



2005

2006

Annual Report 2005/2006

NetOnNet AB

net on net

Irritatingly good prices.

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netonnet model

To develop its business activities with a focus on the right things, NetOnNet had developed its own model as an overall guideline:

- Focus on the customers
- Focus on product range and sales
- Knowledge of the trade
- Think differently and bigger
- Low costs
- Own logistics
- Sharp focus on control and follow-up

NetOnNet in 30 seconds

NetOnNet (www.netonnet.se) is the first dedicated online store for consumer electronics in Europe. NetOnNet offers a broad selection of TVs, DVD players, digital cameras, computers and other products from well-known brands such as Philips and Sony as well as its own brands such as Andersson, Avant, Centrum, Pepp and Skantic. Customers are private persons and companies. The company was formed in March, 1999, with its head office in Borås. In September, 2000, it began doing business in Germany.

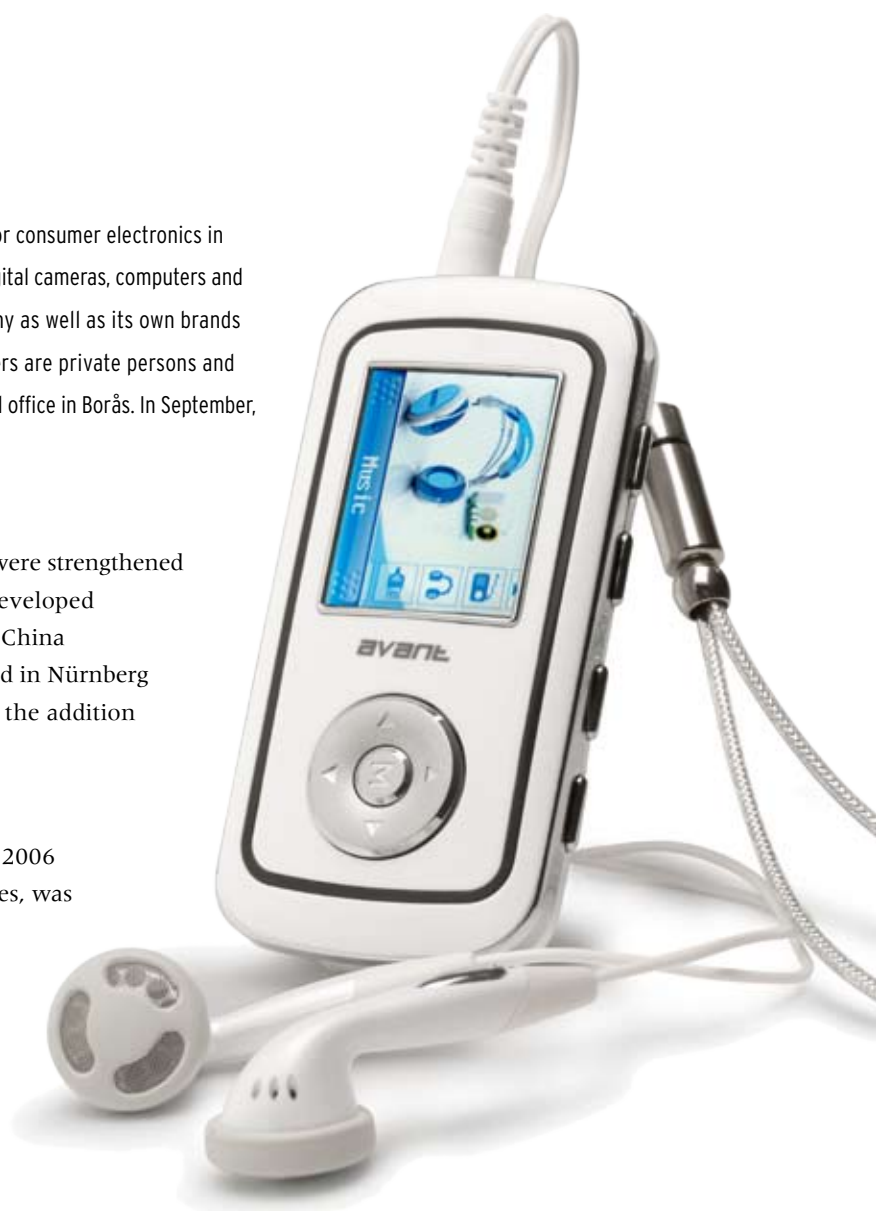
Significant events during the fiscal year

- During the year, management and administration were strengthened at the same time as a new business system was developed
- In April, 2005, a purchasing office was opened in China
- In September, 2005, a Warehouse Shop was opened in Nürnberg
- The central warehouse in Borås was expanded by the addition of 5,000 m²

Events after the close off the fiscal year

- An Internet Shop was opened in Norway in May, 2006
- A new product segment, small household appliances, was launched in June, 2006

NetOnNet's fiscal year has been extended and stretches from 1 January, 2005 to 30 April, 2006, as the company has decided to apply a split fiscal year (1 May-30 April) in the future.



Key ratios

	2005/2006 16 months	2004 12 months	2003* 12 months	2002* 12 months	2001* 12 months
Net sales, MSEK	1 662	1 005	632	393	175
Growth in turnover	65%	59%	61%	124%	150%
Gross margin	19.3%	21.5%	21.5%	19.0%	20.6%
Operating profit/loss, MSEK	-8.9	21.6	13.9	0.4	-23.2
Operating margin	-0.5%	2.1%	2.2%	0.1%	-13.2%
Profit/loss for the year, MSEK	-8.3	18.9	9.4	17.4	-20.5
Return on average capital employed	-6.1%	15.1%	11.3%	2.1%	-22.2%
Return on average equity	-6.4%	15.2%	8.6%	18.8%	-22.2%
Equity ratio	43.0%	34.1%	44.9%	47.7%	70.3%
Investments in tangible assets	13.4	4.7	3.4	29.2	2.1
Profit/loss per share before dilution, SEK	-1.38	3.14	1.57	2.97	-3.49
Profit/loss per share after dilution, SEK	-1.38	3.12	1.57	2.97	-3.49
Equity per share, SEK	20.99	22.22	19.04	17.26	13.99
Average number of employees	175	143	98	69	44

* Not recalculate in accordance with IFRS (however, no significant differences compared with IFRS have been noted).



Anders Halvarsson, CEO

**To all our employees,
customers and shareholders**

During the past year, we at NetOnNet went against the stream. In a consumer electronics market with weak growth, at the same time as competition increased sharply in 2005 compared with the previous year, we increased our sales in both Sweden and Germany. This was achieved at the same time as we implemented a number of forward-looking activities that placed great demands on our organisation.

One of these activities was the inauguration of our new Warehouse Shop in Nürnberg, Germany, in September, 2005. Opening several Warehouse Shops is a central component of our future expansion and the launch in Nürnberg was a good dress rehearsal for the opening of new Warehouse Shops in the future and is an example of how we will continue to expand. We now know that our plan is viable and that our employees know how the processes should be carried out when it comes to e.g. launch campaigns. We had intended to open another Warehouse Shop in Gothenburg, but because work on the local plan for the municipality has been delayed, this is not expected until some time during the next fiscal year.

In October, 2005, the extension of our central warehouse in Borås was completed, giving us a further 5,000 m² of storage space. A better equipped central warehouse means that we can respond rapidly when it comes to deliveries and the introduction of new products. This will enable us to offer a large and better range of products. In order to strengthen our control over and the efficiency of our supply chain, we also opened a new purchasing office in China in April, 2005. Measures to strengthen management were also taken.

Our fiscal year, which was extended to April 30, this year, has also been eventful during the last four months of the fiscal year. Our rolling annual sales have continued to rise at the same time as we have paved the way for further success with launches of new products and solutions. In April, this year, we were first in Europe to offer our customers the option of signing up for a mobile phone subscription

on the Internet in conjunction with the purchase of a mobile phone.

The launch of the subscription function is important for us for several reasons. First, it simplifies the process from ordered product to functioning solution for our customers. Moreover, the development of this function, undertaken together with the Swedish postal service Posten, is also of great importance for NetOnNet internally. Previously, NetOnNet focused almost exclusively on scalability and cost efficiency. A platform for this has now been built but with the development of the subscription solution, NetOnNet has shown that we can develop our business by increasing the added value of products and services. During the year, we have worked hard to improve the organisation's internal processes and to strengthen our employees' feeling of being part of the business. All the departments were involved in the relatively complex development process. We had the chance to show that we could succeed, and we did.

In view of the tough competition in our market and heavy downward pressure on prices, it feels good to know that we are now in a strong position and are well equipped to develop our business operations and continue to expand. We do not feel that the fact that the investments made have been charged to the profit for the year is a burden since we know that our employees are able and motivated to continue to do a good job for NetOnNet and our customers. Together, we have created a culture in the company where participation and the attitude that nothing is impossible are central values. The fact that the extension of the cen-

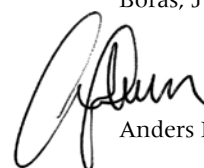
tral warehouse was in progress at the same time as the company was doing business as usual without impacting on our customers is proof of this.

In April, we received further proof of our ability when the market research institute GfK presented a survey of Swedish customers' opinion of which chain stores gave most value for money. Here, male customers ranked NetOnNet number one while women gave us a ninth place. Bearing in mind that 113 chain stores were ranked, ninth place must also be seen as very good.

Having shown what we can do does not mean that we will sit back and feel contented. On the contrary, the investments made during the year are only platform that strengthens our potential to succeed in a tough market. The challenges facing us involve being able to successfully expand on several levels without a subsequent general increase in costs. We are planning to expand by opening more Warehouse Shops, broadening our product range and entering new geographical markets. We are currently moving into the Norwegian market. With the ability of our employees to make every effort necessary and with the right products in the right place at the right time at irritatingly good prices, I know we can succeed.

My thanks go to all our employees and customers.

Borås, June, 2006



Anders Halvarsson, CEO

This is NetOnNet



NetOnNet was established in March, 1999, and is the first dedicated online store for consumer electronics in Europe. NetOnNet offers a broad selection of TVs, DVD players, digital cameras, computers and other products from well-known brands such as Philips and Sony as well as its own brands such as Andersson, Avant, Centrum, Pepp and Skantic.

NetOnNet's customer base consists of private households although the company also has corporate customers. Sales to customers in Sweden, Germany and since May 2006, Norway, are primarily Internet-based. The company also has a Warehouse Shop adjacent to its central warehouse in Borås and a Warehouse Shop in Ullared. In Germany, there are two Warehouse Shops, one in Munich and the other, which opened in 2005, in Nürnberg. All distribution takes place from the central warehouse in Borås. Products ordered are delivered from NetOnNet directly to the customer's home or to one of Posten's 'delivery hubs' in the area where the customer lives.

