

NetOnNet AB (publ)
Interim report January–June 2003

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

NetOnNet increased the sales by 69 %

- **Sales amounted to SEK 199.3 (117.6) million, an increase of 69 %. Sweden accounted for SEK 117.3 (81.3) million, an increase of 44 % and Germany for SEK 82.0 (36.3) million, an increase of 126 %.**
- **The result for the period amounted to SEK -4.5 (-2.4) million, of which the result in Sweden accounted for SEK 0.0 (1.8) million and Germany for SEK -4.5 (-4.2) million.**
- **The stock value has been reduced by SEK 33.4 million from year-end 2002 when it amounted to SEK 68.7 million. As of June 30, the stock value was SEK 35.3 (22.3) million.**
- **The cash balance as of June 30, amounted to SEK 54.2 (58.1) million. The Cash Flow amounted to SEK -0.5 (2.3) million during the period.**

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 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

The Company

NetOnNet has during the second quarter put extra focus on improving the quality of the internal processes that will lead to improved profitability in the future growth. One action was to decrease the growth rate for instance by reducing marketing actions. Another such action was to reduce the stock, which was carried through by decreasing the assortment in general and in trend sensitive areas with weak margins, for example in digital cameras and mobile phones. At the same time as NetOnNet has been cautious, these product areas have grown on the rest of the market.

NetOnNet has already from the start built its strongest market positions within the more mature product areas as Audio & Video. These areas have during the period lost sales, among others, due to the strong sales increase of digital cameras and mobile phones. Furthermore, heavy price decreases have implied that increases in the numbers of sold items have not given full impact in the growth of sales value. This is though, expected to be compensated in the future by the introduction new technique as described under the item *Outlook*.

All in all, the external market conditions implied that the growth rate slowed down faster than expected, which has influenced the result in a negative way during the period. In spite of these, for the growth unfavourable circumstances, NetOnNet has been able to increase the sales and hereby the market shares within Audio & Video

After the actions were carried out that for instance decreased the stock value, the Company estimates that the sales of products within Audio & Video will regain shares when the autumn season starts. After the slim-down of the exposure within the group digital cameras, the positions within this group will gradually be enhanced during the autumn. This picture is valid in both Sweden and Germany, however with a higher impact on the sales in Germany.

The Industry

During the first half-year of 2003, the market for consumer electronics within the main group Audio & Video, is estimated to have decreased by 8 % in Sweden and 12 % in Germany compared to the same period last year. Within this area for instance TV have decreased by 20 % in value and by 10 % in number of items. Parallel to this, the market for digital cameras is estimated to have increased by approximately 64 % in value and 112 % in numbers. Mobile phones have increased by 10 % in value and with 29 % in numbers.

Outlook

The near future will give the 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 average prices. 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 been decreasing the last two years. Even when the market for consumer electronics is declining, the Company Management estimates that it could be favourable for NetOnNet thanks to its low cost concept with lower prices.

Sources: Gfk Marketing Services, Branschkansliets Marknadsinformation AB, SFL Sveriges Fotoleverantörer, NetOnNet AB

