

## **NetOnNet AB (publ)**

556520-4137

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

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

## **NetOnNet shows improved result SEK 5,1 millions after tax**

### **NINE MONTHS (Jan – Sept)**

- Sales amounted to SEK 632.1 (328.1) millions, an increase of 93 %.
- Income before tax amounted to SEK 7.1 (-4.0) millions.
- Net income amounted to SEK 5.1 (-2.9) millions.
- Earnings per share amounted to SEK 0.85 (-0.48).

### **THIRD QUARTER (July – Sept)**

- Sales amounted to SEK 215.6 (128.8) millions, an increase of 67 %.
- Income before tax amounted to SEK 6.4 (0.5) millions.
- Net income amounted to SEK 4.6 (0.3) millions.
- Earnings per share amounted to SEK 0.76 (0.06).

### **ROLLING 12 MONTHS (Oct – Sept)**

- Sales for rolling 12 months amounted to SEK 935,8 (506.2) millions, an increase of 85 %.
- Income before tax for rolling 12 months amounted to SEK 24.1 (-2.2) millions.
- Net income for rolling 12 months amounted to SEK 17.4 (-1.6) 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 nine months amounted to SEK 632.1 (328.1) millions. Compared to the same period 2003, this is an increase by 93 %. Of the total sales increase 0 % refers to changes in exchanges rates, 144 % to increase in volumes, reduced for price fall by 21 %.

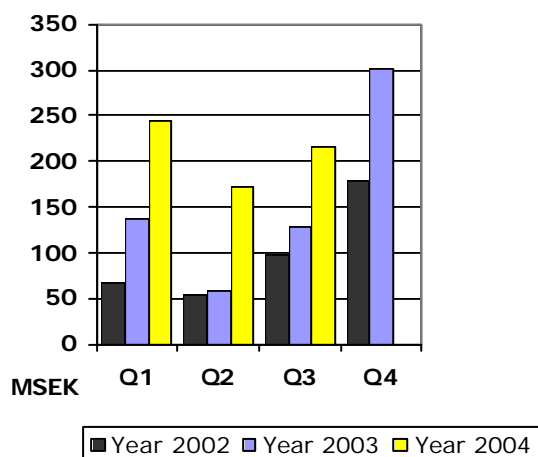
Net Sales Jan-Sept (SEK million)	2004	2003
Sweden	441.8	215.3
Germany	190.3	112.8
<b>Total</b>	<b>632.1</b>	<b>328.1</b>

Net sales the third quarter, July - September, amounts to SEK 216.6 (128.8) millions, which means an increase by 67 % compared to the same period previous year. Of the total sales increase 0 % refers to changes in exchanges rates, 112 % to increase in volumes, reduced for price fall by 21 %.

Net Sales July - September (SEK million)	2004	2003
Sweden	165.3	98.0
Germany	50.3	30.8
<b>Total</b>	<b>215.6</b>	<b>128.8</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. In other areas sales of TV have increased slightly more than average.

### Net Sales quarterly 2002 - 2004



### Operating income and gross margin

Operating income for the half-year, January-June, amounted to SEK 7.6 (-3.4) millions.

Operating income Jan - Sept (SEK million)	2004	2003
Sweden	17.0	6.2
Germany	-9.4	-9.6
<b>Total</b>	<b>7.6</b>	<b>-3.4</b>

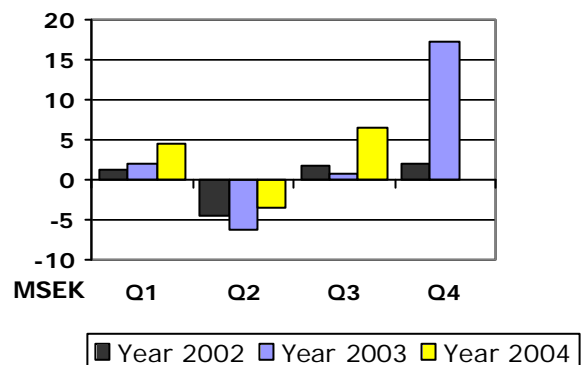
Gross margin totalled 21.8 (20.5) % during the nine month period.

Operating income for the third quarter, July-September, amounted to SEK -6.5 (0.8) millions.

Operating income July - Sept (SEK million)	2004	2003
Sweden	10.0	5.9
Germany	-3.5	-5.1
<b>Total</b>	<b>-6.5</b>	<b>0.8</b>

Gross margin totaled 22.9 (21.2) % during the third 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 3.9 (2.9) % during the nine month period.

#### Germany

Efforts carried out in increased marketing have given results in both increased sales and slightly improved margin. The increased marketing costs have an impact on the operating income with SEK 4,6 millions, at the

same time as provisions for guarantee risks were increased relatively compared to last year, which reduced the operating income by SEK 1.1 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 – 5.0 (-8.5) % during the nine month period.