NetOnNet's senior management has extensive experience from previous positions at companies in the consumer electronics trade. This experience means that NetOnNet has solid relations with its suppliers. Ever since the full-scale launch of the Internet shop in Sweden in October, 1999, there has been high growth in sales and the turnover in 2005/2006 amounted to SEK 1,662 million. NetOnNet has its head office in Borås and its share has been listed on the Stockholm Stock Exchange's 'O' list since May, 2004. In 2005/2006, the company had an average of 175 full-time employees.

Business concept

NetOnNet's business concept is to sell products for home entertainment and communication at the most competitive prices on the market. Lower prices are achieved by employing the most cost-effective methods available for sales and distribution. This, combined with good customer service, will build and strengthen customer relations.

Vision

NetOnNet's vision is to give more people access to quality products for home entertainment and communication.

Objectives

One of NetOnNet's objectives is to maintain its market position on the Internet in 2006. Another objective is to increase the gross margin in the years ahead by broadening the product range. Higher growth will be generated primarily by expanding markets and Warehouse Shops. The company is planning to enter the Norwegian market and to open Warehouse Shops in Gothenburg and other densely populated regions. The company's long-term profitability goal is a 20 per cent return on equity. Since 2004, NetOnNet has drawn up an annual Satisfied Customer Index, which shows that customer service has developed positively. In the years ahead, the goal is to improve the quality of customer service still further.

The objectives can be summarised as follows:

- broader product range
- more Warehouse Shops
- improved position on the German market
- continued expansion on the Norwegian market
- good return on equity
- higher customer satisfaction
- strengthening NetOnNet as a brand name

Strategies

NetOnNet applies the following strategies to reach the objectives set up:

Develop NetOnNet as a brand name

Trade on the Internet is expected to continue to grow in the years ahead. NetOnNet's objective is to be a well-known and confidence-inspiring brand name in a growing market. To create awareness of the brand name on a wide front, the strategy is to market NetOnNet in media such as TV commercials. Confidence and thus customer loyalty will be created by means of a combination of a broad range of products at low prices and good customer service.

Offer a broad range of well-known products

Customers who buy on the Internet often know what they want to buy and have clear preferences. Being able to offer a broad product range and products from well-known manufacturers so that the customers easily find what they are looking for is thus an important component of NetOnNet's strategy.

Further develop in-house brands

At the same time as NetOnNet is building a strong brand name for the sale of consumer electronics, it is also launching its own product brands. These products are reducing the number of links in the distribution chain. This is expected to increase the company's independence, improve margins and result in lower prices. An example of this is the Centrum brand, which was introduced at NetOnNet in August, 1999. Since then, another four brands have been added: Andersson, Avant, PEPP and Skantic.

Offer the best shopping experience

To offer a good shopping experience, NetOnNet's prices should be very competitive compared with other shops. The customer's experience of the shop should be that it is simple, user-friendly and has a full range of products. Consequently, the functions and graphics are designed to be clear, easy to grasp and logical while, at the same time, offering a broad range of products. The range of products offered should be sufficiently broad that the customers do not have to turn to other suppliers to satisfy their needs. With this in mind, every conceivable variation and size of TV is available together with the option to supplement the purchase of a TV with e.g. a home theatre system, wall brackets, speaker cable, etc.

At the end of the fiscal year 2005/2006, NetOnNet developed this strategy still further in the mobile phone product area. NetOnNet is the first company on the Internet to offer its customers the option to sign a mobile phone subscription when they purchase their phone. An overall approach is applied in all product areas with the possible exception of complementary areas or product ranges under construction or being evaluated. All product information should be complete and pedagogical.

For as many people as possible to be able to truly have the best shopping experience at NetOnNet, Warehouse Shops are an important complement. The customer can come to the Warehouse Shop and make the purchase there. Because the different products have not been unpacked in the Warehouse Shops, there are a large number of computers constantly available and online in the Warehouse Shop so that the customer can quickly and simply find all the product information available in the Internet Shop.

Create an identifiable customer base

As an Internet retailer, NetOnNet creates customer relations with the help of electronic communication. Consequently, the company has excellent opportunities to further develop, at a relatively low cost, its relations with an almost unlimited number of customers. With this in mind, NetOnNet will prioritise care of the customer database in order to facilitate communication with its customers.

Control over logistics

Logistics is one of the core areas in which NetOnNet has a clear competitive advantage. In order to safeguard quality, the company has kept logistics in-house. Storage, picking and packing are carried out by the com-

pany's own personnel while large, well-established transport companies are used for distribution.

International expansion

With the Internet as a sales channel, it is less difficult to establish a presence in other countries than it is to establish physical shops. Parallel with NetOnNet's growth, there are plans to expand to several countries. Today, the company sells via the Internet in Germany and Sweden. In May, 2006, the company established a presence in the Norwegian market.

Effective organisation

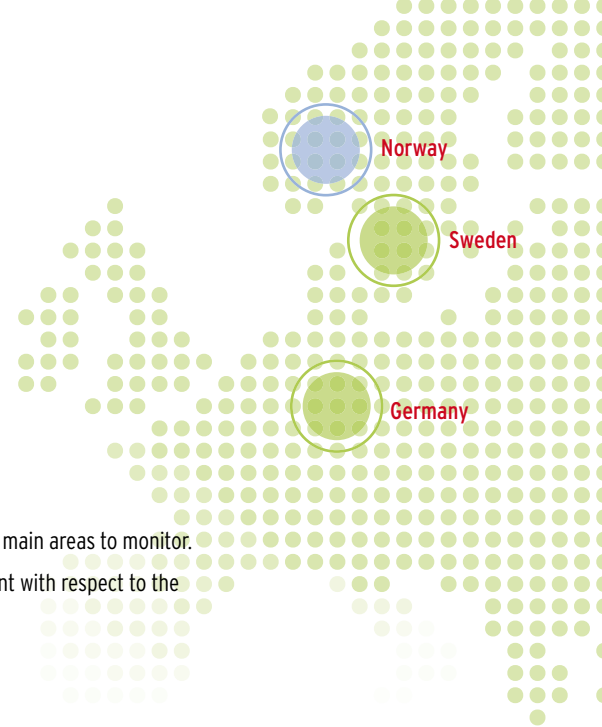
NetOnNet's organisation is designed in such a way that as many functions as possible are centrally located. The idea is to keep the local organisations small and efficient. This is a way of creating a scalable economy and utilising the economies of scale provided by a centralised organisation.

Low costs

To secure its competitiveness, NetOnNet is focusing on keeping the costs of its business operations low. This applies not only to purchasing but also to the whole organisation. NetOnNet is and will continue to be a low-cost company.

Low prices

NetOnNet's business model is based on the customer himself performing several of the services normally carried out by shop assistants in traditional shops. This makes it possible to sell products at lower gross margins. Higher volumes result in economies of scale, which makes it possible to offer lower prices. This means that the cost of the shop is substantially lower and personnel costs rise more slowly when turnover increases in comparison with traditional shops. Taken as a whole, this provides good opportunities for keeping prices low.



NetOnNet in a dynamic market

NetOnNet is an e-tailer in the consumer electronics industry. This means that the company has two main areas to monitor. NetOnNet must both safeguard its position in relation to the prevailing circumstances and be vigilant with respect to the factors that impact on trade on the Internet.

Consumer electronics - Sales, SEK billion, 2005

	Sweden	Germany
TV	5,2	32,6
DVD	1,2	5,8
VCR	0,1	0,6
Audio	1,7	22,2
In-car stereo	n/a	7,5
Fixed telephony	0,7	2,9
Mobile telephony	4,4	35,8
Recordable media	1,0	10,7
Digital cameras	2,2	17,7
Video cameras	0,5	3,7
Others	n/a	14,7
Consumer electronics excl. Computers	17,0	154,2
Computers	11,1	45,6
Small household appliances	2,2	n/a
Total	30,3	199,8

Source: GfK, Sweden and GFU, Germany

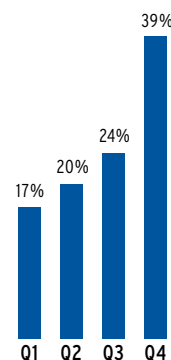
The consumer electronics market is defined as part of the retail trade and the non-convenience trade. The total market for consumer electronics (excluding PC and white goods) in Sweden and Germany is very large and in 2005, was worth about SEK 11 billion in Sweden and about SEK 155 billion in Germany. Measured in SEK, total Swedish retail trade sales via the Internet amounted to SEK 9.0 billion in 2005, which is an increase of 32 per cent from SEK 6.8 billion in 2004, according to HUI (the Swedish Research Institute of Trade).

E-commerce is taking shares from the traditional retail trade and in 2005, increased its share of the total market from 1.6 per cent to 2.1 per cent. Consumer electronics is estimated to be one of the four largest areas when it comes to commerce via the Internet. The Swedish mail order companies' Internet sales rose 39 per cent in 2005 and now account for 44 per cent of their total sales.

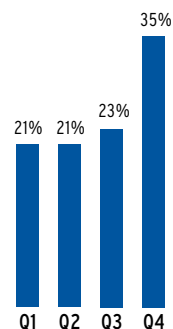
Seasonal variations in demand: weather, sports and Christmas

It goes without saying that more expensive capital goods are affected by the general economic climate but in the case of the consumer electronics market, the most important external factor is technology development. The development of new products is taking place at a rapid pace. A constant flow of new products that replace older generations of products is fuelling demand for new products and accessories. Sales of consumer electronics also vary according to the season. In spring and early summer, fewer TVs and stereo amplifiers, for example, are sold while portable products such as MP3 players, CD players and digital cameras sell well during this period. These products have a lower average price than the products that sell best in autumn and winter at the same time as the competition from garden, building and recreational products is much tougher than during the autumn. Other factors that affect demand are e.g. the weather, major sports events and holidays. Sales of TVs, for example, increase before the Olympic Games or a major world championship and in December, there is an upswing in the retail home electronics trade as a whole thanks to Christmas

Seasonal variation in sales of Swedish consumer electronics 2005



Seasonal variation NetOnNet 2005



Source: Branschkansliets Marknadsinformation AB

shopping. Taken as a whole, this means that there is a relatively large seasonal fluctuation in sales of consumer electronics. This is illustrated in the graph on page 6.

