

**NetOnNet AB (publ)**  
**Interim report January–December 2003**

*Unless otherwise stated, the comparative figures in the report relate to the same period in 2002.*

## **The profit of NetOnNet reached SEK 13 million**

- **Sales for the period amounted to SEK 631.8 (392.9) million, an increase of 61 %. Sweden accounted for SEK 417.5 (244.9) million, an increase of 70 % and Germany for SEK 214.3 (148.0) million, an increase of 45 %.**
- **The result before tax for the period amounted to SEK 13.0 (1.3) million, of which the result in Sweden accounted for SEK 22.1 (6.6) million and Germany for SEK –9.1 (-5.3) million.**
- **The result before tax for the fourth quarter amounted to SEK 17.0 (1.7) million, of which the result in Sweden accounted for SEK 16.3 (0.8) million and Germany for SEK 0.7 (0.9) million.**
- **For the period, the gross profit amounted to 2.1 % (0.3 %), whereof the gross profit in Sweden accounted for SEK 5.3 % (2.7 %) and Germany for -4.2 % (-3.6 %).**
- **The cash balance as of December 31, amounted to SEK 72.5 (54.8) million. The Cash Flow from operations amounted to SEK 21.0 (3.6) million.**

*NetOnNet (www.netonnet.com) is the first Internet-based shop for consumer electronic appliances in Europe. NetOnNet supplies TV, video, mobile phones, etc. from leading manufacturers such as Sony and others and own brands such as Centrum, Avant and others. 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**

### *The Industry*

Following a weak beginning, the turnover of the consumer electronics industry remained unchanged compared to the previous year in Sweden. Above all, the very strong sales before and after Christmas compensated the weak numbers from earlier of the year. In Germany though, there was a decrease of 6 % for the year and the Christmas sales did not either live up to the expectations.

The products with the highest growth increase are above all digital cameras and DVD. Apart from that DVD-players increased from an already high level, the DVD-recorder made its breakthrough. Flat-TV screens based on Plasma and LCD-technique also sold better than expected, even if they still didn't reach the mass market. The price pressure is constantly tough even if the gross margins turned upwards during the end of the year.

During 2003 the e-business increased its share of the distance shopping market. According to a research made by the Swedish Mail Order Association e-business had during 2003 a 19 % share of its members sales, compared to 13% the previous year.

### *The Company*

Following a good start of 2003, the growth rate decreased during quarter 2 and 3 which partly was planned in order to put extra focus on improving the quality of the internal processes that will lead to improved profitability in the future growth. The decrease was more than expected though, due to external factors like a strong decrease of the demand for e.g. TV and Audio products.

Actions were taken during the third quarter, to improve the competitiveness within the product group digital photo, which resulted in a fast recovery and a substantial increase of the sales in this category. When the demand for TV and Audio regained, the end of the year proved to be very strong

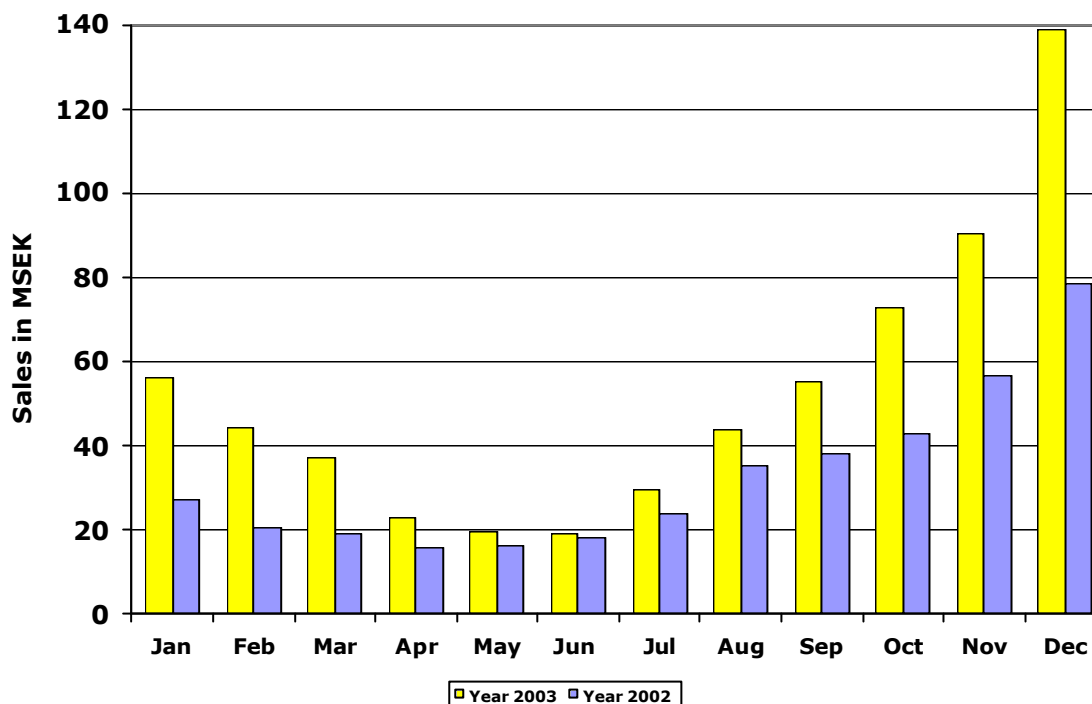
Parallel to the increased sales, the operations were suffering from an unusual amount of delayed deliveries from suppliers, which lead to extra handling costs in above all customer service and logistics during November and December.