#### *Rolling twelve months*

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

Rolling twelve months, SEK million	September 2004	September 2003
Net sales	935.8	506.2
Operating expenses	-910.8	-507.6
Operating income	25.0	-1.4

#### **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 affected 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. Increased marketing and broadening the assortment have done this. 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.

#### **Marketing**

During the period the company has chosen to increase the efforts in marketing, in purpose to increase knowledge and future growth. In Sweden the main marketing actions consisted of brand-building advertisement and product offers in nation-wide TV4 and kanal 5. In addition to that, advertising in mainly Svenska Dagbladet and evening press.

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

The marketing costs amounted to SEK 20.8 (8.2) millions for the nine-month period, of which Sweden accounted for SEK 12.3 (4.3)

millions and Germany for SEK 8.5 (3.9) millions.

Marketing costs amounted to 3.3 (2.5) % of the total sales. The corresponding share for Sweden was 2.8 (2.0) %, while for Germany it was 4.5 (3.5) %.

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

Customer Service has been reorganized during the period to increase efficiency and thereby improve service without increasing the cost level. In logistics the improved turnover during this summer created improved personnel planning, which have given increased competence prior to high season, compared to prior years.

#### **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, which encompasses the implementation of a new ERP-system and cashier-system. Except SEK 0,1 million which has been charged to operation income SEK 9,2 million of the project costs has been capitalized during the nine month period, this explains most of the balance sheet item Intangible assets.

#### **The market**

##### *Sweden*

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

During January – August 2004 the consumer electronics industry in Sweden is estimated to have increased by 8.2 % in running prices and 26.0 % in fixed prices compared to the corresponding period last year according to SCB.

##### *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 – August the distance shopping market in Sweden has increased by 4.8 % 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.

##### *Germany*

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

For the period January – August the consumer electronics industry has increased with 3% in running prices, according to IFO, Munich.

*E-commerce and distance shopping*

The German E-commerce has during January – September increased with 28%. It follows thereby, according to German Mail Order Association (BVH), the same trend as in Sweden, E-commerce takes an increasing part of the mail-order business. The mail-order business in total has decreased by 4.1% and is calculated to by year end decreased by 2% compared to last year.

Sources: SCB Statistics Sweden in cooperation with Handelns Utredningsinstitut and SPF Swedish Mail Order Association, and Gfk Sverige AB, NetOnNet AB. IFO ( The institute for research University of Munich) BVH( Bundesverband des Deutschen Versandhandels)

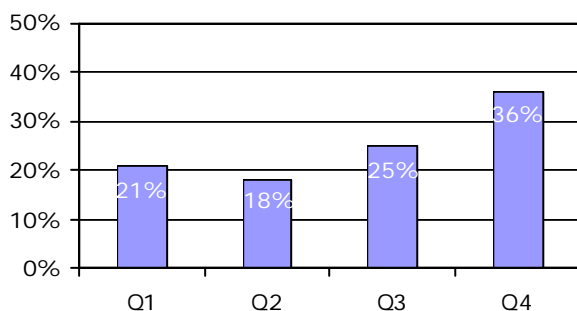
*The company*

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 Internet shop 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.

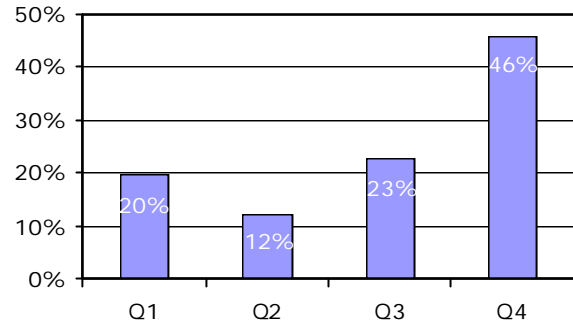
**Seasonal variations within the consumer electronics industry**



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 147 (95) whereof 111 (73) in Sweden and 36 (22) in Germany. The average number of employees during the first nine months was 127 (91).

**Financial position and liquidity**

As per September 30, 2004 net cash reserves, including short-term investments, amounted to SEK 45.5 (51.8) millions equivalent to SEK 7.56 (8.61) per share. The equity ratio was 45.9 % (51.6 %). Total equity amounted to SEK 119.8 (101.9) millions, equivalent to SEK 19.91 (16.93) per share.

Cash flow from operations totalled SEK –9.5 (-1.1) millions during the nine month period. Cash flow after investments and financial operations amounted to SEK –27.0 (-2.7) millions. The negative cash flow is explained by carried out capital expenditures as below. Furthermore the stock has been built up prior to the coming high season to guarantee increased delivery security and efficient logistics.

