

## **NetOnNet AB (publ)**

556520-4137

### **Interim report, January – June 2004**

*Unless otherwise stated, the comparative figures in the interim report relate to corresponding period in 2003.*

## **NetOnNet shows improved result**

### **HALF-YEAR (Jan – June)**

- **Sales amounted to SEK 416.5 (199.3) millions, an increase of 109 %.**
- **Net income amounted to SEK 0.5 (-3.2) millions.**
- **Earnings per share amounted to SEK 0.09 (-0.54).**

### **SECOND QUARTER (April – June)**

- **Sales amounted to SEK 171.3 (61.4) millions, an increase of 179 %.**
- **Net income amounted to SEK -2.6 (-4.6) millions.**
- **Earnings per share amounted to SEK -0.43 (-0.78).**

### **ROLLING 12 MONTHS (July – June)**

- **Sales for rolling 12 months amounted to SEK 848.9 (474.7) millions.**
- **Net income for rolling 12 months amounted to SEK 13.1 (-0.5) millions.**

*NetOnNet ([www.netonnet.com](http://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*

### Net Sales

The net sales during the first six months amounted to SEK 416.5 (199.3) millions. Compared to the same period 2003, this is an increase by 109 %. Of the total sales increase 0 % refers to changes in exchanges rates, 168 % to increase in volumes, reduced for price changes by 22 %.

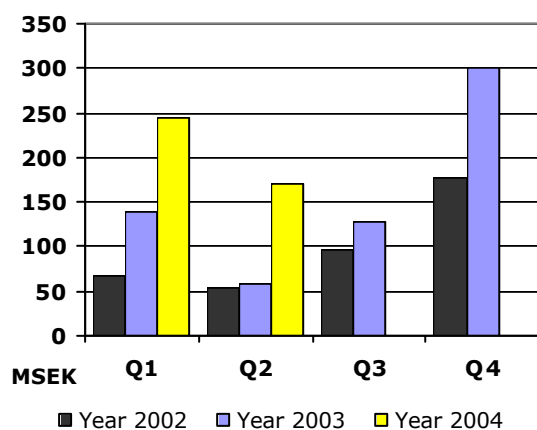
<u>Net Sales Jan-June</u>	<u>2004</u>	<u>2003</u>
(SEK million)		
Sweden	276.6	117.3
Germany	139.9	82.0
<b>Total</b>	<b>416.5</b>	<b>199.3</b>

Of the half-year's net sales the second quarter, April-June, amounts to SEK 171.3 (61.4) millions, which is an increase by 179 %. Of the total sales increase 0 % refers to changes in exchanges rates, 236 % to increase in volumes, reduced for price changes by 17 %.

<u>Net Sales April-June</u>	<u>2004</u>	<u>2003</u>
(SEK million)		
Sweden	119.5	40.1
Germany	51.8	21.3
<b>Total</b>	<b>171.3</b>	<b>61.4</b>

Compared to previous year net sales were higher within all product areas. Within the newer areas as Digital cameras and Computer products sales have increased considerably more than in other areas.

### Net Sales quarterly 2002 - 2004



### Operating income and gross margin

Operating income for the half-year, January-June, amounted to SEK 1.1 (-4.2) millions.

<u>Operating income Jan - Jun</u>	<u>2004</u>	<u>2003</u>
(SEK million)		
Sweden	7.1	0.3
Germany	-6.0	-4.5
<b>Total</b>	<b>1.1</b>	<b>-4.2</b>

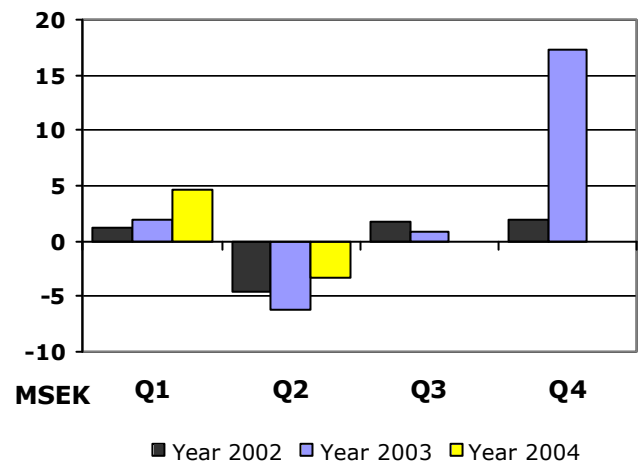
Gross margin totalled 21.3 (20.0) % during the half-year.