Stiff competition and heavy downward pressure on prices

The consumer electronics market in both the Nordic countries and Germany is characterised by stiff competition and heavy downward pressure on prices. The growing competition is more visible in Sweden than in Germany where the competition in the market has been tough for some time now. In recent years, the Swedish consumer electronics trade has faced increasing downward pressure on prices as a result of a growing number of foreign companies entering the market. It is now more than ten years since British Dixons established itself in Sweden under the brand name El-Giganten, and the German chain MediaMarkt will open the first of a planned 30 department stores at Kungens kurva in Stockholm

this autumn. At the same time, the food store chains Lidl, Netto and ICA, among others, are using consumer electronics as campaign products.

A trend on both the German and the Nordic markets is that new players are continuously entering the market and that trade via the Internet is increasing. Players, which previously specialised in e.g. corporate sales of computers via the Internet and are experienced e-tailers, are expanding their product range with the addition of other consumer electronics and are also targeting the private market. At the same time, the traditional players are increasingly complementing their department store sales with Internet sales.

Competitors

NetOnNet's main competitors are large nation-wide chain stores in consumer electronics and other e-tailers. In the case of the dedicated e-tailers, the majority of the competitors are companies specialising in the photo or computer segments, which have

expanded their range of products in recent years to include other consumer electronics. A third group of competitors consists of the traditional catalogue and mail order companies with e-commerce. These companies often have sales in other product areas as their core business, but have added consumer electronics to their range of products. Examples of nationwide chain stores in Sweden are OnOff, Siba, Power and El-Giganten and in Germany, MediaMarkt, Saturn and ProMarkt/MakroMarkt. All of these chain stores also sell via the Internet. Competitors among the e-commerce companies are primarily players in Germany and the rest of Europe. An overview of NetOnNet's competitors is shown in the table on page 9.

Market development - a weak 2005 and a brighter future

2005 began with a general downturn in the retail trade, which was negatively affected by, among other things, the tsunami catastrophe in Asia. During

1. Andersson RI, Home Cinema Receiver
2. Avant DVB-T 100, Digital TV Box
3. Avant S4, Digital camera



2



3



the first two months of the year, the retail as a whole in Sweden recorded a drop of about 3.5 per cent in the total sales value compared with the previous year. During the latter part of the year sales recovered and as a result, the downturn for 2005 as a whole was marginal. One product category that bucked the trend with a higher sales value was TV. This was due to higher sales of flat-screen TVs, which accounted for 75 per cent of the value. Video cameras accounted for the other increase. 2005 was a record year for this product category.

In 2005, e-commerce increased in both the Swedish and the German markets. In Sweden, e-commerce continued to increase its share of total mail order sales. At the end of the year, e-commerce accounted for 44 per cent, up from 32 per cent in 2004. E-commerce's share of the total volume of retail sales rose 34 per cent in Sweden in 2005. In Germany, E-commerce increased 24 per cent in 2005.

During the first four months of 2006, the consumer electronics market expanded, driven by the increased demand for flat-screen TVs and digital TV. Sales of other product groups such as mobile phones and white goods also rose. In 2006, e-commerce has continued to increase with greater consumer awareness and changed buying patterns as contributory factors.

Rising consumption, rapid technology development and increasing e-commerce

Rapid technology developments in the consumer electronics market are creating fertile ground for higher growth in the form of sales of new types of products, not least in the product area TV. Increasing integration of products in consumer electronics with computer products is anticipated in the next few years. It is predicted that customers will, for example, increasingly be looking for hard disc space on which to store TV programs and digital photos.

E-commerce is expected to expand still further throughout Europe in the next few years and will probably continue to increase its share of retail sales. The growth rate posted by e-commerce, at the expense of other retail sales, is, however, expected to drop. This is a natural consequence of e-commerce, which is a relatively new form of trading, maturing and stabilising.

In 2006, the Swedish consumer electronics market is expected to grow by 7 per cent, according to Branschkansliets Marknadsinformation AB. The Swedish economy is performing well, the labour market is improving and household consumption is rising. It is predicted that SEK 11.9 billion of the increase in household consumption will go to consumer electronics in 2006.

According to the National Institute of Economic Research GNP is expected to increase 3.7 per cent in 2006 and 3.2 per cent in 2007.

The product area TV, where the transition from CRT TV to flat-screen TV is resulting in rising average prices and in higher total sales values, is expected to have perhaps the greatest impact on total sales values in 2006. The FIFA World Cup tournament is one important individual event that will boost demand for flat-screen TVs. In addition, a shift in technology is taking place with the analogue television network being replaced by a digital network, which will result in rising sales of digital boxes. Another technology that is expected to have a positive impact on sales is HDTV (High Definition TV), which means a TV picture with a higher resolution and thus greater definition and detail compared with a normal TV picture. 80 per cent of all flat-screen TVs sold in 2006 are expected to be HDTV.

The fact that technology development is an important driving force for consumers can be seen from the demand for DVD players, which has begun to fall in the case of "normal" DVD players. Sales of DVD players are expected to drop during the year while sales of portable players and DVD players with built-in hard discs are on the rise and are expected to continue to do so.

Mobile phone sales are also rising, in particular phones with built-in MP3 players, while the increase in sales of normal MP3 players is expected to flatten out. The rising trend for digital video cameras, which began in 2005, has continued. In terms of volume, sales in 2006 are expected to reach the same level as last year. However, the sale value will probably fall when prices have dropped.

Finally, there is growing interest in routers, wireless networks and other products for the digital home.

SonyEricsson W800i, Mobile phone



Other players in the consumer electronics market

Company name	Chain store	E-tailer	Department store or catalogue company with or in e-commerce	Players in Sweden (no. of shops in brackets)	Players in Germany	Players in Norway
Onoff¹	●	●		● (68)		
Siba²	●	●		● (36)		● (5)
El-Giganten³	●	●		● (51)		● Under name of Elkjøp
Expert ASA⁴	●	●		● Power approx. (27) ● Expert approx (205)		● Experbuiker (approx.250)
Euronics⁵	●	● Only info website		● (122)	● Approx. 2,200 shops under the names Red Zac, Master's Mega Company and HighQline	● (80)
Audio Video	●	●		● (120)		
MediaMarkt⁶	●	●		● Opening 2 stores in autumn, 2006	● (approx. 190)	
Saturn⁷	●				● (approx. 105)	
ProMarkt/ Makro Market⁸		●			● (approx. 75)	
Scandinavian Photo⁹		●		● (3)		
Cyberphoto¹⁰		●		● Only mail order/ e-commerce		
Dustin¹¹		●		● Only e-commerce		
Inwarehouse¹²	●	●		●		
Pixmania¹³		●		●	●	●
Technik Direkt		●			● Only e-commerce	
Digitalo		●			● Only e-commerce	
Medianess		●			● Only e-commerce	
Computeruniverse		●			● Only e-commerce	
Redcoon		●			● Only e-commerce	
Clas Ohlson¹⁴	●	●		● (30)		● (20)
Ellos¹⁵			●	●		●
Haléns¹⁶			●	●		
Conrad¹⁷	●		●		● (25)	
Otto¹⁸			●		●	
Quelle¹⁹			●			
Amazon²⁰		●				

¹ Also in Finland and Estonia

² Has offices and shops in Denmark
Total no. of department stores: 57

³ Operates in Denmark, in Finland as Gigantti and on Iceland as Elko. Part of the Nordic Elkjøpskoncernen, which is owned by UK-based Dixons. Market leader in Sweden with a share of 17%

⁴ Expert ASA has a total of approx. 1,000 shops in Scandinavia and Estonia

⁵ Represented in 13 countries in Europe

⁶ Part of the Metro AG group has a total of approx. 400 shops in 12 European countries. E-commerce goes under the name of Media online

⁷ Owned by Metro AG and also has shops in France, Italy, Poland, Hungary and Austria

⁸ In addition to Promarkt/Makro Markets, also has Internet sales in an Internet shop called Yagma

⁹ Focuses primarily on photo products, but also sells products in Audio Video and Computers

¹⁰ Sells products in Photo, Audio Video and Computer also to Finland and Denmark

¹¹ Expert in computer field and through Dustin Home has entered the consumer electronics market

¹² Expert in computer field and through Inwarehouse Hemma has entered the consumer electronics market

¹³ French-owned company with e-commerce sites in most European countries.

¹⁴ Has a large chain of stores. Apart from consumer electronics, also sells tools, hobby and recreational products. Traditional mail order business, which is increasingly switching to e-commerce also has activities in Finland

¹⁵ Traditional mail order business in clothing, also sells consumer electronics. E-commerce accounts for a growing share of the orders. Also sells in Finland, Denmark and Estonia

¹⁶ Traditional mail order business in clothing, also sells consumer electronics. E-commerce accounts for a growing share of the orders.

¹⁷ Traditional mail order business with e-commerce accounting for a growing share. Focuses on hobby products. Has a large chain of stores.

¹⁸ Traditional mail order business, also consumer electronics, which are increasingly sold via e-commerce

¹⁹ Traditional mail order business; also consumer electronics, which are increasingly sold via e-commerce

²⁰ E-tailer, which has had books as its core area. Also sells consumer electronics. Has a presence in large parts of North and South America, France, the UK, Austria, Japan and China

NetOnNet in 2005/2006 – against the current in downturns and with the current in upswings

2005 was a year when NetOnNet went against the current, in the first eight months, turnover rose 10 per cent compared with the previous year – in a weak consumer electronics market.