Sales

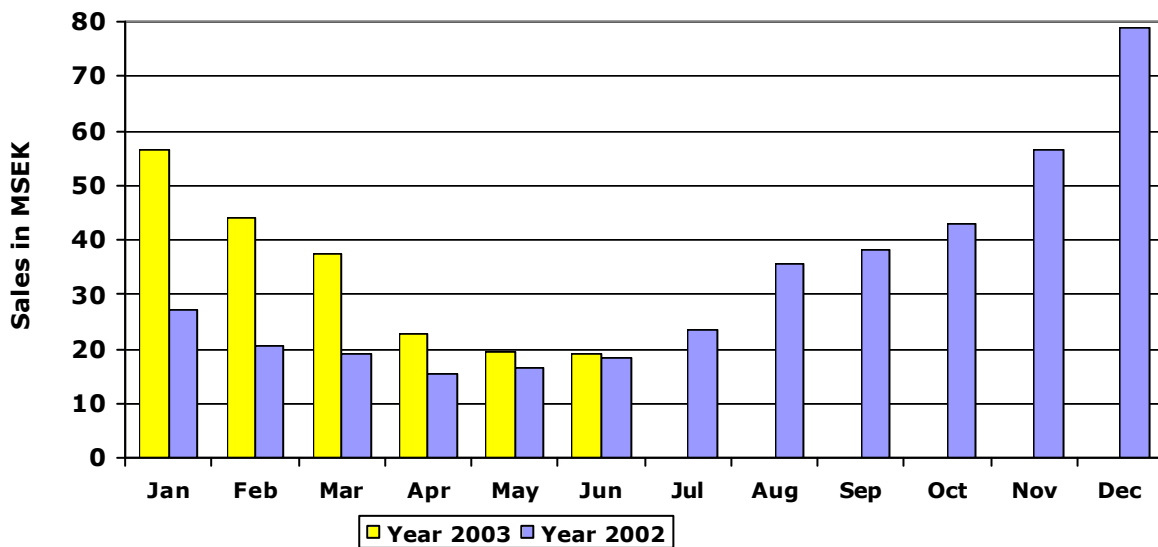
The sales during the *period* amounted to SEK 199.3 (117.6) million.
 Compared to the same period 2002, this corresponds to an increase by 69 %.

<u>Sales Jan-Jun</u>	<u>2003</u>	<u>2002</u>
(MSEK)		
Sweden	117.3	81.3
Germany	82.0	36.3
Total	199.3	117.6

Of the sales during the period, the second quarter accounted for SEK 61.3 (50.3) million, which corresponds to an increase by 22 %.

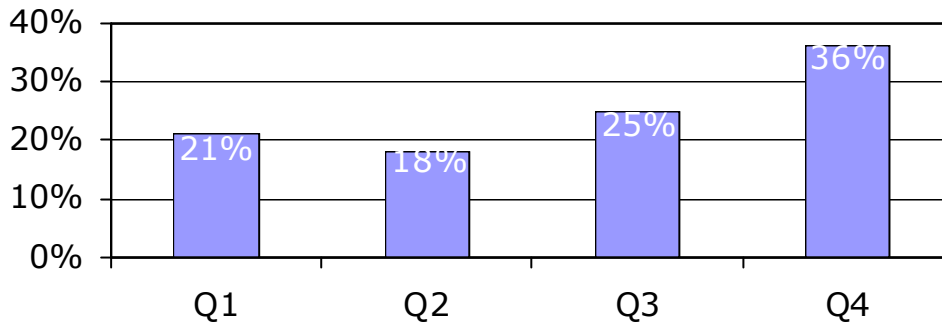
<u>Sales Apr-Jun</u>	<u>2003</u>	<u>2002</u>
(MSEK)		
Sweden	40.0	32.7
Germany	21.3	17.6
Total	61.3	50.3