Operating income for the second quarter, April-June, amounted to SEK -3.4 (-6.2) millions.

<u>Operating income Apr - Jun</u>	<u>2004</u>	<u>2003</u>
(SEK million)		
Sweden	0.0	-2.7
Germany	-3.4	-3.5
<b>Total</b>	<b>-3.4</b>	<b>-6.2</b>

Gross margin totalled 21.0 (21.7) % during the second quarter.

### Operating income quarterly 2002 - 2004



#### Sweden

In Sweden the income improved due to the strong sales increase. At the same time the general costs in relation to net sales have decreased, which resulted in an increased of the operating margin in Sweden to 2.6 (0.2) % during the half-year.

#### Germany

The decreased operating income during the first six months in Germany is mainly explained by the enlarged investments in marketing in order to strengthen the market

position and increase growth. Altogether the increased marketing had an impact on the operating income by SEK 4.5 millions. The pricing of the products have been more aggressive, which has resulted in slightly decreased gross margin, at the same time as provisions for guarantee risks were increased relatively compared to last year, which reduced the operating income by SEK 0.7 millions. The management estimates that the German business will show good profit in the future, mainly motivated by the potential in volumes that exists in the German market. The operating margin amounted to -4.3 (-5.5) % during the half-year.

#### *Rolling twelve months*

The table below shows the development of the income for the last twelve months.

Rolling twelve months, SEK million	June 2004	June 2003
Net sales	848.9	474.7
Operating expenses	-829.6	-475.2
Operating income	19.3	-0.5

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

During the first quarter the company sought to be listed at the O-list at Stockholmsbörsen. The process was a qualitysecurement of the company with the purpose to raise the confidence on the consumer market and increase the company's status at the capital market. The cost of the process has effected the operating income by SEK 1.8 millions. The 25<sup>th</sup> May the trade in the NetOnNet-stock began at the O-list.

The work during the period has been focused at increased growth in existing channels. This has been done by increased marketing and broadening the assortment. At the same time focus has been at preparing the organization for coming volume increases. This has come about through increasing the staff and investments in IT.

At the shareholders' general meeting the 29th April 2004 a decision was made to increase the board with an external board member, Ebbe Pelle Jacobsen, who among other things has been Chief for IKEA Germany, CEO for Habitat and has had a leading position in Bang & Olufsen. Furthermore, the company has, besides Thomas Andersson, as a new auditor, elected Björn Grundvall.

#### **Marketing**

In Sweden the main marketing actions consisted of brand-building advertisement and product offers in nation-wide TV4 and in addition to that, advertizing in mainly Svenska Dagbladet.

In Germany the marketing has been focused on TV-commercials and On-line marketing. In addition to this the company has advertised in the Homeentertainment magazine AudioVideoFoto-Bild, which is the largest magazine in Germany regarding homeentertainment.

The marketing costs amounted to SEK 14.1 (3.8) millions for the half-year, of which Sweden accounted for SEK 7.7 (1.9) millions and Germany for SEK 6.4 (1.9) millions.

Marketing costs amounted to 3.4 (1.9) % of the total sales. The corresponding share for Sweden was 2.8 (1.6) %, while for Germany it was 4.6 (2.3) %.

#### **Customer Service & Logistics**

No special events to report.

#### **Administration and IT**

In order to build a platform for future expansion and secure a reliable support for logistics, processing of orders, purchase etc, a project has started during the first six months. The project encompasses the implementation of a new ERP-system and cashier-system. Of the project costs SEK 3.4 millions has been capitalized and SEK 0.1 millions charged the operation income.

#### **The market**

##### *The industry, published statistics Sweden*

During January – June 2004 the consumer electronics industry in Sweden is estimated to have increased by 7.4 % in running prices and 25.2 % in fixed prices compared to the corresponding period last year according to SCB.