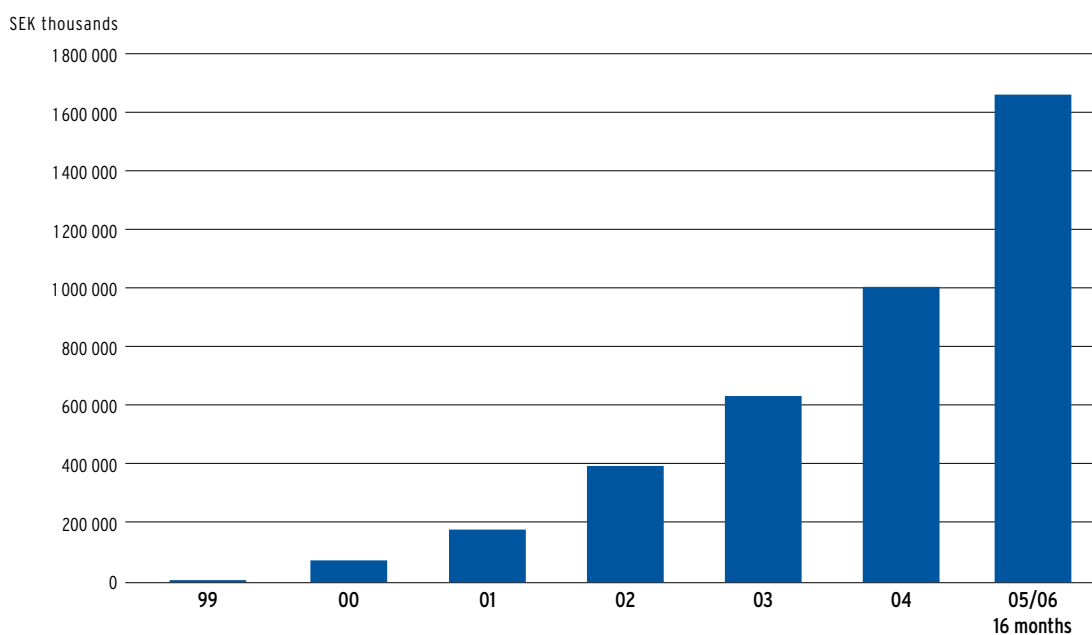
In Germany, the year began with lower sales but the winter was followed by a solid recovery and in both Sweden and Germany, sales in 2005 increased by about 27 per cent compared with the previous year. In the last four months of the fiscal year, which has been extended this year up until 30 April, 2006, sales continued to increase in Sweden. In Germany, sales increased in January and then declined over the following three months compared with the same period in 2005. As a whole, NetOnNet posted higher sales in most of its product areas compared with previous years. The product categories with the highest increases in sales were TV, Computers and Tele. In the product areas Audio and Video, however, sales values fell as a result of lower market values in the case of products such as DVD players and home theatre systems. The diagram below shows NetOnNet's sales trend:

Stronger organisation for future opportunities

NetOnNet's sales trend, despite the relatively difficult market situation, indicates that the company can regard the trend as a positive one compared with its competitors. Although the result was lower than the previous year, this can largely be attributed to measures aimed at strengthening the company's competitiveness. A lot of work has been put into improving the internal processes and making it possible for the business to develop in the future. The company's fourth Warehouse Shop was opened in Nürnberg in September and the central warehouse in Borås has been expanded by the addition of 5,000 m², which began to be utilised in October. In April, 2005, NetOnNet opened a purchasing office in Dongguan, China.

One of NetOnNet's strengths is its solid experience of the business and organisational structure, which enable it to keep its costs low. This translates into prompt distribution,

Consolidated sales





1. Acer Aspire 3005WLMi, Laptop
2. Sony DCR-DVD203, Video camera



low prices and good quality. The company attaches the greatest importance to keeping its promises and letting the customer himself discover the good service. Credibility is a keyword for the company and for this reason, NetOnNet never advertises prices or products with insufficient delivery information. Here, the company has an advantage as an e-tailer in that it can quickly and easily update information. The trend of consumers' buying behaviour, towards increasing utilisation of e-commerce, favours a company such as NetOnNet whose customers have a low average age. This means that the company can expand as its customers grow older and continue to buy via the Internet at the same time as new generations of customers fill the customer base from below.

New solutions...

NetOnNet's goal is to be quicker, more flexible and more sensitive to the customers' wishes than its competitors. Proof of the customers' appreciation

of this is that NetOnNet has so far succeeded in capturing the largest market shares in newer product areas such as DVD, home theatre and digital cameras. One example of the company's sensitivity to its customers' wishes is that in April, this year, NetOnNet, in collaboration with the Swedish postal service Posten, launched a completely new solution for the purchase of mobile phones and digital TVs together with a subscription via the Internet. Previously, customers had to return a signed contract mailed to them. Now, the customer can sign a contract directly on the Internet and then sign a combination of a contract and a delivery receipt when the mobile phone ordered is collected at the delivery point. This means that the customer can start using the product two to three days after ordering it. Representatives of mobile phone manufacturers say that buying a subscription online will increase mobile phone sales via the Internet. The new service gives NetOnNet the potential

to increase sales of contract-related services.

NetOnNet has also shown how fleet-footed it can be in the product area TV. In January, 2006, the company launched a 32 inch LCD HDTV with a built-in digital tuner under its own brand name Andersson.

...and new markets

Taken as a whole, the combination of an expanding consumer electronics market, a larger share of Internet-based sales, a strong organisation, larger warehouse and the right sort of offers means that the future looks bright for NetOnNet. In addition to this, there is new ground to be broken in new markets. The Norwegian market, for example, has a significantly higher price structure than the Swedish market. This will contribute to NetOnNet's potential for growth and higher profitability in the future.

NetOnNet's offer – products undergoing continuous development

In order to be as competitive as possible, NetOnNet strives to offer its customers a broad range of products. The customer should not need to turn to another retailer to buy what he or she wants.

The product areas are as follows:

TV

In the product area TV, NetOnNet offers CRT, LCD and Plasma TVs from a variety of brand names in a number of price classes and with varying specifications. The most recent arrival in the product area TV is the so-called HDTV, a TV with special technology that delivers higher picture quality. In addition to different types of TVs, NetOnNet offers its customers digital TV tuners, projectors, projector screens and different TV and DVD combinations.

Home theatre

In the home theatre category, there are several package solutions for people who want to create the atmosphere of a cinema at home. Loudspeaker systems and more comprehensive systems that also include a video alternative are offered under different brand names. Customers can choose between a CRT TV system or different sizes of flat-screen TV solutions. Also offered are DVD (both simple and with a hard disc for recording) and loudspeaker packages as well as different package solutions such as loudspeakers combined with projectors and projector screens.

DVD and Video

There are also a large number of alternatives when it comes to DVD players and VCRs. As in other product categories, there are several brands and variations to choose between. Simple DVD players, region-free DVD players and DVD recorders with and without a hard disc are just a few of the product groups in the product area DVD and Video. Both simple VCRs and combinations with DVD are also offered.

1. Avant DPI102, Cordless phone

2. Andersson Y60, 32" LCD TV

3. Avant MP-500, MP3 player

4. Skantic MCA-50, Compact stereo system



1

Stereo and HiFi

This product category is perhaps one of the largest in terms of different technologies and includes different loudspeakers and amplifiers as well as cassette decks, CD players, turntables and earphones. Tuners, i.e. radio, for stereo equipment are also offered.

Photo and Video Cameras

NetOnNet also has broad range of cameras and photo products, including several different digital cameras together with digital system cameras. There are digital video cameras, with or without the ability to record on DVD as well as HD cameras for improved picture quality. Products such as memory cards, tripods, camera bags, film, photo albums and video editing software are some examples of complementary equipment in this product category. Sales of e.g. memory cards are expected to rise as a result of the large number of digital cameras sold in the last few years.



2



3

Portable Audio

The product area Portable Audio includes most of the different products that enable consumers to take their music or radio with them. MP3 players are one of the more modern products in this category, but there are also small clock radios with the latest technology, portable CD players, portable radios, headphones with or without noise reduction, and Dictaphones, to take just a few examples.

Car Electronics

The product area Car Electronics also contains a wide range of products. In addition to combinations of car stereos and CD or DVD players, there are different types of speakers, amplifiers and GPS navigation systems.

Computers

Computers are an area in which NetOnNet will expand its product range with the addition of both more computers and computer accessories. The reason for this is that company's existing customers have a high level of computer maturity and it is felt that there will thus be a demand for these products. Another reason for expanding the product range is the rapid development of wireless products. These products, which are continuously improving, are expected to result in increasing numbers of private persons building their own networks in the home to be able to connect their computers to each other and to a home theatre system. The company has a varied range of desktop computers and laptops as well as palmtop computers with GPS. Package solutions consisting of computers in combination with different monitors are also offered.

Computer Accessories and Computer Components

The product categories Computer Accessories and Computer Components include DVD and CD burners, hard discs, different types of networks, RAM memory, different types of printers, USB memory devices, modems, monitors, software, web cameras, scanners and numerous other products related to computers.



4

Mobile Telephony and Fixed Telephony

In the product category Mobile Telephony, NetOnNet recently launched a new service enabling customers to sign up for a subscription directly via the Internet. This is expected to result in more people buying mobile phones with a subscription via the Internet. In addition to phones and subscriptions, this product category also contains a large number of accessories such as batteries, battery chargers, in-car accessories, memory cards and headsets. Fixed Telephony consists of products such as telephones, cordless phones, walkie talkies, IP telephony and accessories such as headsets and loudspeakers.

Accessories and Consumables

Parallel with the above-mentioned product areas, there are different accessory areas where products such as cables, batteries, consumable material, fastening devices and other equipment complementing the "main products", all according to the principle that the customers should not need to turn to another retailer to be able to use his or her products.

Brand names

NetOnNet sells products from major well-known brand names and under its own brand names. It is important to offer products from Philips, Sony or other long-established brand names that the customers recognise and trust. At the same time, it is also important to offer products at lower prices from less well-known brand names when the demand for this type of product increases. For this reason, NetOnNet sells its own branded products such as Andersson, Avant or Centrum. Under the company's own brand names, new products are developed in lower price classes than would have been possible when only selling well-known brands.

Partner brands	Own brands
Canon	Andersson
Olympus	Avant
Philips	Centrum
Pioneer	PEPP
Sony	Skantic
Yamaha	
M.fl.	

Prerequisites of a good offer

As Europe's first dedicated Internet shop, it is natural that the majority of the company's customers come into contact with the products via e-commerce. To complement its e-commerce, the company has also established a number of Warehouse Shops. In order to ensure that the products are available when the customers want them, it is important for NetOnNet to have good relations with its suppliers. In addition, efficient logistics is a prerequisite of satisfied customers.

Internet

E-commerce is a modern form of distance selling. Traditional distance selling, or mail order, has mainly been in the shape of ordering goods from catalogues. Producing and distributing catalogues is, however, relatively expensive and slow. This inherent slowness makes it difficult to compete in industries with rapid price changes.

The Internet as a "catalogue" for orders differs from the printed catalogue in that it is interactive and can present an unlimited amount of information and goods. Moreover, it is very flexible. For example, prices can be updated immediately and for all customers simultaneously. When customers place their orders electronically in the Internet shop, they provide all the information needed to be able to handle delivery and payment. This information is entered into the order system without the need for manual processing, which results in substantial cost advantages. The goods are delivered home to the customers or to one of the Swedish postal service Posten's delivery points. Payment can be made by credit card, via

an Internet bank, in instalments or C.O.D. Paying by credit card or via an Internet bank is both simple and safe compared with, for example, going to a physical shop with a credit card or cash. The customer does not run the risk of somebody gaining access to PIN codes or data store on a magnetic strip. Moreover, in the rare cases when a credit card number is stolen on the Internet, it is the banks that are liable. The Internet is still relatively new when it comes to buying and selling and nobody can predict with any certainty how this fast-growing market will develop. NetOnNet will focus on the Internet as its principal sales channel based on the belief that it will continue to develop strongly in the years ahead.