### *Outlook*

According to the above-mentioned research there is a fast change in behaviour, from traditional business to e-business, which is regarded as being in favour of NetOnNet, who is a leading actor in the e-business. The near future will also give the consumer electronics industry good opportunities for growth by new technique within Audio & Video that will increase the interest in the products even further and imply for instance increased prices levels. Examples of such products are Flat-screen TV (Plasma and LCD/TFT), the digital TV changeover and digital recording that gradually will replace VHS-VCR. NetOnNet is well positioned to take advantage of these new possibilities with a substantial growth on a market that generally has not been increasing the last two years.

Sources: Gfk Marketing Services, Branschkansliets Marknadsinformation AB, SPF Swedish Mail Order Association, NetOnNet AB

## Turnover Jan 2002 - Dec 2003

**Sales turnover**

The sales during the *period* amounted to SEK 631.8 (392.9) million. Compared to the same period 2002, this is an increase by 61 %.

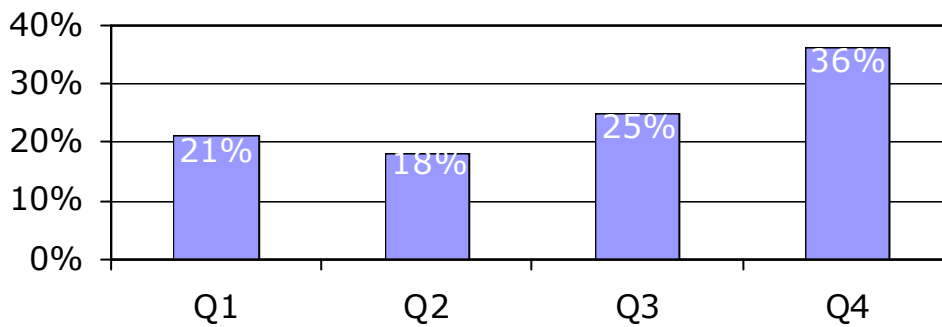
<u>Sales Jan-Dec</u> (MSEK)	2003	2002
Sweden	417.5	244.9
Germany	214.3	148.0
<b>Total</b>	<b>631.8</b>	<b>392.9</b>

Of the sales during the period, the *fourth* quarter accounted for SEK 303.7 (178.0) million, which is an increase by 71 %.

<u>Sales Oct-Dec</u> (MSEK)	2003	2002
Sweden	202.2	97.9
Germany	101.5	80.1
<b>Total</b>	<b>303.7</b>	<b>178.0</b>