##### *Germany*

Evaluations made by representatives for the suppliers of the industry indicate that the German market is still weak. The main reasons for the reductions are believed to be the continuous weak economical progress.

##### *The industry, forecasts*

A survey made by GfK Sweden AB shows unchanged sales in Swedish kronor, at total allocated in increased volumes but decreased prices on digital photo, a slight increase in portable audio (mp3-players) and home cinema for year 2004.

*E-commerce and distance shopping*

For the period January – May the distance shopping market in Sweden has increased by 3.9 % compared to 2003. The earlier tendency that e-commerce takes a bigger proportion of sales is stated to continue according to Swedish Mail Order Association.

Sources: SCB Statistics Sweden in cooperation with Handelns Utredningsinstitut and SPF Swedish Mail Order Association, and GfK Sverige AB, NetOnNet AB.

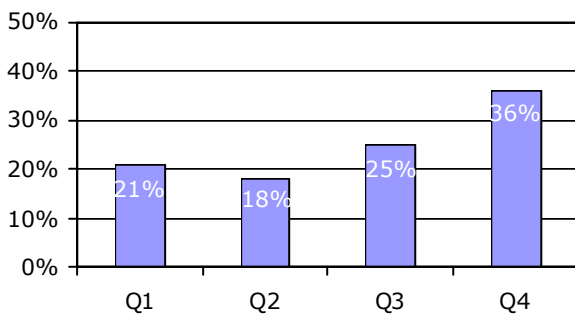
*The company*

NetOnNet has a strong growth on the market of consumer electronics. The success factor of the company is efforts in quality products with low prices. The broad marketing has established NetOnNet as brand and the higher volumes have resulted in price benefits and by that benefit in economics of scale compared to previous years. The line of products is broadened, the Internetshop is improved, focus on customers has increased and the organization, including logistics, is more efficient at the same time as cost-conscious has retained. Altogether this establishes good prerequisites to achieve decided objectives; increase net profit as a percentage more than the net sales and therewith create good return on equity.

*Seasonal variations*

To simplify evaluation of the interim reports, the diagrams below illustrate the seasonal variations that influence the consumer electronics industry.

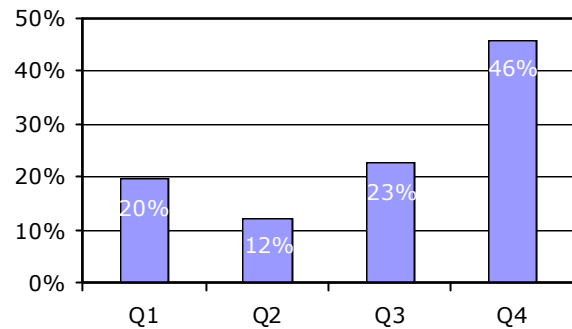
**Seasonal variations within the consumer electronics industry**



Source: Branschkansliets Marknadsinformation AB

For NetOnNet the seasonal variations have been the following:

**Seasonal variations  
NetOnNet 2001 - 2003**



Explanation to the deviation for the company compared to the industry is principally the strong growth of the company.

**Staff**

The total number of employees at the end of June was 131 (81) whereof 100 (59) in Sweden and 31 (22) in Germany. The average number of employees during the first six months was 128 (93).

**Financial position and liquidity**

As per June 30, 2004 net cash reserves, including short-term investments, amounted to SEK 42.2 (54.2) millions equivalent to SEK 7.02 (9.00) per share. The equity ratio was 52.5 % (65.9 %). Total equity amounted to SEK 115.1 (101.1) millions, equivalent to SEK 19.13 (16.80) per share.

Cash flow from operations totalled SEK -22.3 (-0.3) millions during the half-year. Cash flow after investments and financial operations amounted to SEK -30.3 (-0.5) millions. The negative cash flow is explained by capital expenditures, increased stock and reduction of current liabilities.

**Capital expenditures**

During the half-year capital expenditures amounted to SEK 6.6 (1.6) millions. During the second quarter capital expenditures amounted to SEK 4.9 (1.1) millions. For the year 2004 capital expenditures are planned to be made by SEK 16-17 millions, which is a increase of earlier stated need due to decision of increased investments on IT, customer service and logistics.