Warehouse Shops

In order to complement its Internet sales, NetOnNet has opened a small number of Warehouse Shops. The Warehouse Shop in Borås was the first to be opened and is adjacent to NetOnNet's central warehouse.

Creative Zen Vision: M, MP3 player



In the same way, a Warehouse Shop was opened adjacent to the company's operation in Munich in 2000. Externally located shops have also been opened in Ullared, Sweden, and now most recently in Nürnberg, Germany, in order to attract customers from many different parts of the countries. A decision has been taken to open a Warehouse Shop in Malmö this autumn and in Gothenburg, but the Gothenburg Warehouse Shop has been put on hold until the local authorities have decided upon a planning permission.

The Warehouse Shops complement Internet sales and make it possible to have a physical presence. Buying in a Warehouse Shop differs from buying in a normal shop. Self-service is important in order to be able to offer lower prices than in normal shops. For example, products are not on display for demonstration. The customers fetch the products in cartons directly from the shelves in the warehouse. A large number of computers are available in the Warehouse Shop. Via these computers, the customers have access to NetOnNet's Internet Shop and can search for information on products and on what shelf they can be found. Personnel are available to assist with advice and information.

Suppliers

NetOnNet's supply of goods is dependent on a number of different suppliers. The company has about 160 suppliers, of which the 10 largest account for more than half the purchase value. Purchases are made directly from factories and trading houses, via agents and from distributors in the local markets. The products



Packard Bell iXtreme 6330, Desktop computer

under the company's own brand names are purchased directly from different manufacturers.

No agreement can guarantee that articles not on order are available. Nor are there any guarantees that prices will remain the same in the future. Consequently, a good relationship with suppliers is necessary if NetOnNet is to be competitive. As a result of NetOnNet's plans to expand its product range with the addition of more accessories and new product areas in the years ahead, the number of suppliers is expected to increase. However, it is difficult to put a number to this increase. The large number of suppliers means that the company is well prepared in the event of delivery disruptions, although such a disruption could have a negative effect on gross margins.

Logistics

NetOnNet is dependent on smoothly functioning logistics with the capacity to cope with seasonal variations. In 2005/2006, a total of 580,000 packages were delivered from the central warehouse to Internet customers. The company uses its own personnel in its

own premises for logistics.

Transportation is carried out by subcontractors such as Posten, the Swedish postal service, and Deutsche Post/DHL. Consignments vary from 0.1 kg up to 100 kg and are usually delivered to the customers in 1-3 days.

The central warehouse in Borås is the hub for e-commerce in Sweden and Germany and for the four Warehouse Shops. As a result of the rapid growth, external warehouse space was rented when there was insufficient space in the company's central warehouse. In 2005, however, 5,000 m² was added to the storage space in Borås, which now totals about 8,000 m². Borås will also be the distribution centre for Norway.

Since the start, NetOnNet has invested in IT equipment and shop fittings. In 2003, a review of the company's processes was initiated and this resulted in the development of a new ERP system, which began to be introduced at the end of 2004. In 2005, intensive work was done to complete the implementation of the system.

Satisfied customers – at NetOnNet they get most value for their money

Satisfied customers are essential for long-term profitability. Consequently, the results of the market research company GfK's survey, which was presented in April, 2006, were excellent news for NetOnNet. 1,200 randomly selected Swedes were asked to state which of the more than 100 largest store chains they considered gave most value for money. The men put NetOnNet at the very top of the list while the women ranked NetOnNet as the ninth most priceworthy shop with, among others, H&M and Ikea ranked higher. An excellent grade indeed.

The great majority of NetOnNet's customers are private persons (98.5 per cent) with corporate customers accounting for a very small share. Three quarters of all the customers are men and a third are under 30. These young, male customers are mainly interested in new product types, e.g. DVD players, MP3 players and digital cameras. Customers are mainly recruited via the Internet, but also on the phone when customers call up NetOnNet's customer service and via the Warehouse Shops. Many of the customers subscribe to NetOnNet's electronic newsletters, which is a good medium for the company to present cost-effective offers and provide customer care.

The customers who shop on the Internet are geographically spread out and are reached through nationwide marketing in the media, e.g. ads in the daily press or TV commercials.

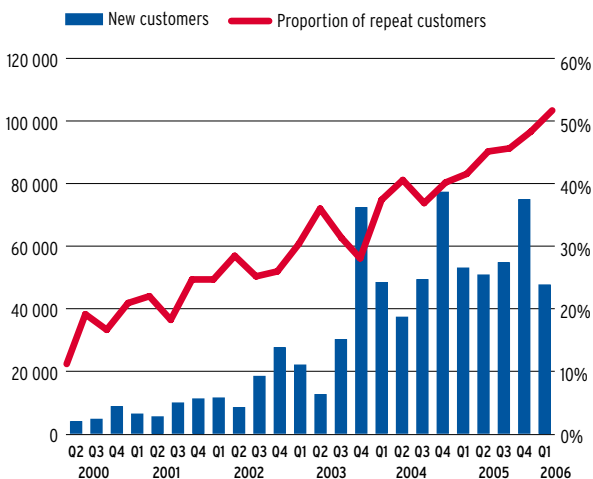
On 30 April, 2006, NetOnNet had approx. 1,134,000 customers in Sweden and Germany. The number of cus-

tomers is increasing steadily and in 2005/2006, the company registered about 420,000 new customers. The share of orders received from existing customers is gradually increasing and was 52.9% in Sweden and 28.5% in Germany in the period January-April, 2006. The graphs illustrate the trend of number of new customers and the share of existing customers who buy again.

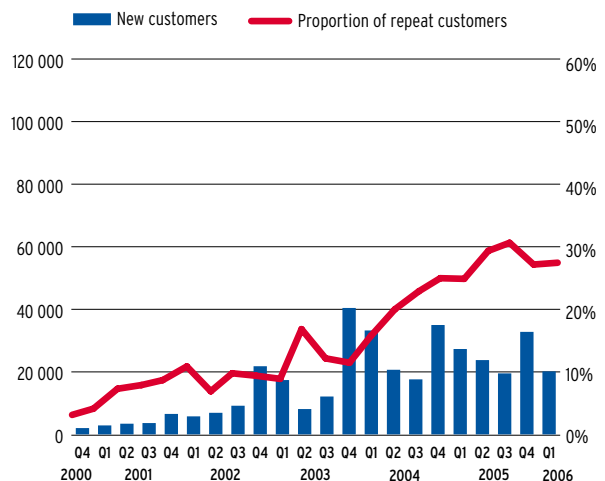
GfK's "Most priceworthy retailers" survey

Men		Woman			
1	NetOnNet	76%	1	Ikea	80%
2	Ikea	75%	2	Gekås	77%
3	Gekås	73%	3	Clas Ohlson	71%
4	CDON	72%	4	Willys	71%
5	Clas Ohlson	71%	5	Överskottsbolaget	68%
6	Överskottsbolaget	70%	6	H&M	67%
7	Willys	67%	7	CDON	66%
8	Biltema	66%	8	Netto	66%
9	Netto	64%	9	NetOnNet	63%
10	Jula	62%	10	Biltema	62%

New customers and repeat customers, Sweden



New customers and repeat customers, Germany



Committed employees in a stimulating workplace

NetOnNet's head office is in Borås, where all central functions such as management, purchasing, logistics, marketing, sales, customer service, IT and finance are located.

NetOnNet also has four Warehouse Shops, two adjacent to its operations in Borås and Munich, one in Ullared and, since September, 2005, one in Nürnberg. A purchasing office was opened in Dongguan, China, in April, 2005. In April, 2006, the company had 144 employees in Sweden and 41 in Germany as well as staff of five at its office in China. During the year, the average number of employees was 175 persons.

Personnel

NetOnNet is a young company, which places a high value on safeguarding the spirit that forms the basis of the company's success. NetOnNet regards all its employees as important ambassadors of the company. Every employee is trained to be sensitive to the customers' wishes and requirements irrespective of where in the organisation the employee works. To be able to do their work in the best possible way and strengthen NetOnNet's position on the market, the personnel must be well informed and have the right training for their work.

NetOnNet's corporate culture is characterised by participation, a friendly manner and individual responsibility. The company strives to offer its employees opportunities for personal development and a career path in the company. Since the company is growing rapidly, there is also a need for external recruitment. New positions are published on the company's website.

Of the company's 190 employees in April, 2006, 179 were employed until further notice and 11 were employed on a temporary basis. 138 of the employees employed until further notice were men and 41 were women. The average age of all the employees employed until further notice was 30 years and their average period of employment with the company was 2 years. Because of seasonal variations in the company's business, the number of employees varied during the year.

Employees in leading positions participate in two option program, one initiated in 2003 and one initiated in 2005.



NetOnNet's TV commercials



Avant HX-40, HiFi headphones

Share capital

The NetOnNet share has been listed on the O-list of the Stockholm Stock Exchange since 25 May, 2004.

The share is traded under the name of NON and is included in the Stockholm Stock Exchange's index for consumer discretionary goods and services SZ25PI and Stockholm Retailing SX2550PI as well as Stockholm Internet & Catalog Ret_PI SX55020PI.

On 30 April, 2006, the share capital of NetOnNet AB amounted to SEK 604,068 divided among 6,040,680

shares, which gives a quota value of SEK 0.10. Each share entitles the holder to one vote and every shareholder entitled to vote at the annual general meeting may vote for the entirety of the shares that he owns and represents. All shares give their holders the same right to a share in the company's assets and profit.

On 28 April, 2006, NetOnNet had 1,473 shareholders. The majority of the shareholders held 500 or fewer shares. The proportion of institutional ownership was 60.1% and foreign ownership 28.5%.

Trend of the share capital

Since the company was established, its share capital has changed as shown in the table below.