**Capital expenditures**

During the period Jan - Sept capital expenditures amounted to SEK 15.5 (2.9) millions. During the third quarter capital expenditures amounted to SEK 8.9 (1.3) millions. For the year 2004 capital expenditures are planned to be made by SEK 23 - 25 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 period Jan - Sept amounted to SEK 632.1 (328.1) millions and the income after financial items amounted to SEK 7.1 (4.1) millions. Capital expenditures during the three quarters amounted to SEK 15.5 (2.9) millions.

### **Development of shares**

The number of shareholders amounted to 1,876 the 30<sup>th</sup> September 2004. This involves an increase of 1,137 new shareholders since the year-end, an increase by 154 %. The share price has during the same period increased from SEK 75 to SEK 108, or by 44 %.

### **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 Oct	4 Nov 2004
Sales report Nov	3 Dec 2004
Sales report Dec	11 Jan 2005
Interim report Jan-Dec	24 Feb 2005

### **Borås, 26 October 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	July-Sept 2004	July-Sept 2003	Jan-Sept 2004	Jan-Sept 2003	Rolling 12 months Sept 2004	Jan-Dec 2003
Net Sales	215 633	128 799	632 090	328 147	935 777	631 834
Capitalized labor costs for own purpose	886	0	1 357	0	1 357	0
	<b>216 519</b>	<b>128 799</b>	<b>633 447</b>	<b>328 147</b>	<b>937 134</b>	<b>631 834</b>
<i>Operating expenses:</i>						
Goods for resale	-166 243	-101 495	-494 177	-260 966	-729 314	-496 103
Other external costs	-28 246	-16 827	-85 054	-40 856	-121 835	-77 638
Personal costs	-14 341	-8 726	-43 181	-27 170	-56 702	-40 691
Depreciations	-1 193	-937	-3 403	-2 566	-4 306	-3 469
	-210 023	-127 985	-625 815	-331 558	-912 157	-617 901
<b>Operating income</b>	<b>6 496</b>	<b>814</b>	<b>7 632</b>	<b>-3 411</b>	<b>24 977</b>	<b>13 933</b>
Income from financial investments	-143	-330	-521	-566	-858	-903
<b>Income after financial items</b>	<b>6 353</b>	<b>484</b>	<b>7 111</b>	<b>-3 977</b>	<b>24 119</b>	<b>13 030</b>
Tax on the income of the period	-1 779	-140	-1 991	1 110	-6 749	-3 648
<b>Net income for the period</b>	<b>4 574</b>	<b>344</b>	<b>5 120</b>	<b>-2 867</b>	<b>17 370</b>	<b>9 382</b>
Earnings per share, SEK	0,76	0,06	0,85	-0,48	2,89	1,57
Earnings per share after dilution	0,76	0,06	0,85	-0,48	2,87	1,57
Average number of shares before dilution	6 015 680	6 015 680	6 015 680	6 015 680	6 015 680	5 989 516
Average number of shares after dilution	6 053 425	6 015 680	6 052 690	5 995 358	6 047 607	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 Sept 2004	30 Sept 2003	31 Dec 2003
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	10 859	457	428
Tangible assets	32 931	31 036	31 138
Financial assets	11 687	18 570	13 796
<b>Total fixed assets</b>	<b>55 477</b>	<b>50 063</b>	<b>45 362</b>
<b>Current assets</b>			
Inventories etc.	128 692	66 393	94 936
Current receivables	31 479	29 319	42 121
Investments	15 102	14 585	0
Cash and bank balances	30 366	37 183	72 472
<b>Total current assets</b>	<b>205 639</b>	<b>148 480</b>	<b>209 529</b>
<b>Total assets</b>	<b>261 116</b>	<b>197 543</b>	<b>254 891</b>
<b>Equity and liabilities</b>			
<b>Equity</b>	<b>119 800</b>	<b>101 875</b>	<b>114 558</b>
Provisions	4 940	2 212	2 660
Long-term liabilities	18 017	20 617	19 967
Current liabilities	118 359	72 839	117 706
<b>Total equity and liabilities</b>	<b>261 116</b>	<b>197 543</b>	<b>254 891</b>

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

TSEK	Jan-Sept 2004	Jan-Sept 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	1 947	1 947
Translations differences	122	-257	177
Net income for the period	5 120	-2 867	9 382
<b>Closing balance</b>	<b>119 800</b>	<b>101 875</b>	<b>114 558</b>