**The parent company**

The net sales of the parent company during the half-year amounted to SEK 416.5 (199.3) millions and the income after financial items amounted to SEK 0.7 (-4.7) millions. Capital expenditures during the half-year amounted to SEK 6.6 (1.6) millions.

### **Development of shares**

The number of shareholders amounted to 1,898 the 30<sup>th</sup> June 2004. This involves an increase of 1,159 new shareholders since the year-end, an increase by 157 %. The share price has during the same period increased from SEK 75 to SEK 118, or by 57 %.

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

No events to report

### **Outlook 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 positively weak 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 income is estimated to increase more than sales despite the fact the direction towards growth means costs that will burden the income to be able to build future volume increases.

### **Accounting principles**

This interim report is established in correspondence with The Swedish Financial Accounting Standards Council recommendation of interim report (RR 20). The same

principles of accounting and calculation methods have been used as in the last year's annual report, with addition of recommendation of employee benefits (RR 29). The effect of this recommendation can not to present be accounted for due to the fact that the insurance company can not supply information until the end of year 2004.

### **Review**

The auditors of the company have not reviewed the report.

### **Future reports**

NetOnNet AB publishes sales on a monthly basis and interim reports on a quarterly basis.

Sales report Aug	3 Sep 2004
Sales report Sep	6 Oct 2004
Interim report Jan – Sep	26 Oct 2004
Sales report Oct	4 Nov 2004
Sales report Nov	3 Dec 2004

### **Borås, 26 August 2004**

NetOnNet AB (publ)

*The Board*

### **For further information about this interim report:**

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The interim report is available on [www.netonnet.se](http://www.netonnet.se) under the headline *Press/Finansinfo, Rapport* and *Delårsrapporter*.

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**INCOME STATEMENTS OF THE GROUP  
IN SUMMARY**

TSEK	Apr-Jun 2004	Apr-Jun 2003	Jan-Jun 2004	Jan-Jun 2003	Rolling 12 months June 2004	Jan-Dec 2003
Net Sales	171 282	61 379	416 457	199 348	848 943	631 834
Capitalized labor costs for own purpose	471	0	471	0	471	0
	<b>171 753</b>	<b>61 379</b>	<b>416 928</b>	<b>199 348</b>	<b>849 414</b>	<b>631 834</b>
<i>Operating expenses:</i>						
Goods for resale	-135 321	-48 050	-327 934	-159 471	-664 566	-496 103
Other external costs	-24 455	-9 973	-56 808	-24 030	-110 416	-77 638
Personal costs	-14 246	-8 719	-28 840	-18 444	-51 087	-40 691
Depreciations	-1 165	-829	-2 210	-1 629	-4 050	-3 469
	-175 187	-67 571	-415 792	-203 574	-830 119	-617 901
<b>Operating income</b>	<b>-3 434</b>	<b>-6 192</b>	<b>1 136</b>	<b>-4 226</b>	<b>19 295</b>	<b>13 933</b>
Income from financial investments	-126	-264	-378	-236	-1 045	-903
<b>Income after financial items</b>	<b>-3 560</b>	<b>-6 456</b>	<b>758</b>	<b>-4 462</b>	<b>18 250</b>	<b>13 030</b>
Tax on the income of the period	997	1 808	-212	1 250	-5 110	-3 648
<b>Net income for the period</b>	<b>-2 563</b>	<b>-4 648</b>	<b>546</b>	<b>-3 212</b>	<b>13 140</b>	<b>9 382</b>
Earnings per share, SEK	-0,43	-0,78	0,09	-0,54	2,18	1,57
Earnings per share after dilution	-0,42	-0,78	0,09	-0,54	2,18	1,57
Average number of shares before dilution	6 015 680	5 991 655	6 015 680	5 985 197	6 015 680	5 989 516
Average number of shares after dilution	6 058 743	5 991 655	6 052 296	5 985 197	6 037 658	5 989 516
Number of shares at the end of the period	6 015 680	6 015 680	6 015 680	6 015 680	6 015 680	6 015 680