Year	Event	Increase in share capital	Total share capital	Increase in number of shares	Total number of shares
1999	Business activities begin	0	100 000		1 000
1999	New share issue	56 200	156 200	562	1 562
1999	New share issue	15 400	171 600	154	1 716
1999	Split 100:1	0	171 600	169 884	171 600
2000	New share issue	21 868	193 468	21 868	193 468
2000	New share issue	100 000	293 468	100 000	293 468
2000	Bonus issue	293 468	586 936	0	293 468
2000	Split 20:1	0	586 936	5 575 892	5 869 360
2002	New share issue ¹	10 292	597 228	102 920	5 972 280
2003	New share issue ²	4 340	601 568	43 400	6 015 680
2006	New share issue ³	2 500	604 068	25 000	6 040 680

Shareholders

The table below shows NetOnNet's shareholder structure based on information from VPC AB (Swedish Financial Supervising Authority) on 28 April, 2006. On this date, the company had a total of 1,473 shareholders. The ten largest shareholders accounted for 58.7 (55.6) per cent of the share capital.

Shareholders on 28 April, 2006	No. of shares	Votes, %
Halvarsson, Anders ⁴	678 000	11,2
Andersson, Hans-Krister	626 000	10,4
SIS Segaintersettle AG/Zürich, W8IMY	531 000	8,8
Nordea Bank Finland ABP	300 100	5,0
HQ Bank AB	292 962	4,9
Vätterleden Aktiebolag	282 700	4,7
AMF Pensions Aktiefond-Sverige	250 400	4,2
SEB Life (Ireland) Ass Co Ltd	231 000	3,8
SEB Internetfond	205 400	3,4
Merrill Lynch, Pierce, Fenner & Smith, W9	150 000	2,5
Others	2 493 118	41,3
Total	6 040 680	100,0

1) Refers to participation in option program no. 1 with an exercise price of SEK 35/share. The new share issue was subscribed by employees and the board.

2) Refers to participation in option program no. 2 with an exercise price of SEK 31/share. The new share issue was subscribed by employees and the board.

3) Refers to participation in option program no. 3 with an exercise price of SEK 35/share. The new share issue was subscribed by employees.

4) With family

Shareholder structure

The table below shows the distribution of shareholdings in NetOnNet by size based on the shareholders' register at VPC AB on 28 April, 2006.

Size	No. of shares	Share of capital, %	No. of shareholders	No. of shareholders, %
1–500	144 817	2.4	1 062	72.1
50–1000	125 659	2.1	142	9.6
1 001–5 000	440 025	7.3	174	11.8
5 001–10 000	303 571	5.0	41	2.8
10 001–50 000	842 946	14.0	35	2.4
50 001–	4 183 662	69.3	19	1.3
Total	6 040 680	100.0	1 473	100.0

Authorisation by Annual General Meeting in 2005

The shareholders Annual General Meeting on 2005-04-27 decided to launch a Stock Option Programme. The Programme will be in the form of debentures with detachable warrants to subscribe for newly issued shares in the company. The Board was given a mandate until the next AGM to execute the Programme, which shall be directed towards key employees in the company, which means an exception to the shareholders' preferential rights. The Board has the right at its discretion to make allocations within the Programme among key employees.

The maximum total nominal value of the debentures shall be SEK 7 500, and the detachable warrants shall in total give the right to subscribe for a maximum of 150 000 newly issued shares in the company, each share with a nominal value of SEK 0.10.

The program is designed so that the company to the selected participants will issue detachable warrants to subscribe for new shares in the company. The period of application concerning subscription for new shares shall be during 2009-01-01 to 2009-06-30 at strike-price of SEK 135,00 per share.

The issue will take place along strictly business lines and the price will be determined in accordance with

accepted principles such as the Black & Scholes equation or the equivalent. Upon full conversion, the dilution effect will be 2.40%. On 30 April, 2006, 30,000 options had been exercised.

New share issue in progress

In line with the Annual General Meeting's decision in April, 2003, the board launched a stock option plan for key employees at NetOnNet. The sale of the stock options has taken place along strictly business lines. The option premium paid was SEK 7.34 per option and yielded SEK 602 thousand. A total of 82,000 options were issued, each entitling the holder to subscribe for one new share in NetOnNet at a price of SEK 65 during the period 1 January – 30 June, 2006. Upon full conversion, the share capital of NetOnNet will increase by SEK 8,200 and equity by SEK 5.3 million. This is equivalent to a dilution of 1.3% of the share capital and the number of votes. On 30 April, 2006, 25,000 options had had been converted into 25,000 new shares.

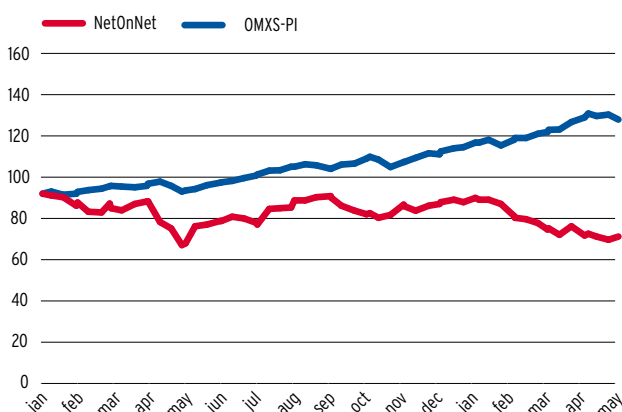
Share price trend and turnover

For the new share issue in spring, 2000, the issue price was SEK 1,300, which, after a split, was equivalent to SEK 65. To facilitate the trade in NetOnNet's shares, the share was listed on Nya Marknaden at the Stockholm Stock Exchange on 15 June, 2000, and on the O-list of the Stockholm Stock Exchange on 25 May, 2004. Since the introduction on the O-list, the highest price paid was SEK 134 on 8 June, 2004. During the fiscal year 2005/06, the highest price paid was SEK 94 on 11 January, 2005, and the lowest price paid was SEK 64 on 29 April, 2005. The graph enclosed shows the share price trend of NetOnNet's share compared with the Stockholm Stock Exchange's OMXS-PI Index in 2005/2006.

Shareholder agreement

As far as the Board of Directors is aware, there are no shareholder agreements between the company's owners.

Share price trend 03-01-2005 - 01-05-2006



Profitability

The company has a long-term profitability target of a 20% return on equity.

This is considered possible to achieve with the help of higher sales volumes, which will result in economies of scale and increased cost effectiveness.

Financing

The company will primarily be financed by funds generated in its business operation or by raising loans. Major investments such as buildings will be financed by long-term bank loans.

In the short term, the company will finance seasonal variations with the help of short-term credits. The objective for these short-term credits is a maximum debt-equity ratio of 0.5 times equity.

Funds not employed in the company's business operation are invested in bank deposits or fixed-income instruments with a very low risk. Investments may only be made in fixed-income instruments with a well-functioning second-hand market.

Currency policy

NetOnNet's currency policy stipulates that the flow in foreign currencies, transaction exposure, for fixed orders shall be hedged. The first hedging measure is always to utilise incoming currency for payments of purchases in the same currency, so-called netting. Any remaining currency risks are hedged with forward rate agreements. The purpose of this

hedging (financial hedging) is to hedge the estimated purchase prices in the order book (hedge accounting is not applied). Forward rate agreements are mainly denominated in USD. The currency risk, in the form of exchange rate differences, relating to the company's result and equity, is not hedged.

Dividend policy

In view of the fact that the company is in an expansive phase, the board does not intend to propose that a dividend be distributed to the shareholders in the years immediately ahead. When the necessary conditions for profitability indicate that a dividend may be distributed without jeopardising the build-up of value, the board will adopt a dividend policy.

Sensitivity analysis

The table below shows the effects on NetOnNet's profit before tax of a change in relevant factors that affect the profit. Such a change refers to an isolated event and it is assumed that no other measures, e.g. additional sales efforts or cost savings, affect the profit.

2005, 12 months

Factor	Change	Effect on profit before tax
Sales	+/- 5%	+/- MSEK 9.8
Gross margin	+/- 1%	+/- MSEK 12.8
Personnel costs	+/- 5%	+/- MSEK 4.1
Other external costs	+/- 5%	+/- MSEK 4.9

Definitions

Gross margin

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

Operating margin

Operating income in relation to net sales for the period.

Equity ratio

Equity in relation to total assets.

Debt/Equity ratio

Interest-bearing debts and provisions in relation to equity.

Interest coverage ratio

Pre-tax profit plus financial costs in relation to financial costs.

Capital employed

Total assets less non interest-bearing debts and provisions. Average capital employed is calculated as capital employed at the beginning of the period plus capital employed at the end of the period divided by two

Return on average capital employed

Pre-tax profit plus financial costs in relation to average capital employed.

Return on average equity

Net income for 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.

Profit per share

Profit for the year in relation to the average number of shares.

Profit per share after dilution

Profit for the year in relation to the average number of shares adjusted for any effect of dilution.

Equity per share

Equity in relation to number of outstanding shares.

Liquid funds per share

Liquid funds in relation to number of outstanding shares.

2002-2005/2006 refers to the Group, 2001 refers to the Parent Company

Five-year summary	2005/06 16 months	2004 12 months	2003* 12 months	2002* 12 months	2001* 12 months
Income statement					
Net sales	1 661 956	1 004 983	631 834	392 945	175 449
Operating income	-8 922	21 559	13 933	413	-23 228
Net financial income/expense	-1 887	-1 050	-903	936	2 728
Profit/loss before tax	-10 809	20 509	13 030	1 349	-20 500
Tax	2 510	-1 635	-3 648	16 100	0
Profit/loss for the year	-8 299	18 874	9 382	17 449	-20 500
Balance sheet					
	30-04-06	31-12-04	31-12-03	31-12-02	31-12-01
Intangible fixed assets	13 064	17 684	428	547	0
Tangible fixed assets	37 680	31 864	31 138	31 152	4 052
Financial fixed assets	14 512	12 032	13 796	16 891	757
Inventories	187 504	179 112	94 936	68 655	29 696
Other current assets	28 947	69 878	42 121	43 761	26 147
Liquid funds and short-term investments	13 119	81 725	72 472	54 829	56 236
Total assets	294 826	392 295	254 891	215 835	116 888
Equity	126 779	133 667	114 558	103 052	82 117
Provisions	5 648	1 680	2 660	1 444	891
Interest-bearing liabilities	34 093	19 967	22 567	23 856	0
Non interest-bearing liabilities	128 306	236 981	115 106	87 483	33 880
Total equity and liabilities	294 826	392 295	254 891	215 835	116 888
Cash flow					
Cash flow from operating activities	-72 878	34 821	20 987	3 645	-34 452
Cash flow from investment activities	-13 374	-22 829	-3 906	-29 792	-2 206
Cash flow from financing activities	17 516	-2 600	659	24 856	0
Total cash flow	-68 736	9 392	17 740	-1 291	-36 658
Key ratios					
Gross margin, %	19.3%	21.5%	21.5%	19.0%	20.6%
Operating margin, %	-0.5%	2.1%	2.2%	0.1%	-13.2%
Net margin before tax, %	-0.7%	2.0%	2.1%	0.3%	-11.7%
Equity ratio, %	43.0%	34.1%	44.9%	47.7%	70.3%
Debt/equity ratio, %	0.3	0.2	0.2	0.2	0.0
Interest coverage ratio	-7.4	15.0	7.8	2.7	-20 499.0
Capital employed	160 872	153 634	137 125	126 908	82 117
Return on average capital employed, %	-6.1%	15.1%	11.3%	2.1%	-22.2%
Return on average equity, %	-6.4%	15.2%	8.6%	18.8%	-22.2%
Investments, tangible fixed assets	13 374	4 698	3 353	29 229	2 086
Profit/loss per share, SEK	-1.38	3.14	1.57	2.97	-3.49
Profit/loss per share after dilution, SEK	-1.38	3.12	1.57	2.97	-3.49
Equity per share, SEK	20.99	22.22	19.04	17.26	13.99
Liquid funds per share, SEK	2.17	13.59	12.05	9.32	9.58
Number of shares at end of period	6 040 680	6 015 680	6 015 680	5 881 760	5 869 360
Number of outstanding options at end of period	87 000	82 000	82 000	80 600	183 520
Average number of employees	175	143	98	69	44

