

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

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

## **High growth rate with strong increase of the result**

- **Sales amounted to SEK 214.9 (106.7) million, an increase of 101 %.**
- **Sales in Sweden add up to SEK 147.0 (75.0) million, an increase of 96 %. Sales in Germany amounted to SEK 67.9 (29.6) million, an increase of 129 %.**
- **The result for the period totalled SEK –0.4 (-17.2) million, of which the result in Sweden accounted for SEK 5.8 (-4.1) million and Germany for SEK –6.2 (-9.8) million.**
- **The profit for the third quarter amounted to SEK 2.0 (-2.5) million.**
- **The profit margin in Sweden reached 4.0 %, and for the Group, the profit margin was –0,2 %.**
- **The cash balance as of September 30 was SEK 45.3 million. Cash flow from operations amounted to –0.9 (-23.5) 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 the period, sales of consumer electronics in Sweden as a whole are estimated to have decreased slightly by 1-2%

Sales in Germany for the industry as a whole are expected to have declined by 15%. The product area TV is evaluated to have decreased by 20%. On the other hand there are some product areas that increase, for example sales of digital cameras grow substantially.

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 214.9 (106.7) million.

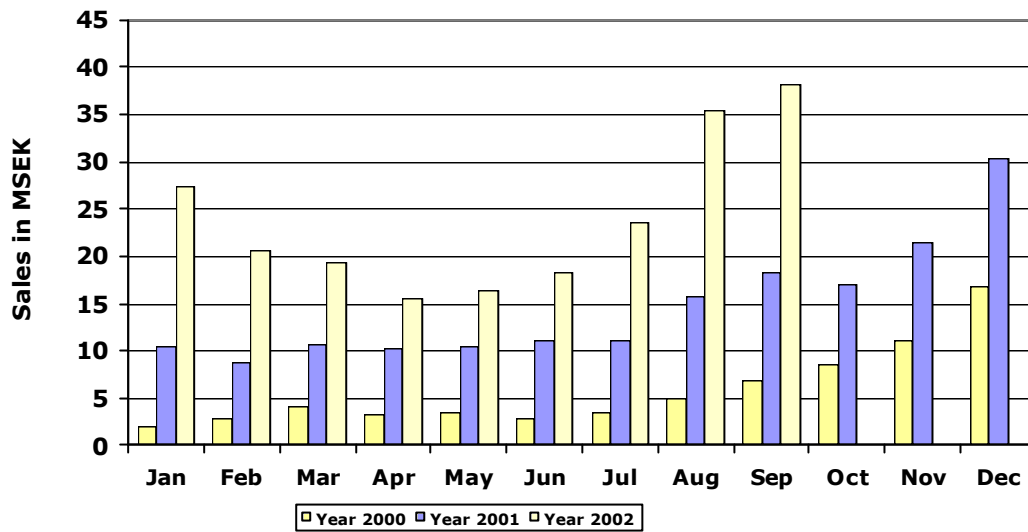
Compared to the same period 2001 this corresponds to an increase of 101 %.

<u>Sales Jan-Sep</u>	<u>2002</u>	<u>2001</u>
(MSEK)		
Sweden	147.0	75.0
Germany	67.9	29.6
Belgium	-	2.1
<u>Total</u>	<u>214.9</u>	<u>106.7</u>

Of the total sales during the period, the *third* quarter amounts to SEK 97.3 (45.2) million, which corresponds to an increase of 115 %.

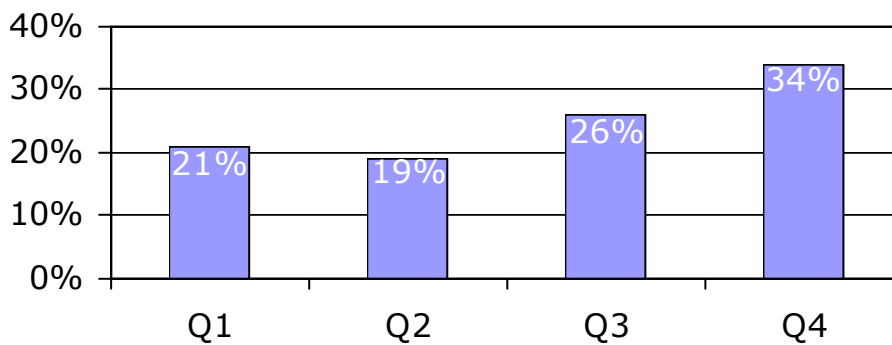
<u>Sales Jul-Sep</u>	<u>2002</u>	<u>2001</u>
(MSEK)		
Sweden	65.7	32.2
Germany	31.6	12.1
Belgium	-	0.9
<u>Total</u>	<u>97.3</u>	<u>45.2</u>