Sales Jan 2002 - Jun 2003



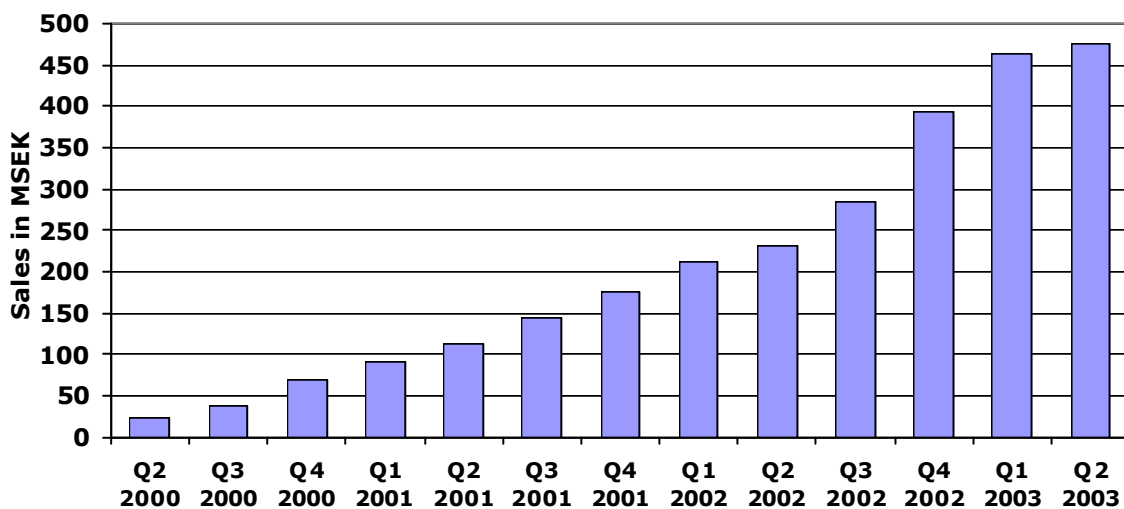
To facilitate evaluation of the make-up of the turnover, the diagrams below illustrate the seasonal variations that influence the consumer electronics industry and yearly sales on 4-quarter basis.

Seasonal variations in the consumer electronics industry



Source: Branschkansliets Marknadsinformation AB

Yearly sales on 4-quarter basis Q2 2000 - Q2 2003



The diagram above shows a summary of the recent four quarters to illustrate the development in annual sales. The yearly sales are SEK 474.8 million, which is an increase of 105 % to previous year.

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 June 30 was SEK 35.3 (22.3) million, has been adjusted for obsolescence. From year-end 2002, the stock has decreased by SEK 33.4 million from SEK 68.7 million.

Marketing

In Sweden the main marketing actions consisted of brand-building advertisement and product offers in nation-wide TV4.

In Germany, a considerably narrower media mix was used, concentrated mainly on online advertising.

Marketing costs for the period amounted to SEK 3.8 (4.6) million, of which SEK 1.9 (2.5) million was used in Sweden and SEK 1.9 (2.1) million in Germany.

Investments in marketing are becoming continuously more efficient, and costs amounted to 1.9 % (3.9 %) of the total sales. The corresponding share for Sweden was 1.6 % (3.1 %), while for Germany it was 2.3 % (5.8 %).

Customer Service & Logistics

Nothing essential to be reported.

Result and Gross margins

The result before tax for the *period* was SEK -4.5 (-2.4) million.

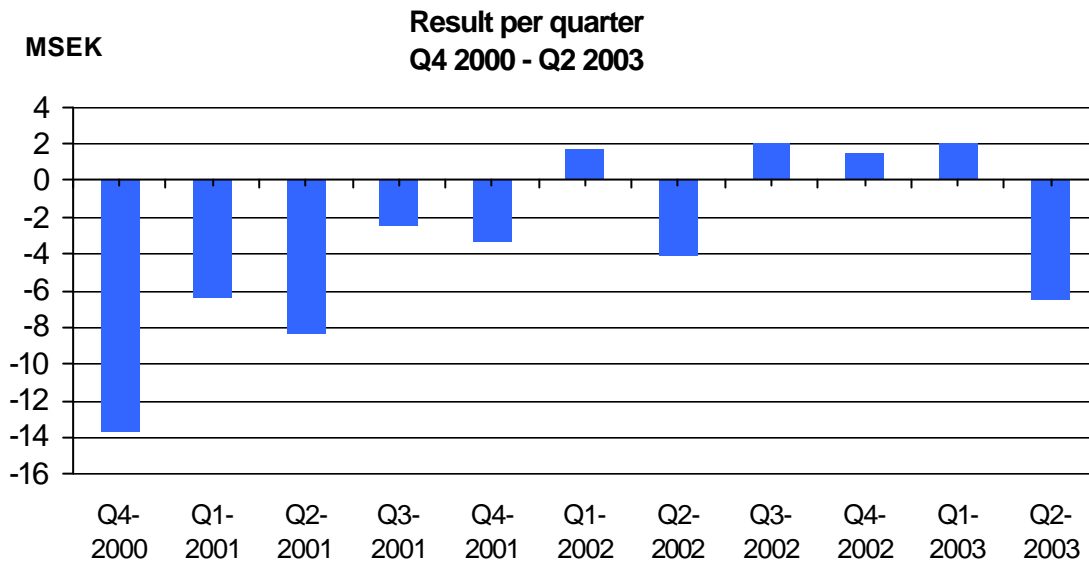
Split of the result by country:

<u>Result Jan - Jun</u>	<u>2003</u>	<u>2002</u>
(MSEK)		
Sweden	0.0	1.8
Germany	-4.5	-4.2
<u>Total</u>	<u>-4.5</u>	<u>-2.4</u>

The gross margin totalled 20.0 % (21.2 %).

<u>Result Apr - Jun</u>	<u>2003</u>	<u>2002</u>
(MSEK)		
Sweden	-2.8	-1.1
Germany	-3.7	-3.0
<u>Total</u>	<u>-6.5</u>	<u>-4.1</u>

The gross margin totalled 21.7 % (19.3 %).



Financial position and liquidity

As per June 30, 2003 net cash reserves amounted to SEK 54.2 (58.1) million equivalent to SEK 9.00 (9.90) per share and the equity/assets ratio was 65.9 % (74.4%). Total equity amounted to SEK 101.1 (79.3) million, equivalent to SEK 16.80 (13.51) 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 -0.3 (2.9) million. Cash flow after investments and financial operations amounted to SEK -0.5 (2.3) 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 / 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

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

Personnel

The total number of employees at the end of June was 81 (49) whereof 59 (33) in Sweden and 22 (16) in Germany. On the 31st of December 2002, the number of employees was 108 persons.

Significant events during the period

In February, NetOnNet received the distinction *Retail Awards* from Svensk Handel 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*.

Events after the close of the period

During the autumn all deliveries in and out of stock will go through a common Central Warehouse in Sweden. It is the estimation of the Company that this will result in cost savings as well as decreased capital tied up.

The sales report for July, which was published August 5, shows a sales growth by 24 %.

Outlook for the second half of 2003

The directions for the year are consolidation and focus on profitability. Considering that the peak season of the consumer electronics industry appear during the autumn, the expected improvements in profitability will not be noticed until the third and fourth quarter of 2003.

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 prerequisites for an improved result for the full-year of 2003.

Accounting principles

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

Borås, August 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

The auditors of the Company have not reviewed this report.

Upcoming reports

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

Sales report for August	4 September 2003
Sales report for September	3 October 2003
Interim report January - September	23 October 2003

PROFIT AND LOSS

SEK '000	Apr-Jun 2003	Apr-Jun 2002	Jan-Jun 2003	Jan-Jun 2002	Jan-Dec 2002	Jan-Dec 2001
Net sales	61.379	50.319	199.348	117.577	395.364	175.769
Cost of goods sold	-48.050	-40.610	-159.471	-92.690	-318.297	-139.287
Gross profit 1	13.329	9.709	39.877	24.887	77.067	36.482
Direct sales costs	-3.482	-2.914	-11.343	-6.966	-20.223	-10.175
Gross profit 2	9.847	6.795	28.534	17.921	56.844	26.307
Staff costs	-8.719	-5.532	-18.444	-10.998	-26.938	-20.595
Marketing costs	-1.953	-2.673	-3.807	-4.607	-12.049	-12.503
Shop costs	-500	-497	-989	-1.088	-2.710	-2.071
Close down, Belgium	-	-	-	-	-	-2.325
Other external costs	-4.038	-2.328	-7.891	-3.915	-13.122	-10.975
Depreciation	-829	-306	-1.629	-597	-1.612	-1.066
Operating profit/loss	-6.192	-4.541	-4.226	-3.284	413	-23.228
Net financial items	-264	458	-236	920	936	2.728
Profit/loss before tax	-6.456	-4.083	-4.462	-2.364	1.349	-20.500
Tax	1.808	0	1.250	0	16.100	0
Profit/loss after tax	-4.648	-4.083	-3.212	-2.364	17.449	-20.500

