

NetOnNet AB (publ)
Interim report January–March 2002

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

Profit for the Group in Quarter 1

- **Sales amounted to SEK 67.3 (29.7) million, an increase of 127 %.**
- **Sales in Sweden amounted to SEK 48.6 (22.3) million, an increase of 118 %. Sales in Germany amounted to SEK 18.7 (7.1) million, an increase of 163 %.**
- **The result for the period totalled SEK 1.1 (-6.4) million, of which the result in Sweden accounted for SEK 2.3 (-1.4) million and Germany for SEK -1.2 (-3.8) million.**
- **The profit margin in Sweden reached 4.7 %, which represents faster development than expected. For operations including Germany, the profit margin was 1.7 %.**
- **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 March 31 was SEK 59.5 million. Cash flow during the period was positive, and totalled SEK 3.2 (-15.5) million.**

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 which 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

The market for domestic electronics, where NetOnNet operates, developed strongly in 2000. It is estimated that the industry as a whole grew by approximately 15 per cent during this period. Figures for 2001 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, and this may lead to uncertainty and lower consumption. A comparison between Sweden and Germany shows that the effects of the recession are greater in Germany. It should be stated that the recession may 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.

At the same time, a range of new products are expected to continue to show strong growth. These products comprise traditional segments such as TV, where larger models designed to accommodate the new Widescreen Format in particular made a breakthrough in 2000/2001 and are now set to generate growth in the lower price levels. The price of DVD players has now settled below SEK 2,000 so sales of this product group are growing rapidly. This is also expected to have a positive influence on sales of home cinema systems and DVD films. In this area, too, the low-price market is expected to grow as a result of the general market conditions. Other digital product groups that have made a breakthrough and are now expected to develop positively are MiniDisc, MP3, Digital TV and Digital cameras. This development means that the market for services linked to these products will also increase.

During the first quarter of 2002, sales 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.

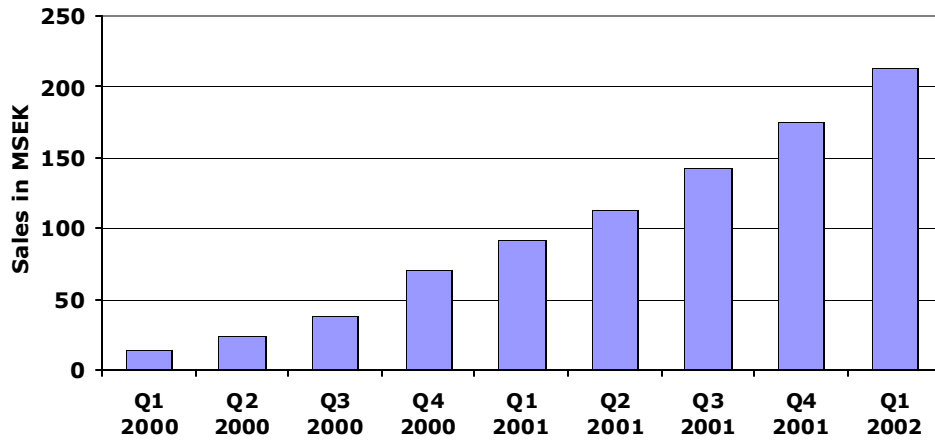
Sources: SRL, Branschkansliets Marknadsinformation AB, NetOnNet AB

Sales

The sales during the period was SEK 67.3 (29.7) million, which is an increase of 127 %.

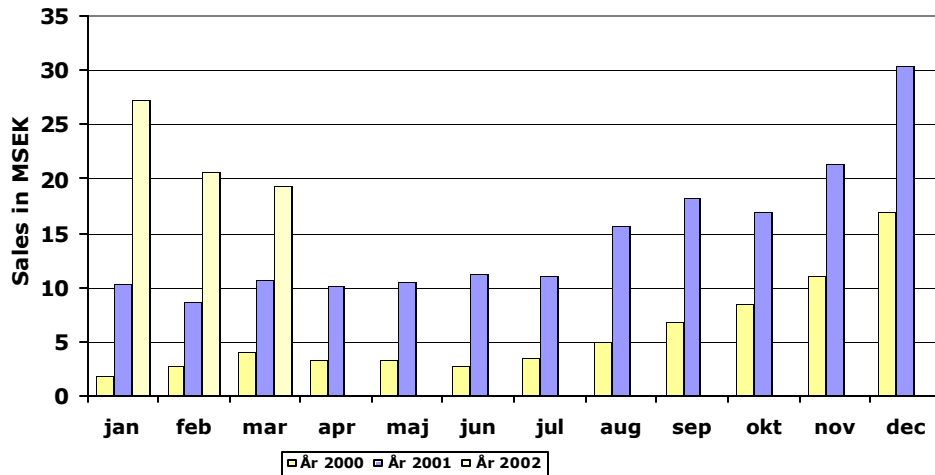
	Sweden	Germany	Belgium	Total
Sales – Q1 2002	48.6	18.7	-	MSEK 67.3
Sales – Q1 2001	22.3	7.1	0.3	MSEK 29.7

