec 2001
Net sales	50.319	31.798	117.577	61.557	175.448
Gross margin, %	19,3	17,4	21,2	18,9	20,6
Net Profit/loss before tax	-4.083	-8.353	-2.364	-14.715	-20.500
Equity ratio, %	74,4	84,5	74,4	84,5	70,3
Net investments	503	823	536	1.197	2.206
Equity per share, SEK	13.51	14.98	13.51	14.98	13.99
Profit per share, SEK	-0,70	-1,42	-0,40	-2.51	-3,49
Number of shares at end of period	5.869.360	5.869.360	5.869.360	5.869.360	5.869.360
Total outstanding options at end of period	183.520	183.520	183.520	183.520	183.520
Employees at end of period	49	41	49	41	47