## CASH FLOW OF GROUP IN SUMMARY

	July-Sept 2004	July-Sept 2003	Jan-Sept 2004	Jan-Sept 2003	Jan-Dec 2003
<b>Current operations</b>					
Cash flow from current operations before changes in working capital	5 817	815	10 600	-3 411	18 005
Changes in working capital	6 962	-1 668	-20 133	2 296	2 982
<b>Cash flow from current operations</b>	<b>12 779</b>	<b>-853</b>	<b>-9 534</b>	<b>-1 115</b>	<b>20 987</b>
<b>Investment activities</b>					
Acquisitions of fixed assets	-8 861	-1 287	-15 510	-2 929	-3 906
<b>Cash flow from investment activities</b>	<b>-8 861</b>	<b>-1 287</b>	<b>-15 510</b>	<b>-2 929</b>	<b>-3 906</b>
<b>Financial activities</b>					
New share issue	0	602	0	1 947	1 947
Change of loans	-650	-650	-1 950	-638	-1 288
<b>Cash flow from financial activities</b>	<b>-650</b>	<b>-48</b>	<b>-1 950</b>	<b>1 309</b>	<b>659</b>
<b>Cash flow during the period</b>	<b>3 268</b>	<b>-2 188</b>	<b>-26 994</b>	<b>-2 735</b>	<b>17 740</b>
<b>Liquid funds at the beginning of the year</b>	<b>42 205</b>	<b>54 158</b>	<b>72 472</b>	<b>54 829</b>	<b>54 829</b>
<b>Exchange rate differences in liquid funds</b>	<b>-5</b>	<b>-202</b>	<b>-10</b>	<b>-326</b>	<b>-97</b>
<b>Liquid funds at the end of the period</b>	<b>45 468</b>	<b>51 768</b>	<b>45 468</b>	<b>51 768</b>	<b>72 472</b>

## REPORTING BY GEOGRAPHIC SEGMENT INTERIM REPORT JAN – SEPT 2004

TSEK	Sweden			Germany			Total		
	2004	2003	2003	2004	2003	2003	2004	2003	2003
	Jan-Sept	Jan-Sept	Jan-Dec	Jan-Sept	Jan-Sept	Jan-Dec	Jan-Sept	Jan-Sept	Jan-Dec
Net sales	441 837	215 374	417 526	190 253	112 773	214 308	632 090	328 147	631 834
Operating income	17 073	6 158	22 525	-9 441	-9 570	-8 592	7 632	-3 412	13 933
Operating margin, %	3,9	2,9	5,4	-5,0	-8,5	-4,0	1,2	-1,0	2,2
Net financial income/expense	-544	-367	-415	23	-199	-488	-521	-566	-903
Income after financial items	16 529	5 791	22 110	-9 418	-9 769	-9 080	7 111	-3 978	13 030

### THIRD QUARTER

TSEK	Sweden			Germany			Total		
	2004	2003	2003	2004	2003	2003	2004	2003	2003
	July-Sept	July-Sept	Jan-Dec	July-Sept	July-Sept	Jan-Dec	July-Sept	July-sept	Jan-Dec
Net sales	165 279	98 030	417 526	50 354	30 770	214 308	215 633	128 800	631 834
Operating income	9 987	5 901	22 525	-3 491	-5 087	-8 592	6 496	814	13 933
Operating margin, %	6,0	6,0	5,4	-6,9	-16,5	-4,0	3,0	0,6	2,2
Net financial income/expense	-149	-117	-415	6	-213	-488	-143	-330	-903
Income after financial items	9 838	5 784	22 110	-3 485	-5 300	-9 080	6 353	484	13 030

## CONSOLIDATED KEY RATIOS

	July-Sept 2004	July-Sept 2003	Jan-Sept 2004	Jan-Sept 2003	Rolling 12 months Sept 2004	Jan-Dec 2003
Net sales, TSEK	215 633	128 799	632 090	328 147	935 777	631 834
Gross margin, %	22,9	21,2	21,8	20,5	22,1	21,5
Operating margin, %	3,0	0,6	1,2	-1,0	2,7	2,2
Profit margin, %	2,9	0,4	1,1	-1,2	2,6	2,1
Income after financial items, TSEK	6 353	484	7 111	-3 977	24 119	13 030
Return on average equity, %	-	-	-	-	15,4	8,6
Return on capital employed, %	-	-	-	-	19,5	11,3
Equity ratio, %	45,9	51,6	45,9	51,6	45,9	44,9
Debt/Equity ratio	0,2	0,2	0,2	0,2	0,2	0,2
Interest coverage ratio	25,7	1,5	8,0	-3,1	13,2	7,8
Capital employed, TSEK	137 817	122 492	137 817	122 492	137 817	137 125
Investments in tangible assets, TSEK	2 561	1 287	4 756	2 929		3 353
Investments in intangible assets, TSEK	6 300	-	10 754	-	10 754	-
Equity per share, SEK	19,91	16,93	19,91	16,93	19,91	19,04
Liquid funds per share, SEK	7,56	8,61	7,56	8,61	7,56	12,05
Total outstanding options at the end of period.	82 000	82 000	82 000	82 000	82 000	82 000
Employees at the end of period	147	95	147	95	147	134
Average number of employees	125	91	127	91	120	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.