Rolling 12-month sales Q1 2000 - Q1 2002



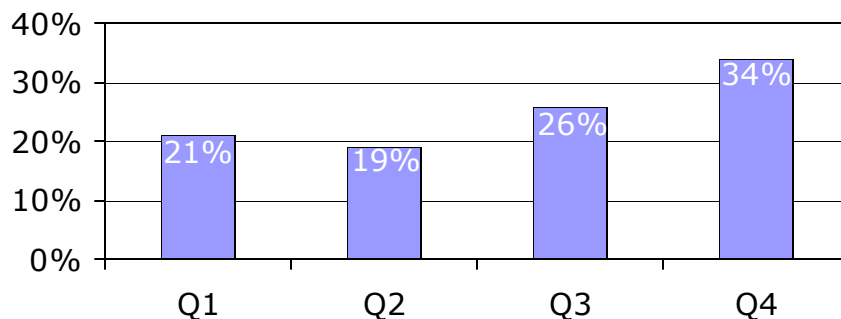
The diagram above shows a summary of the recent four quarters to illustrate the development in annual sales. The rolling 12-month-sales increased by 21.3 per cent from Q4 2001 to Q1 2002.

Sales Jan 2000 - Mar 2002



To facilitate evaluation of the make-up of the turnover, the diagram below illustrates the seasonal variations that influence the domestic electronics industry.

Seasonal variation within the domestic electronics industry



Sources: Branschkansliets Marknadsinformation AB

Products

The three largest product areas during the period were *Video* (57 % of total sales), *Audio* (23%) and *Photo & Camcorder* (8 %). Total growth in comparison with the same period in 2001 amounted to 127 per cent, and the three largest growth figures (in value) were achieved in the areas of *Accessories & Others* (215%), *Photo & Camcorder* (140%) and *Video* (125%)

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).

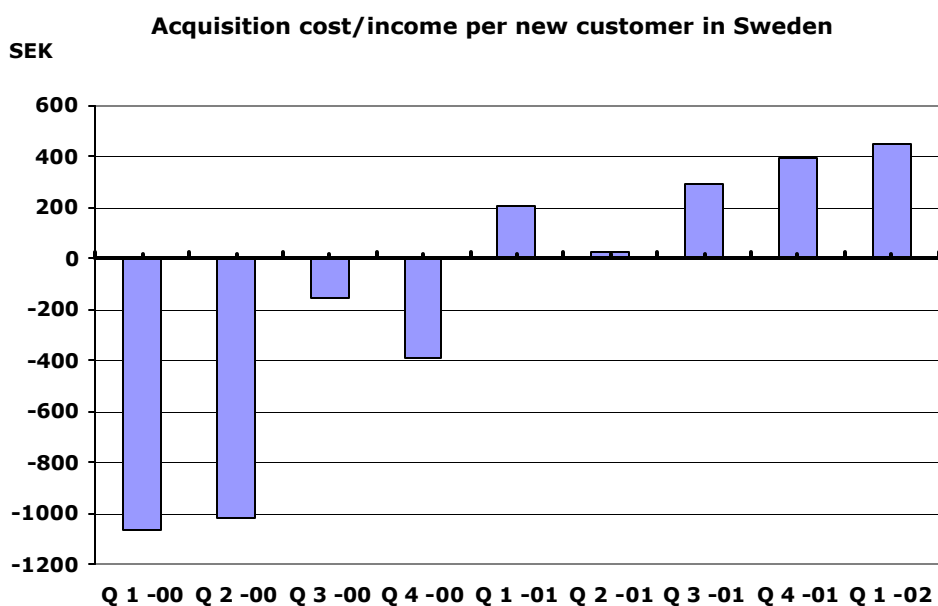
The stock value, which as of March 31 was SEK 30.6 million, has been adjusted for obsolescence. This represents a slight rise since December 31, which has principally appeared in prioritised product areas that are expected to generate higher than average margins.

Marketing

Marketing costs for the period amounted to SEK 1.9 (3.1) million, of which SEK 1.1 (1.5) million was used in Sweden and SEK 0.8 (1.4) 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 Germany, an 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 2.8 % (10.4 %) of the total sales. The corresponding figure for Sweden was 2.3 % (6.7 %), while for Germany it was 4.0 % (19.8%).

Acquisition costs for new customers in Sweden has decreased and fallen from a cost of approximately SEK 600 per customer in 2000 to an *income* of around SEK 400 per customer for the first 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 during Q3 2002.

Result and Gross margins

The result before tax for the period was SEK 1.1 (-6.4) million.