BALANCE SHEET

SEK '000	30 June 2003	30 June 2002	31 December 2002	31 December 2001
Assets				
Fixed assets	31.122	3.965	31.699	4.052
Long-term receivables	18.731	782	16.891	756
Inventory/Stock	35.251	22.334	68.655	29.696
Short-term receivables	14.036	21.410	43.761	26.148
Cash and bank	54.158	58.096	54.829	56.236
Total assets	153.298	106.587	215.835	116.888
Shareholders' equity and liabilities				
Shareholders' equity	101.061	79.294	103.052	82.117
Provisions	1.194	814	1.444	891
Long-term liabilities	21.267	-	21.255	-
Current liabilities	29.776	26.479	90.084	33.880
Total shareholders' equity and liabilities	153.298	106.587	215.835	116.888

CHANGE IN SHAREHOLDERS EQUITY

SEK '000	Jan - Jun 2003	Jan - Jun 2002	Jan - Dec 2002	Jan - Dec 2001
Opening balance of shareholders' equity	103.052	82.117	82.117	102.617
New share issue	1.345	-	3.602	-
Translation differences	-124	-459	-116	-
Result of the period	-3.212	-2.364	17.449	-20.500
Closing balance	101.061	79.294	103.052	82.117

CASH FLOW ANALYSIS

SEK '000	Jan - Jun 2003	Jan - Jun 2002	Jan - Dec 2002	Jan - Dec 2001
Operations				
Operating profit/loss	-4.226	-3.284	413	-23.228
Adjustments, depreciation	1.629	597	1.612	1.150
Adjustments, provisions	-250	-77	553	658
Adjustment net loss on sales / scrapping of fixed assets	0	0	453	0
Net financial items	-236	920	936	2.728
Cash flow prior to change in working capital	-3.083	-1.844	3.967	-18.692
Change in working capital				
Inventories/Stock	33.404	7.362	-38.959	-11 062
Operating receivables	29.725	4.738	-17.613	-11 922
Operating liabilities	-60.308	-7.401	56.205	7 224
Cash flow from operations	-262	2.855	3.600	-34 452
Investment operations				
Acquisition of fixed assets	-1.642	-536	-29.883	-2.206
Sales of fixed assets	0	0	136	0
Cash flow from investments	-1.642	-536	-29.747	-2 206
Financial operations				
New share issue	1.345	0	3.601	0
Received loans	12	0	21.255	0
Cash flow from financial operations	1.357	0	24.856	0
CASH FLOW OF THE PERIOD	-547	2.319	-1.291	-36 658
Liquid funds, opening balance	54.829	56.236	56 236	92 894
Translation differences in equity	-124	-459	-116	0
Liquid funds, closing balance	54.158	58.096	54 829	56 236

KEY FINANCIAL FIGURES

SEK '000	Apr-Jun 2003	Apr-Jun 2002	Jan-Jun 2003	Jan-Jun 2002	Jan-Dec 2002	Jan-Dec 2001
Net sales	61.379	50.319	199.348	117.577	392.945	175.448
Gross margin, %	21,7	19,3	20,0	21,2	19,0	20,6
Net Profit/loss before tax	-6.456	-4.083	-4.462	-2.364	1.349	-20.500
Equity ratio, %	65,9	74,4	65,9	74,4	47,7	70,3
Net investments	1.071	503	1.642	536	29.296	2.206
Equity per share, SEK	16,80	13,51	16,80	13,51	17,26	13,99
Profit per share before tax	-1,07	-0,70	-0,74	-0,40	0,23	-3,49
Profit per share after tax	-0,77	-0,70	-0,53	-0,40	2,92	-3,49
Number of shares at the end of period	6.015.680	5.869.360	6.015.680	5.869.360	5.972.280	5.869.360
Total outstanding options at the end of period	0	183.520	0	183.520	80.600	183.520
Employees at the end of period	81	49	81	49	108	47