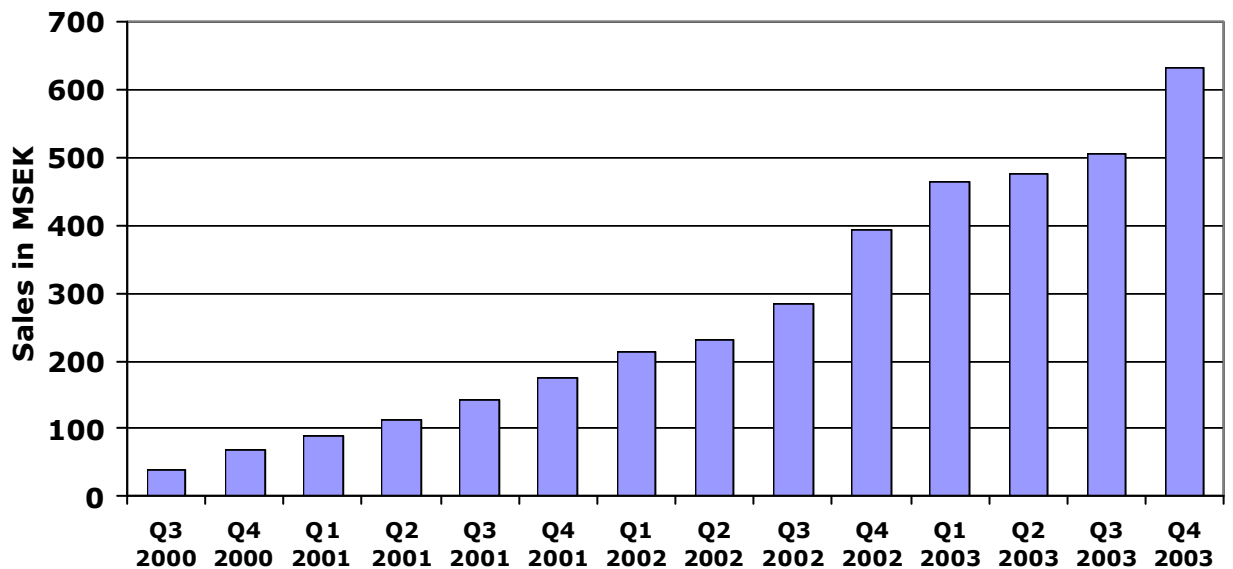
To simplify evaluation of the make-up of the turnover, the diagrams below illustrate the seasonal variations that influence the consumer electronics industry and yearly sales on 4-quarter basis.

**Seasonal variations in the consumer electronics industry**



Source: Branschkansliets Marknadsinformation AB

**Yearly sales on 4-quarter basis  
Q3 2000 - Q4 2003**



The diagram above shows a summary of the recent four quarters to illustrate the development in annual sales.

**Products**

The product areas consists 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 94.9 (68.7) million, has been adjusted for obsolescence. The value has increased with 38 %, while the sales have increased by 61%.

**Marketing**

In Sweden the main marketing actions consisted of brand-building advertisement and product offers in nation-wide TV4 and in addition to that, a catalogue that was distributed to the customers of the company in October.

In Germany, a considerably narrower media mix was used during the first nine months, concentrated mainly on online advertising. As from the middle of October, the marketing in Germany was widened to include TV-commercials on DSF, the main sports channel in Germany, in order to create better long-term effects compared to what pure on-line marketing brings. A new catalogue was produced in Germany as well in October. The marketing costs for the period amounted to SEK 18.8 (12.1) million, of which SEK 11.1 (7.9) million was used in Sweden and SEK 7.7 (4.2) million in Germany.

Marketing costs amounted to 3.0 % (3.1 %) of the total sales. The corresponding share for Sweden was 2.7 % (3.2 %), while for Germany it was 3.6 % (2.8 %).

**Customer Service & Logistics**

Since September 1<sup>st</sup>, 2003 all deliveries are made from a central warehouse in Borås, with the intention to create cost savings as well as reduce tied-up capital. The previous warehouse for the German market was closed down at the same time. The transfer went very smoothly and has implied an increased logistics efficiency, which means that there are recourses for further delivery capacity. The cost for this transition has been taken during the quarter. Our customer service centres are continuously located in Borås and Munich.

Parallel to the increased sales, the operations were suffering from an unusual amount of delayed deliveries from suppliers, which lead to extra handling costs in above all customer service and logistics during November and December.

**Result and Gross margins**

The result before tax for the *period* was SEK 13.0 (1.3) million.