* Not recomputed in accordance with IFRS (however, no significant differences with IFRS have been noted)

The Board of Directors of NetOnNet AB (publ), corp. ID no. 556520-4137, hereby submit the annual report and the consolidated accounts for the extended fiscal year 01-01-2005 to 30-04-2006 (16 months).

Business summary

The company engages in business in electronic trade in electronic products mainly for consumers. Business operations are conducted in Sweden and Germany with the Internet as the principal sales channel supplemented by Warehouse Shops in Ullared, Borås, Munich and Nürnberg.

Shareholders

The founders Hans-Krister Andersson and Anders Halvarsson, who are both active in the company, together owned 21.6% of the shares in NetOnNet AB on the balance day. Other major shareholders are SIS Segaintersettle AG/ Zürich with 8.79% and Nordea Bank Finland ABP 4.97% on the balance day.

Market

Sweden - published trade statistics

In 2005, it was estimated that the consumer electronics trade in Sweden decreased 1% calculated on the basis of current prices compared with the corresponding period a year earlier, according to HUI/SCB. These statistics also include white goods with strong increase in sales in 2005.

The Swedish Association of Consumer Electronics Suppliers (SRL) reports a 2.8% increase in sales to retailers in 2005 compared with 2004. TV was the product category that increased most due to the increase in flat-screen TVs, which accounted for 75% of the value and 44% of the number of TVs sold to retailers. The second product category with healthy growth was video cameras, which had a record year in 2005.

In the period January-March, 2006, the consumer electronics trade in Sweden is estimated to have increased 11.4% in current prices compared with the same period in 2005, according to HUI/SCB. The equivalent figure for April was 6.2%. These statistics also include white goods, which continued to do very well in 2006.

The Swedish Association of Consumer Electronics Suppliers (SRL) reports a 30% increase in sales to retailers in the period January-April compared with 2005. TV was the product category that increased most due to the increase in flat-screen TVs, which accounted for 87% of the value and 67% of the number of TVs sold to retailers. Sales of all other categories fell with the exception of "heavy Audio" (e.g. home theatre systems), which increased 12%.

Germany - published trade statistics

According to GFU (Gesellschaft für Unterhaltungs- und Kommunikationselektronik), sales increased 7.5% in 2005, compared with 2004, for the consumer electronics trade as a whole in Germany and 4.5% during the period January-March, 2006, compared with same period the previous year. Prior to the FIFA World Cup, sales of TVs rose 27% in January-March, 2006, including a 139.6% increase for LCD-TVs, while sales of CRT TVs fell 30.5%.

E-commerce and mail order

Sweden

During the period January-December, 2005, mail order sales in Sweden fell 1.4% compared with 2004. The trend of e-commerce taking an increasing share of total mail order sales continued in 2005 with an increase of 39% from 31.7% to 44% in 2005, according to the Swedish Mail Order and Traders Association. In the period January-April, 2006, mail order sales fell 1.8% compared with the corresponding period in 2005. The Internet's share of sales increased 36.6% and the share of total mail order sales is now 56.9%.

Germany

In 2005, German e-commerce posted sales of EUR 6,100 million and increased 24%.

NetOnNet

Sales during the extended fiscal year, January, 2005 – April, 2006, totalled SEK 1,662.0 (1,005.0) million, an increase of 65.4%. 61.8% of the sales increase was accounted for by volume increases, 1.8% by currency changes and 1.8% by price changes. Compared with the calendar year 2004, a trend has been broken with the sales increase higher than the volume increase. The fact that the volume increased less than total sales is the result of a changed product mix with customers choosing more expensive products than earlier, mainly flat-screen TVs, which are more expensive than the traditional CRT TVs.

Sources:
Statistics Sweden in collaboration with The Swedish Research Institute of Trade and the Swedish Mail Order and Traders Association, respectively.
Statistische Bundesamt, BVH (Bundesverband des Deutschen Versandhandels),
GFU (Gesellschaft für Unterhaltungs- und Kommunikationselektronik) and NetOnNet AB.

Sales

Sales during the fiscal year amounted to SEK 1,662.0 (1,005) million.

Sales, fiscal year, MSEK

	2005/06 16 months	2004 12 months
Sweden	1 168.8	700.8
Germany	493.2	304.2
Total	1 662.0	1 005.0

Profit and gross margin

The consolidated profit before tax was SEK -10.8 (20.5) million, divided between countries as follows:

Operating income

	2005/06 16 months	2004 12 months
Sweden	17.8	34.1
Germany	-26.8	-12.5
Total	-8.9	21.6

The gross margin was 19.3% (21.5). The lower operating income during the fiscal year is mainly due to increased costs that have been assumed with the objective of building up the company for long-term growth. The tougher competition with continued price pressure as well as a surplus stock situation after the Christmas period in 2005 resulted in a lower gross margin. The largest cost increases are in the areas of personnel and marketing together with the new ERP system, which have resulted in increased costs including depreciation.

Personnel costs amounted to 6.6% (6.4) of net sales. The equivalent figure was 6.8% (6.9) in Sweden and 6.0% (4.3) in Germany.

Significant events during the fiscal year

During the entire period, the focus of the company has been on strengthening its organization and improving internal processes to facilitate future business development and high growth. A new ERP system was introduced in November, 2004, and in 2005 work was done to secure reliability as well as on development.

In spring, 2005, the management team was strengthened by the addition of a new logistics manager, a new IT manager, a new CFO and a new manager for the expansion of the warehouse concept.

In April, a purchasing office was opened in China.

The company's fourth Warehouse Shop was opened in Nürnberg in September, 2005. The planned opening of a Warehouse Shop in Gothenburg has been postponed due to planning permission being delayed.

The central warehouse was expanded by an additional 5,000 m², which began to be used in October.

In November, a new position was established in the management group, Chief Merchandising and Operations Officer, in order to coordinate all the activities in purchasing, sales and customer service.

In spring, 2006, a new function was developed for the sale of subscriptions on the Internet. This function is designed to make it easier for customers to choose between the different subscriptions offered. Agreements on the sale of mobile phones with a subscription have been signed with several operators. In addition, preparations have been made to open an Internet shop in Norway.

Marketing

During the year, the company increased its marketing in order to increase public awareness as well as future growth.

In Sweden, most of the marketing was focused on building up awareness of the company and on advertising products in commercials on TV4 and Kanal 5 supplemented by advertisements for the Warehouse Shops mainly in the evening papers and local press as well as on-line advertising.

In Germany, marketing was focused on newspaper advertisements and on-line advertising. In addition to this, the company also placed advertisements in AudioVideo-Foto-Bild, which is the largest consumer electronics magazine in Germany.

During the fiscal year, marketing costs amounted to 3.6% (3.4) for net sales. In Sweden, this figure was 3.3% (3.1) while in Germany it was 4.1% (4.0).

Stock

The stock value on 30 April was SEK 187.5 (179.1) million. This amount includes goods in transit at a value of SEK 22.8 (30.6) million. The higher stock level is mainly due to large purchases for the Christmas season, 2005. Part of the higher stock is also due to the increasing share of the company's own brands, which require purchases on a larger scale in order to obtain competitive prices.

Investments

Investments during the fiscal year totalled SEK 13.4 (22.8) million and are related to the opening of the warehouse shop in Nürnberg, the expansion of the central warehouse, security and surveillance, IT and future expansion.

Research and development

The company does not engage in research and development.

Financial position and liquidity

On 30 April, 2006, the company's liquid funds, including short-term investments amounted to SEK 13.1 (81.7) million corresponding to SEK 2.17 (13.59) per share. Unutilised current account overdraft facilities amounted to SEK 63.2 (60.0) million. The equity ratio was 43.0% (34.1). Equity amounted to SEK 126.8 (133.6) million, which corresponds to SEK 20.99 (22.22) per share.

The cash flow from operating activities amounted to SEK -70.4 (34.8) million during the fiscal year. The cash flow after the investment and financing activities was SEK -68.7 (9.4) million. The main reason for the negative cash flow is a sharp decrease in short-term liabilities.

Financial risk management

Financial instruments give rise to different types of risks. The company's financial policy specifies how these financial risks should be managed and defines the risk exposure with which the company's business may be conducted. A low risk profile is the main objective.

Financing risk

NetOnNet's sources of financing are primarily in the form of equity, cash flow from operating activities and borrowing. The company will primarily be financed by funds generated in its business operation or by raising loans. Major investments such as buildings will be financed by long-term bank loans. In the short term, the company will finance seasonal variations with the help of short-term credits. The objective for these short-term credits is a maximum debt-equity ratio of 0.5 times equity.

Liquidity risk

Cash management at NetOnNet is carried out by the finance department within the framework of a financial policy adopted by the board. Today, NetOnNet has good liquidity and is able to utilise external financing. Consequently, the liquidity risk is considered to be low.