**BALANCE SHEETS OF THE GROUP  
IN SUMMARY**

TSEK	30 June 2004	30 June 2003	31 Dec 2003
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	4 674	487	428
Tangible assets	31 320	30 635	31 138
Financial assets	13 594	18 731	13 796
<b>Total fixed assets</b>	<b>49 588</b>	<b>49 853</b>	<b>45 362</b>
<b>Current assets</b>			
Inventories etc.	102 477	35 251	94 936
Current receivables	25 113	14 036	42 121
Investments	14 585	0	0
Cash and bank balances	27 619	54 158	72 472
<b>Total current assets</b>	<b>169 794</b>	<b>103 445</b>	<b>209 529</b>
<b>Total assets</b>	<b>219 382</b>	<b>153 298</b>	<b>254 891</b>
<b>Equity and liabilities</b>			
<b>Equity</b>	<b>115 102</b>	<b>101 061</b>	<b>114 558</b>
<b>Provisions</b>	<b>4 470</b>	<b>1 194</b>	<b>2 660</b>
<b>Long-term liabilities</b>	<b>18 667</b>	<b>21 267</b>	<b>19 967</b>
<b>Current liabilities</b>	<b>81 143</b>	<b>29 776</b>	<b>117 706</b>
<b>Total equity and liabilities</b>	<b>219 382</b>	<b>153 298</b>	<b>254 891</b>

## CHANGE IN SHAREHOLDERS' EQUITY OF THE GROUP IN SUMMARY

TSEK	Jan-June 2004	Jan-June 2003	Jan-Dec 2003
<b>Opening balance according to adopted balance sheet</b>	<b>114 558</b>	<b>103 052</b>	<b>103 052</b>
New share issue	0	1 345	1 947
Translations differences	-2	-124	177
Net income for the period	546	-3 212	9 382
<b>Closing balance</b>	<b>115 102</b>	<b>101 061</b>	<b>114 558</b>

## CASH FLOW OF GROUP IN SUMMARY

	Apr-Jun 2004	Apr-Jun 2003	Jan-Jun 2004	Jan-Jun 2003	Jan-Dec 2003
<b>Current operations</b>					
Cash flow from current operations before changes in working capital	-1 407	-6 148	4 782	-3 083	18 005
Changes in working capital	-12 794	7 303	-27 095	2 821	2 982
<b>Cash flow from current operations</b>	<b>-14 201</b>	<b>1 155</b>	<b>-22 313</b>	<b>-262</b>	<b>20 987</b>
<b>Investment activities</b>					
Acquisitions of fixed assets	-4 922	-1 071	-6 649	-1642	-3906
<b>Cash flow from investment activities</b>	<b>-4 922</b>	<b>-1 071</b>	<b>-6 649</b>	<b>-1 642</b>	<b>-3 906</b>
<b>Financial activities</b>					
New share issue	0	1 057	0	1 345	1 947
Change of loans	-900	-400	-1300	12	-1288
<b>Cash flow from financial activities</b>	<b>-900</b>	<b>657</b>	<b>-1 300</b>	<b>1 357</b>	<b>659</b>
<b>Cash flow during the period</b>	<b>-20 023</b>	<b>741</b>	<b>-30 262</b>	<b>-547</b>	<b>17 740</b>
<b>Liquid funds at the beginning of the year</b>	<b>62 462</b>	<b>53 527</b>	<b>72 472</b>	<b>54 829</b>	<b>54 829</b>
<b>Exchange rate differences in liquid funds</b>	<b>-234</b>	<b>-110</b>	<b>-5</b>	<b>-124</b>	<b>-97</b>
<b>Liquid funds at the end of the period</b>	<b>42 205</b>	<b>54 158</b>	<b>42 205</b>	<b>54 158</b>	<b>72 472</b>

## REPORTING BY GEOGRAPHIC SEGMENT HALF-YEAR

TSEK	Sweden			Germany			Total		
	2004	2003	2003	2004	2003	2003	2004	2003	2003
	Jan-Jun	Jan-Jun	Jan-Dec	Jan-Jun	Jan-Jun	Jan-Dec	Jan-Jun	Jan-Jun	Jan-Dec
Net sales	276 558	117 344	417 526	139 899	82 003	214 308	416 457	199 347	631 834
Operating income	7 086	257	22 525	-5 950	-4 483	-8 592	1 136	-4 226	13 933
Operating margin, %	2,6	0,2	5,4	-4,3	-5,5	-4,0	0,3	-2,1	2,2
Net financial income/expense	-395	-250	-415	17	14	-488	-378	-236	-903
Income after financial items	6 691	7	22 110	-5 933	-4 469	-9 080	758	-4 462	13 030