Split of the result by country:

<u>Result Jan-Dec</u> (MSEK)	<u>2003</u>	<u>2002</u>
Sweden	22.1	6.6
Germany	-9.1	-5.3
<u>Total</u>	<u>13.0</u>	<u>1.3</u>

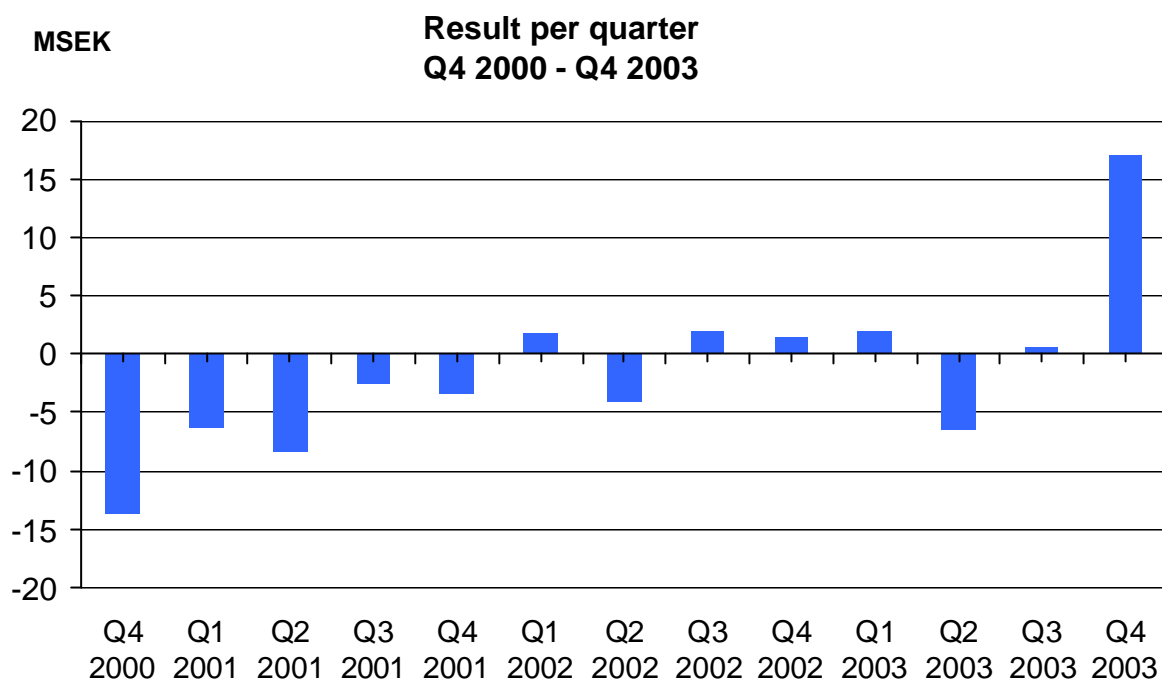
The gross margin totalled 21.5 % (19.0 %).

<u>Result Oct-Dec</u> (MSEK)	<u>2003</u>	<u>2002</u>
Sweden	16.3	0.8
Germany	0.7	0.9
<u>Total</u>	<u>17.0</u>	<u>1.7</u>

The gross margin totalled 22.6 % (17,9 %).

In Sweden the result increased due to a strong growth of the sales combined with a slight increase of the gross margin. In addition to that, the previously started efforts within the organisation began to show result, which lead to that the profit margin in Sweden increased to 5.3 % (2.7 %).

The decreased profitability in Germany is mainly a result of a general stagnation of the market. This lead to increased competition with lower margins. Through efforts in, among others, TV-commercials and a wider assortment during the autumn, the margin as well as the result has improved, but not enough to improve the result compared to the previous year.



### Financial position and liquidity

As per December 31, 2003 net cash reserves amounted to SEK 72.5 (54.8) million equivalent to SEK 12.05 (9.18) per share. The equity ratio was 44.9 % (47.7 %). Total equity amounted to SEK 114.6 (103.1) million, equivalent to SEK 19.04 (17.26) per share after the current subscription of shares due to the redemption of the stock option program for employees at NetOnNet.

Cash flow from operations totalled SEK 21.0 (3.6) million. Cash flow after investments and financial operations amounted to SEK 17.7 (-1.3) million.

### Financial risks

#### *Financing risk*

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

#### *Credit / counter party 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 counter parties with very high credit rating.

#### *Currency risk*

The company policy is to forward cover at the time of the purchase. Forward agreements are mainly made in USD and EUR.

### Personnel

Total number of employees at the end of December was 134 (108) whereof 101 (82) in Sweden and 33 (26) in Germany. The average the number of employees during the year was 98 (69).

**Significant events during the period**

In February, NetOnNet received the distinction *Retail Awards* from the Swedish Federation of Trade and TEMO 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*.

In November NetOnNet received another distinction as *The best export to Germany* from the Export Council in Sweden and the Swedish Chamber of Commerce in the category for small and middle-sized companies.