## Sales Jan 2000 - Sep 2002



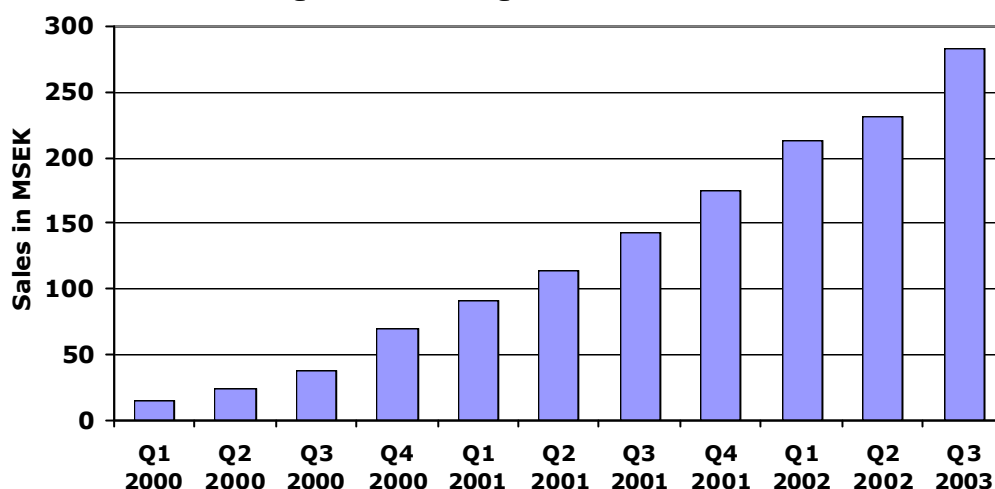
To facilitate evaluation of the make-up of the turnover, the diagrams below illustrates the seasonal variations that influence the domestic electronics industry and rolling 12-month sales.

### Seasonal variation within the domestic electronics industry



Sources: Branschkansliets Marknadsinformation AB

## Rolling 12-month sales Q1 2000 - Q3 2002



The diagram above shows a summary of the recent four quarters to illustrate the development in annual sales. The rolling 12-month-sales is SEK 283, which is an increase by 61.2 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 September 30 was SEK 42.1 million, has been adjusted for obsolescence. This represents an increase since December 31 by SEK 12.4 million. The sole reason for the increase is normal stock up before the high season.

### Marketing

Marketing costs for the period amounted to 7.2 (9.4) million, of which SEK 4.3 (5.0) million was used in Sweden and SEK 2.9 (4.4) million in Germany.

In Sweden advertising with product offers in evening papers accounted for the majority of the marketing costs during quarter 1. During the second and the third quarter though, the main marketing actions consisted of brand-building advertisement and product offers in nationwide TV4. The effects of the TV commercials have been successful which is obvious when you look 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 3.4 % (8.8 %) of the total sales. The corresponding figure for Sweden was 2.9 % (6.7 %), while for Germany it was 4.4 % (9.8%).

### **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. During quarter 3 NetOnNet has moved the operations of the central warehouse in Sweden to new and functional premises in the former Post terminal in Borås. The warehouse is located together with the new and bigger warehouse shop of approximately 2000 m<sup>2</sup>. The corresponding investments and costs are estimated to approximately SEK 4.5 million.

### **Result and Gross margins**

The result before tax for the *period* was SEK -0.4 (-17.2) million.

Breakdown of the result by country:

<u>Result Jan - Sep</u>	<u>2002</u>	<u>2001</u>
(MSEK)		
Sweden	5.8	-4.1
Germany	-6.2	-9.8
Belgium	-	-3.3
<u>Total</u>	<u>-0.4</u>	<u>-17.2</u>