## SECOND QUARTER

TSEK	Sweden			Germany			Total		
	2004	2003	2003	2004	2003	2003	2004	2003	2003
	Apr-Jun	Apr-Jun	Jan-Dec	Apr-Jun	Apr-Jun	Jan-Dec	Apr-Jun	Apr-Jun	Jan-Dec
Net sales	119 484	40 072	417 526	51 798	21 307	214 308	171 282	61 379	631 834
Operating income	7	-2 700	22 525	-3 441	-3 492	-8 592	-3 434	-6 192	13 933
Operating margin, %	0,0	-6,7	5,4	-6,6	-16,4	-4,0	-2,0	-10,1	2,2
Net financial income/expense	-141	-80	-415	15	-184	-488	-126	-264	-903
Income after financial items	-134	-2 780	22 110	-3 426	-3 676	-9 080	-3 560	-6 456	13 030

## CONSOLIDATED KEY RATIOS

	Apr-Jun 2004	Apr-Jun 2003	Jan-Jun 2004	Jan-Jun 2003	Rolling 12 months June 2004	Jan-Dec 2003
Net sales, TSEK	171 282	61 379	416 457	199 348	848 943	631 834
Gross margin, %	21,0	21,7	21,3	20,0	21,7	21,5
Operating margin, %	-2,0	-10,1	0,3	-2,2	2,3	2,2
Profit margin, %	-2,0	-10,5	0,2	-2,2	2,1	2,1
Income after financial items, TSEK	-3 560	-6 456	758	-4 462	18 250	13 030
Return on average equity, %	-	-	-	-	12,2	8,6
Return on capital employed, %	-	-	-	-	14,8	11,3
Equity ratio, %	52,5	65,9	52,5	65,9	52,5	44,9
Debt/Equity ratio	0,2	0,2	0,2	0,2	0,2	0,2
Interest coverage ratio	-12,3	-47,2	1,9	-5,5	25,2	7,8
Capital employed, TSEK	133 729	122 328	133 729	122 328	133 729	137 125
Investments in tangible assets, TSEK	1 105	1 071	2 195	1 642	3 906	3 353
Investments in intangible assets, TSEK	3 817	-	4 454	-	4 454	-
Equity per share, SEK	19,13	17,22	19,13	17,54	19,13	19,04
Liquid funds per share, SEK	7,02	9,00	7,02	9,00	7,02	12,05
Total outstanding options at the end of period.	82 000	0	82 000	0	82 000	82 000
Employees at the end of period	131	81	131	81	131	134
Average number of employees	126	86	128	93	115	98

### Definitions

#### **Capital employed**

Total assets reduced for interest bearing debts and other provisions.

#### **Debt/Equity ratio**

Interest bearing debts and provisions in relation to equity.

#### **Equity per share**

Equity in relation to number of outstanding shares.

#### **Equity ratio**

Equity in relation to total assets.

#### **Gross margin**

Net sales minus cost of goods sold in relation to net sales.

#### **Interest coverage ratio**

Income after financial items plus financial costs in relation to financial costs.

#### **Liquid funds**

Cash and bank and investments in liquid funds with a maturity date below three months. Approved, unused cheque accounts are not reported as liquid funds.

#### **Liquid funds per share**

Liquid funds in relation to number of outstanding shares.

#### **Operating margin**

Operating income in relation to net sales of the period.

#### **Profit margin**

Net income after financial items in relation to the net sales of the period.

#### **Return on average equity**

The net income of the period in relation to average equity. Average equity is calculated as equity at the beginning of the period plus equity at the end of the period divided by two.

#### **Return on capital employed**

Income after financial items plus financial costs in relation to average capital employed. Average capital employed is calculated as capital employed in the beginning of the period plus capital employed at the end of the period divided by two.