During the year the position as one of the leading e-commerce companies in Sweden has been further reinforced. This is shown in a study performed by Nielsen/NetRatings, which reports that NetOnNet has increased the number of visitors at the web by approximately 100 000 unique visitors per month, where for example in December the number amounted to 384 000 visitors. This makes the company by far the largest e-commerce company in consumer electronics in Sweden.

**Events after the close of the period**

On February 4<sup>th</sup> a sales report for January was published which shows continues strong growth. Sales amounted to SEK 88.7 (56.3) million, an increase of 58 %. Yearly turnover on a 12-month basis amounted to SEK 663.0 (422.0), an increase of 57 %.

At the board meeting on February 19<sup>th</sup> it was decided that NetOnNet soon shall apply for an entry at the O-list at the Stockholm Stock exchange.

In February 2004, NetOnNet received the distinction *Retail Awards* from the Swedish Federation of Trade and TEMO for the fourth consecutive year. Retail awards concerns different categories of the whole retail business in Sweden and NetOnNet received the award as *Sales rocket of the year*.

**Outlook for 2004**

The consumer electronics market has good opportunities for growth of sales in new product categories as Flat-screen TV, Digital TV, Digital recording, Digital photo etc.

The development of private consumption is difficult to estimate, but Sweden is expected to have a slight increase whereas Germany probably will have another year of decreased consumption.

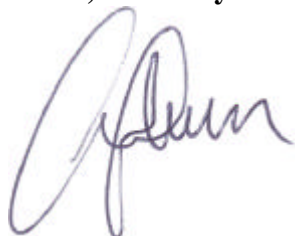
Operations will put in position towards continues growth with a gradual improvement of profitability. The most important factor for the expectations of growth is that the e-business as a whole is expected to increase and continue to take shares of traditional trade.

Relatively, the result is estimated to increase more than sales as the same time as the direction towards growth means costs that will burden the result to be able to build future volume increases.

**Accounting principles**

The accounting principles used for this report are the same as those used in the most recent annual report.

**Borås, February 24<sup>th</sup> 2004**



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 published in electronic form at [www.netonnet.se](http://www.netonnet.se) and at [www.netonnet.de](http://www.netonnet.de)

The auditors of the Company have not reviewed this report.

**General meeting and dividend**

The annual report for 2003 will be distributed in the middle of April and will also be published on [www.netonnet.se](http://www.netonnet.se) at that period of time.

The general meeting will be held on Thursday April 29<sup>th</sup> 2004. The record day for the general meeting and the shareholders register is April 19<sup>th</sup> 2004. The board proposes no dividend for the financial year of 2003.

**Upcoming reports**

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

Sales report for February	March 4 <sup>th</sup> 2004
Sales report for March	April 6 <sup>th</sup> 2004
Interim report January-March	April 22 <sup>nd</sup> 2004

**PROFIT AND LOSS OF THE GROUP**

SEK '000	Oct-Dec 2003	Oct-Dec 2002	Jan-Dec 2003	Jan-Dec 2002	Jan-Dec 2001
Net sales	303.687	178.066	631.834	392.945	175.448
Cost of goods sold	-235.137	-146.133	-496.103	-318.297	-139.287
<b>Gross profit 1</b>	<b>68.550</b>	<b>31.933</b>	<b>135.731</b>	<b>74.648</b>	<b>36.161</b>
Direct sales costs	-18.384	-9.124	-36.605	-20.223	-10.175
<b>Gross profit 2</b>	<b>50.166</b>	<b>22.809</b>	<b>99.126</b>	<b>54.425</b>	<b>25.986</b>
Staff costs	-13.522	-9.907	-40.692	-26.938	-20.595
Marketing costs	-10.547	-4.830	-18.786	-12.049	-12.503
Web costs	-602	-800	-2.541	-2.710	-2.071
Close down, Belgium	-	-	-	-	-2.325
Other external costs	-7.247	-4.595	-19.705	-10.703	-10.654
Depreciation	-903	-673	-3.469	-1.612	-1.066
<b>Operating profit/loss</b>	<b>17.345</b>	<b>2.004</b>	<b>13.933</b>	<b>413</b>	<b>-23.228</b>
Net financial items	-337	-269	-903	936	2.728
<b>Profit/loss before tax</b>	<b>17.008</b>	<b>1.735</b>	<b>13.030</b>	<b>1.349</b>	<b>-20.500</b>
Tax	-4.758	16.100	-3.648	16.100	0
<b>Profit/loss after tax</b>	<b>12.250</b>	<b>17.835</b>	<b>9.382</b>	<b>17.449</b>	<b>-20.500</b>