Breakdown of the result by country:

	Sweden	Germany	Belgium	Total
Result, Q1 2002	2.3	-1.2	-	1,1 MSEK
Result, Q1 2001	-1.4	-3.8	-1.2	-6,4 MSEK

The gross margin totalled 22.6 % (20.4%). The improved gross margin is attributable to continued improvements in purchase prices and an increase in sales of accessories.

Financial position and liquidity

Net cash reserves amounted to SEK 59.5 million as of March 31 – equivalent to SEK 10.13 per share. The equity/assets ratio was 75.2 percent. Total equity amounted to SEK 83.3 million, equivalent to SEK 14.18 per share.

Cash flow during the period was positive, and amounted to SEK 3.2 (-15.5) million.

Personnel

The total number of employees was 49 whereof 32 in Sweden and 17 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

There have been no significant incidents to report.

Outlook for 2002

Operations will primarily be focusing on further improvement of the operating margin. 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 for 2002. However, it will naturally generate establishment costs. 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 accounts.

Borås, April 25th 2002



Anders Halvarsson
Chief Executive Officer

Please direct enquiries relating to this interim report to Anders Halvarsson, CEO, on phone number +46 705-48 55 56. This interim report is also published in electronic form at www.netonnet.se and at www.netonnet.de

Upcoming reports

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

Sales report for April 2002	8 May 2002
Sales report for May 2002	6 June 2002
Interim report January–June 2002	22 August 2002
Sales report for July 2002	22 August 2002

PROFIT AND LOSS FIGURES

SEK '000	Jan-Mar 2002	Jan-Mar 2001	Apr-Jun 2001	Jul-Sep 2001	Oct-Dec 2001	Jan-Dec 2001
Net sales	67.258	29.759	31.798	45.169	68.722	175.448
Cost of goods	-52.080	-23.675	-26.268	-34.757	-54.587	-139.287
Gross profit	15.178	6.084	5.530	10.412	14.135	36.161
Staff costs	-5.466	-4.722	-4.881	-5.121	-5.871	-20.595
Marketing costs	-1.934	-3.093	-3.498	-2.815	-3.097	-12.503
Shop costs	-591	-625	-613	-359	-474	-2.071
Close down, Belgium	-	-	-	-	-2.325	-2.325
Other external costs	-5.639	-4.593	-5.276	-4.996	-5.964	-20.829
Depreciation	-291	-226	-313	-298	-229	-1.066
Operating profit/loss	1.257	-7.175	-9.051	-3.177	-3.825	-23.228
Net financial items	-119	813	698	674	543	2.728
Profit/loss before tax	1.136	-6.362	-8.353	-2.503	-3.282	-20.500

BALANCE SHEET

SEK '000	31 March 2002	31 December 2001
Assets		
Fixed assets	3.825	4.052
Long-term receivables	725	756
Inventories/Stock	30.604	29.696
Short-term receivables	16.122	26.148
Cash and bank	59.476	56.236
Total assets	110.752	116.888
Shareholders' equity and liabilities		
Shareholders' equity	83.253	82.117
Current liabilities	27.499	34.771
Total shareholders' equity and liabilities	110.752	116.888

CASH FLOW ANALYSIS

SEK '000	Jan-Mar 2002	Jan-Mar 2001	Jan-Dec 2001
Operations			
Operating profit/loss	1.257	-7.175	-23.228
Adjustments, depreciation	291	226	1.150
Net financial items	-119	813	2.728
Cash flow prior to change in working capital	1.429	-6.136	-19.350
Change in working capital			
Inventories/Stock	-908	-364	-11.062
Operating receivables	10.026	2.894	-11.922
Operating liabilities	-7.274	-11.511	7.882
Cash flow from operations	3.273	-15.117	-34.452
Investment operations			
Acquisition of fixed assets	-33	-372	-2.206
Cash flow from investments	-33	-372	-2.206
CASH FLOW FOR THE PERIOD	3.240	-15.489	-36.658
Liquid funds, opening balance	56.236	92.894	92.894
Liquid funds, closing balance	59.476	77.405	56.236

KEY FINANCIAL FIGURES

SEK '000	Jan-Mar 2002	Jan-Mar 2001	Apr-Jun 2001	Jul-Sep 2001	Oct-Dec 2001	Jan-Dec 2001
Net sales	67.258	29.759	31.798	45.169	68.722	175.448
Gross margin, %	22,6	20,4	17,4	23,1	20,6	20,6
Net Profit/loss before tax	1.136	-6.362	-8.353	-2.503	-3.282	-20.500
Equity ratio, %	75,2	86,2	84,5	77,9	70,3	70,3
Net investments	33	351	823	300	528	2.002
Equity per share, SEK	14.18	16.40	14.98	14.55	13.99	13.99
Profit per share, SEK	0,19	-1,08	-1,42	-0,43	-0,56	-3,49
Number of shares at end of period	5.869.360	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	183.520
Employees at end of period	49	38	41	49	47	47