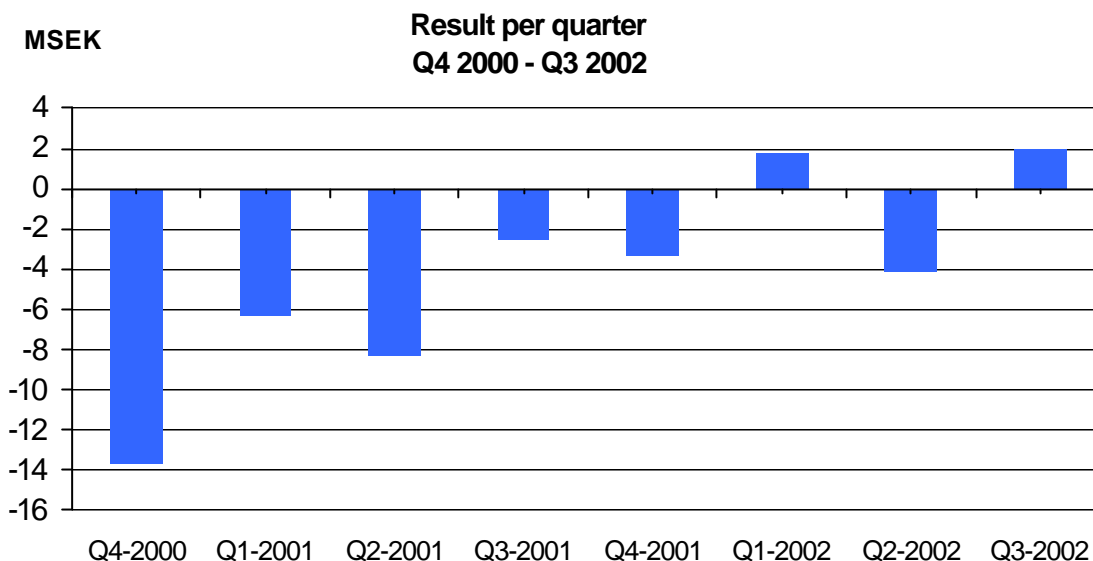
The gross margin totalled 19.9 % (20.6 %).

The result before tax for *the third quarter* was SEK 2.0 (-2.5) million.

<u>Result Jul - Sep</u>	<u>2002</u>	<u>2001</u>
(MSEK)		
Sweden	4.0	0.6
Germany	-2.0	-1.8
Belgium	-	-1.3
<u>Total</u>	<u>2.0</u>	<u>-2.5</u>

The gross margin totalled 18.3 % (23.1%).

The lower gross margin during the period is a consequence of the more aggressive pricing policy that was decided during the second quarter. In combination with a more cost effective marketing the lower margin has being compensated by higher sales volumes.



### **Financial position and liquidity**

As per 30:th of September 2002, net cash reserves amounted to SEK 45.3 million equivalent to SEK 7.72 per share. The equity/assets ratio was 58.1 percent. The equity/assets ratio has decreased due to that the limited partnership company in Ullared has been consolidated into the group. Total equity amounted to SEK 81.5 million, equivalent to SEK 13.88 per share. Cash flow from operations totalled SEK -0,9 (-23.5) million. Cash flow after investments and financial operations amounted to SEK -10.9 (-25.0) million.

### **Personnel**

The total number of employees was 68 whereof 46 in Sweden and 22 in Germany. At the 30:th of June the number of employees was 49. The increase is a result of the strong increase of sales volumes and preparation for further growth of the sales.

### **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. NetOnNet has built a warehouse shop with a storage height of 10 meters and a space of 2500 m<sup>2</sup> situated by parking facilities of shopping center Ge-Kås that have an annual turnover of SEK 2 billion. The new premises are planned to open at November 2002.

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

At the 16:th of 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 that was opened at the 17:th of October.

During October NetOnNet released for the first time a product catalogue of 116 pages that mainly will be distributed to existing customers. The catalogue will also be distributed to visitors in 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.

### **Outlook for 2002**

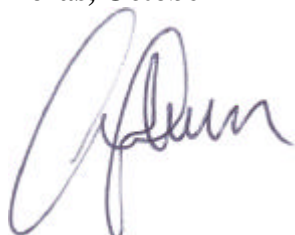
During quarter 2, the aim to improve growth via decreased prices has also begun, both in Germany and Sweden. This has implied an increase growth rate, which is expected to continue during the rest of the year. The establishment of Warehouse Shops are not expected to have a major effect on growth until 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.

### **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, October 24<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 October	6 November 2002
Sales report for November	4 December 2002
Sales report for December	8 January 2003
Annual report January-December	21 February 2003