**BALANCE SHEET OF THE GROUP**

SEK '000	31 December 2003	31 December 2002	31 December 2001
<b>Assets</b>			
Fixed assets	31.566	31.699	4.052
Long-term receivables	13.796	16.891	756
Inventory/Stock	94.936	68.655	29.696
Short-term receivables	42.121	43.761	26.148
Cash and bank	72.472	54.829	56.236
<b>Total assets</b>	<b>254.891</b>	<b>215.835</b>	<b>116.888</b>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity	114.558	103.052	82.117
Provisions	2.660	1.444	891
Long-term liabilities	19.967	21.255	-
Current liabilities	117.706	90.084	33.880
<b>Total shareholders' equity and liabilities</b>	<b>254.891</b>	<b>215.835</b>	<b>116.888</b>

**CHANGE IN SHAREHOLDERS EQUITY**

SEK '000	Jan – Dec 2003	Jan – Dec 2002	Jan – Dec 2001
<b>Opening balance of shareholders' equity</b>	<b>103.052</b>	<b>82.117</b>	<b>102.617</b>
New share issue	1.947	3.602	-
Translation differences	177	-116	-
Result of the period	9.382	17.449	-20.500
<b>Closing balance</b>	<b>114.558</b>	<b>103.052</b>	<b>82.117</b>

## CASH FLOW ANALYSIS OF THE GROUP

SEK '000	Jan-Dec 2003	Jan-Dec 2002	Jan-Dec 2001
<b>Operations</b>			
Operating profit/loss	13.933	413	-23.228
Adjustments, depreciation	3.469	1.612	1.150
Adjustments, provisions	1.216	553	658
Adjustments, translations differences	273	0	0
Adjustment net loss on sales / scrapping of fixed assets	0	453	0
Net financial items	-903	936	2.728
<b>Cash flow prior to change in working capital</b>	<b>17.988</b>	<b>3.967</b>	<b>- 18.692</b>
Change in working capital			
Inventories/Stock	-26.280	- 38.959	- 11 062
Operating receivables	1.640	- 17.613	-11 922
Operating liabilities	27.622	56.205	7 224
<b>Cash flow from operations</b>	<b>20.970</b>	<b>3.600</b>	<b>- 34 452</b>
<b>Investment operations</b>			
Acquisition of fixed assets	-3.889	- 29.883	- 2.206
Sales of fixed assets	0	136	0
<b>Cash flow from investments</b>	<b>-3.889</b>	<b>- 29.747</b>	<b>- 2 206</b>
<b>Financial operations</b>			
New share issue	1.947	3.601	0
Change of loans	-1.288	21.255	0
<b>Cash flow from financial operations</b>	<b>659</b>	<b>24.856</b>	<b>0</b>
<b>CASH FLOW OF THE PERIOD</b>	<b>17.740</b>	<b>- 1.291</b>	<b>- 36 658</b>
<b>Liquid funds, opening balance</b>	<b>54.829</b>	<b>56 236</b>	<b>92 894</b>
<b>Exchange rate difference in liquid funds</b>	<b>- 97</b>	<b>- 116</b>	<b>0</b>
<b>Liquid funds, closing balance</b>	<b>72.472</b>	<b>54 829</b>	<b>56 236</b>

## KEY FINANCIAL FIGURES

SEK '000	Oct-Dec 2003	Oct-Dec 2002	Jan-Dec 2003	Jan-Dec 2002	Jan-Dec 2001
Net sales	303.687	178.066	631.834	392.945	175.448
Gross margin, %	22.6	17.9	21.5	19.0	20.6
Net Profit/loss before tax	17.008	1.735	13.030	1.349	-20.500
Equity ratio, %	44.9	47.7	44.9	47.7	70.3
Net investments	960	7.416	3.889	29.296	2.206
Equity per share, SEK	19.04	17.26	19.04	17.26	13.99
Profit per share before dilution, SEK	2.04	2.67	1.57	2.87	-3.49
Profit per share after dilution, SEK	2.04	2.66	1.57	2.87	-3.49
Number of shares at the end of period	6.015.680	5.972.280	6.015.680	5.972.280	5.869.360
Total outstanding options at the end of period	82.000	80.600	82.000	80.600	183.520
Employees at the end of period	134	108	134	108	47