## PROFIT AND LOSS FIGURES

SEK '000	Jan-Mar 2002	Apr-Jun 2002	Jul-Sep 2002	Jul-Sep 2001	Jan-Sep 2002	Jan-Sep 2001	Jan-Dec 2001
Net sales	67.258	50.319	97.302	45.173	214.879	106.730	175.448
Cost of goods	-52.080	-40.610	-79.473	-34.757	-172.163	-84.700	-139.287
<b>Gross profit</b>	<b>15.178</b>	<b>9.709</b>	<b>17.829</b>	<b>10.416</b>	<b>42.716</b>	<b>22.030</b>	<b>36.161</b>
Staff costs	-5.466	-5.532	-6.033	-5.122	-17.031	-14.725	-20.595
Marketing costs	-1.934	-2.673	-2.612	-2.816	-7.219	-9.407	-12.503
Shop costs	-591	-497	-822	-359	-1.910	-1.597	-2.071
Close down, Belgium	-	-	-	-	-	-	-2.325
Other external costs	-5.639	-5.242	-6.327	-4.996	-17.208	-14.865	-20.829
Depreciation	-291	-306	-342	-298	-939	-837	-1.066
<b>Operating profit/loss</b>	<b>1.257</b>	<b>-4.541</b>	<b>1.693</b>	<b>-3.175</b>	<b>-1.592</b>	<b>-19.401</b>	<b>-23.228</b>
Net financial items	462	458	285	674	1.205	2.185	2.728
<b>Profit/loss before tax</b>	<b>1.719</b>	<b>-4.083</b>	<b>1.978</b>	<b>-2.501</b>	<b>-386</b>	<b>-17.216</b>	<b>-20.500</b>
Tax	0	0	0	0	0	0	0
<b>Profit/loss after tax</b>	<b>1.719</b>	<b>-4.083</b>	<b>1.978</b>	<b>-2.501</b>	<b>-386</b>	<b>-17.216</b>	<b>-20.500</b>

## BALANCE SHEET

SEK '000	30 september 2002	30 september 2001	31 december 2001
<b>Assets</b>			
Fixed assets	24.963	3.753	4.052
Long-term receivables	786	694	756
Inventory/Stock	42.144	22.670	29.696
Short-term receivables	26.946	14.689	26.148
Cash and bank	45.290	67.853	56.236
<b>Total assets</b>	<b>140.129</b>	<b>109.659</b>	<b>116.888</b>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity	81.455	85.401	82.117
Long-term liabilities	12.120	-	-
Current liabilities	46.554	24.258	34.771
<b>Total shareholders' equity and liabilities</b>	<b>140.129</b>	<b>109.659</b>	<b>116.888</b>

## CHANGE IN SHAREHOLDERS EQUITY

SEK '000	Jan - Sep 2002	Jan - Sep 2001	Jan - Dec 2001
<b>Opening balance of shareholders' equity</b>	82.117	102.617	102.617
Translation differences	-276	-	-
Result of the period	-386	-17.216	-20.500
<b>Closing balance</b>	<b>81.455</b>	<b>85.401</b>	<b>82.117</b>

## CASH FLOW ANALYSIS

SEK '000	Jan-Sep 2002	Jan-Sep 2001	Jan-Dec 2001
<b>Operations</b>			
Operating profit/loss	-1.591	-19.401	-23.228
Adjustments, depreciation	939	837	1.150
Net financial items	1.205	2.185	2.728
<b>Cash flow prior to change in working capital</b>	<b>553</b>	<b>-16.379</b>	<b>-19.350</b>
Change in working capital			
Inventories/Stock	-12.448	-4.036	-11.062
Operating receivables	-798	-463	-11.922
Operating liabilities	11.783	-2.631	7.882
<b>Cash flow from operations</b>	<b>-910</b>	<b>-23.509</b>	<b>-34.452</b>
Investment operations			
Acquisition of fixed assets	-3.290	-1.532	-2.206
Premises under construction	-18.590		
<b>Cash flow from investments</b>	<b>-21.880</b>	<b>-1.532</b>	<b>-2.206</b>
Financial operations			
Received loans	-12.120	-	-
Translation differences in equity	-276	-	-
<b>Cash flow from investments</b>	<b>11.844</b>	<b>-</b>	<b>-</b>
<b>CASH FLOW FOR THE PERIOD</b>	<b>-10.946</b>	<b>-25.041</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>45.290</b>	<b>67.853</b>	<b>56.236</b>

## KEY FINANCIAL FIGURES

SEK '000	Jan-Mar 2002	Apr-Jun 2002	Jul-Sep 2002	Jul-Sep 2001	Jan-Sep 2002	Jan-Sep 2001	Jan-Dec 2001
Net sales	67.258	50.319	97.302	45.173	214.879	106.730	175.448
Gross margin, %	22,6	19,3	18,3	23,1	19,9	20,6	20,6
Net Profit/loss before tax	1.719	-4.083	1.978	-2.501	-386	-17.216	-20.500
Equity ratio, %	75,2	74,4	58,1	77,9	58,1	77,9	70,3
Net investments	33	503	21.344	300	21.880	1.532	2.206
Equity per share, SEK	14,18	13.51	13,88	14,55	13.88	14,55	13.99
Profit per share, SEK	0,29	-0,70	0,33	-0,43	-0,07	-2,93	-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	5.869.360
Total outstanding options at end of period	183.520	183.520	183.520	183.520	183.520	183.520	183.520
Emp loyees at end of period	49	49	68	49	68	49	47