Credit risk/counterparty risk

The objective of the company's management of credit risks is to minimise them. In the case of customer credit risk, NetOnNet offers consumers the option of C.O.D., payment by credit card, direct payment or payment by instalments. Payment by instalments is offered in collaboration with an external finance company. This means that NetOnNet has no credit risks in the case of sales to consumers. In the case of sales to companies and authorities customers are offered the options of C.O.D., payment by credit card or direct payment and, in exceptional cases, credit, which always involves a normal credit rating check. The customer credit risk is thus judged to be very low.

When liquidity peaks temporarily, liquid funds are invested in stocks and shares. The company's financial policy states that investments may only be made in stocks and shares with a short and long-term credit rating of at least A according to Standard & Poor's or A2 according to Moody's Investor Service. Consequently, the credit risk is judged to be low. The company's transactions with financial derivatives are only carried out with counterparties with a good credit rating.

Interest risk

The objective of the company's cash management is to limit short-term impact on the Group's net income and cash flow caused by fluctuations in the financial market. Depending on the liquidity situation, NetOnNet's net income is directly affected by changes in the market interest rates as a result of changes in the net financial result. Today, NetOnNet has two equally large property loans, which were originally fixed for 3 and 5 years, respectively, in order to limit the interest risk on borrowing.

Currency risk

NetOnNet's financial policy stipulates that the flow in foreign currency, the transaction exposure, for fixed orders must be hedged. The first hedging measure is always to utilise incoming currency for payments of purchases made in the same currency, netting. In addition, currency risk neutrality is achieved by transactions on the currency market with forward contracts. NetOnNet's objective is to hedge 100 per cent of its total flows by means of forward contracts. The purpose of this hedging (financial hedging) is to hedge

the calculated purchase prices in the order book (hedge accounting is not applied). The currency risk to which the company's net income and equity is exposed in the form of exchange rate differences, translation exposure, is not hedged.

Cash flow risk

NetOnNet's cash flow varies as a result of seasonal variations. The company's credit volumes are adjusted to take these fluctuations into account.

Price drop risk

There is a general risk of price drops in the consumer electronics trade. This risk is managed mainly by limiting order quantities for each product during the period when its price is judged to be competitive. This period in the segment varies between one and two months for new products and up to six months for standard products such as cables and the like. NetOnNet is working actively with different forecasting tools and follow-up programs for stocks. The company's collaboration with different suppliers results in good flexibility based on forecasts that are converted into purchase orders. As the stock levels are low in relation to turnover, the market risk is considered to be low.

The financial risks are described in greater detail in the Note 28: Financial risks and financial risk management.

Personnel

At the end of April, there were 190 (156) employees whereof 144 (119) in Sweden, 41 (8) and 5 (0) in China. The average number of employees during the fiscal year was 175 (143) persons.

Transition to IFRS

As of 1 January, 2005, NetOnNet applies IFRS (as approved by the EU) in its consolidated accounts. Comparative figures for 2004 have been drawn up in accordance with IFRS 1 and have not had any effect on net income in comparison with accounting principles applied earlier.

As of 01-01-2005, NetOnNet applies IAS 39, which had an impact on the company's equity at the beginning of 2005. See also under Accounting and Valuation principles.

The Board of Directors' procedures

The Board of Directors consists of six board members. At the annual general meeting on 27 April, 2005, Jan Friedman, Anders Halvarsson, Mattias Ledunger, Johan Röhss and Ebbe Pelle Jacobsen were re-elected. Jean-Francois Baril was elected as a new board member.

During the statutory board meeting, Jan Friedman requested not to be re-elected as chairman. Ebbe Pelle Jacobsen was elected as new Chairman of the Board.

Workers at the company may attend the meeting when e.g. submitting reports.

The work of the Board of Directors is carried out in accordance with established rules of procedure. The rules of procedure and the special instructions to the Managing Director specify the division of work between the Board of Directors and the Managing Director. According to the work procedures approved by the Board of Directors, at least five regular board meetings shall be held every year. In addition, the Board of Directors may meet if a Board member or the Managing Director so requests.

The rules of procedure also include a list of the matters to be discussed at the board meetings and the special decisions to be made at the statutory board meeting. The instructions to the Managing Director specify his tasks and authority. The instructions are accompanied by policies for investments, financing and reporting.

The Board has not appointed any committees to consider specific questions as it holds the view that the whole Board is responsible for all significant questions. Accordingly, questions concerning audits, remuneration, etc. are considered by the whole Board. The company's auditors report directly to the Board at least once a year. The auditors report on their observations concerning the audit report as well as their view on the internal controls.

Prior to the Board meetings, information on what is to be discussed is sent out one week before each meeting. Every month, the results of the previous month's meeting are sent out together with comments. The Board also signs the quarterly reports.

During the extended fiscal year, the Board held nine ordinary meetings. At these meetings, the Board discussed and decided on current matters pertaining to NetOnNet such as financial reporting, investments, market development, objectives and the follow-up of these objectives. Additionally, the Board had to decide on questions of strategic importance where the Group's expansion in the form of additional Warehouse Shops and Internet channels as well as the need to expand the capacity of the central warehouse and decisions on new business areas were items on the agenda.

Information policy

The Board of Directors has established an information policy. This policy covers areas of responsibility and division of work with regard to information presented by the company. It also covers routines and measures for the regular information meetings and the ongoing dissemination of information.

Dividend policy

In view of the fact that the company is in an expansive phase, the Board of Directors does not intend to propose dividend to the shareholders in the years immediately ahead. When the necessary conditions for profitability indicate that a dividend may be distributed without jeopardising the build-up of value, the Board of Directors will adopt a dividend policy.

Foreign branches and companies

The company conducts business in Germany via a branch. The company also has registered branches in Norway, Finland, the Netherlands and Belgium. Additionally, NetOnNet AB owns registered companies in Spain, France and the UK. These branches and foreign companies do not conduct any business. Their purpose is to satisfy the present registration requirements for domain names in each country.

Environmental impact

EU has introduced a directive that specifically regulates the environmental impact of electrical and electronic products. The WEEE directive (Waste Electrical and Electronic Equipment) places the responsibility for financing the recycling, treatment and waste management of discarded electrical or electronic products on the producers and importers. Based on NetOnNet's current assumptions, the company's preliminary estimate of the accrued cost concerning products sold after August, 2005, when the directive will begin to be applied, is approx. SEK 3.6 million up until the end of April, 2006. These estimates are extremely uncertain as national legislation in Sweden has not been fully integrated with the directive. Consequently, at present it is not possible identify specific requirements and effects.

Options

In 2003 and 2005, stock options were issued to senior executives at NetOnNet. More information on the options can be found in Note 18.

New share issue

In line with the Annual General Meeting's decision in April, 2003, the board launched a stock option plan for senior executives and key persons at NetOnNet. The sale of the stock options has taken place along strictly business lines. The option premium paid was SEK 7.34 per option and yielded SEK 602 thousand. A total of 82,000 options

were issued, each entitling the holder to subscribe for one new share in NetOnNet at a price of SEK 65 during the period 1 January – 30 June, 2006. Upon full conversion, the share capital of NetOnNet will increase by SEK 8,200 and equity by SEK 5.3 million. This is equivalent to a dilution of 1.3% of the share capital and the number of votes. On 30 April, 2006, 25,000 options had been converted into 25,000 new shares.

Events after the end of the fiscal year 2005/2006

The company opened an Internet shop in Norway in May, 2006, and launched small household appliances as a new business area in June.

Focus for 2006/2007

During the year, the company will expand its operations in three dimensions:

- Expand its product range by adding small household appliances
- Finance and insurance will be established as a new business area
- Continue to build up distribution by establishing more Warehouse Shops and further developing the new operation in Norway.

Annual general meeting

The Annual General Meeting will be held on Thursday, 7 September, 2006. The record day for the annual general meeting and register of shareholders is 1 September, 2006. The Board of Directors proposes no dividend for the fiscal year 2005/2006.

Proposed appropriation of the company's profit/loss

The following profit income is available for disposal by the annual general meeting:

Share premium reserve (from 01-01-2006)	1 622 500
Profit brought forward	45 477 474
Loss for the year	-8 292 359
Total	38 807 615

The Board of Directors proposes to the Annual General Meeting that the SEK 38,807,615 million of profit income be carried forward. The income statements and balance sheets will be confirmed at the Annual General Meeting on 7 September, 2006.

SEK thousand	Note	Group		Parent Company	
		2005/06 16 months	2004 12 months	2005/06 16 months	2004 12 months
Net sales	1	1 661 956	1 004 983	1 661 956	1 004 983
Capitalized labour costs for own purpose			2 315		2 315
Cost of goods sold	26	-1 341 435	-789 025	-1 341 482	-789 025
Other external costs	7-8	-207 768	-127 888	-209 750	-129 494
Personnel costs	3-6	-109 499	-63 861	-109 499	-63 861
Depreciation of tangible and intangible fixed assets	12-13	-12 176	-4 965	-11 286	-4 295
		-1 670 878	-983 424	-1 672 017	-984 360
OPERATING PROFIT		-8 922	21 559	-10 061	20 623
Financial income	9	85	415	85	415
Financial expenses	9, 21, 26	-1 972	-1 465	-827	-580
PROFIT BEFORE TAX		-10 809	20 509	-10 803	20 458
Tax	10	2 510	-1 635	2 510	-1 635
PROFIT/LOSS FOR THE YEAR		-8 299	18 874	-8 293	18 823
Related to shareholders, Parent Company		-8 299	18 874	-8 293	18 823
Profit/loss per share	11				
- before dilution effects		-1.38	3.14	-1.38	3.13
- after dilution effects		-1.38	3.12	-1.38	3.11
Average number of shares					
- before dilution effects		6 021 245	6 015 680	6 021 245	6 015 680
- after dilution effects		6 037 245	6 050 348	6 037 245	6 050 348
Dividend per share		0 *	0	0 *	0

* Proposed by the Board of Directors

SEK thousand	Note	Group		Parent Company	
		06-04-30	04-12-31	06-04-30	04-12-31
ASSETS					
Fixed assets					
<i>Intangible fixed assets</i>					
	12				
Trademarks and similar rights		160	318	52	114
Software		12 904	17 366	12 904	17 366
Total intangible assets		13 064	17 684	12 956	17 480
<i>Tangible fixed assets</i>					
	13				
Accrued expenses related to non-owned property		20 019	20 809	–	–
Buildings and land		1 427	1 775	1 427	1 775
Inventories		16 234	9 280	16 230	9 271
Total tangible fixed assets		37 680	31 864	17 657	11 046
<i>Financial fixed assets</i>					
Shares in group companies	14	–	–	36	6
Deferred tax assets	15	13 327	10 817	13 327	10 817
Other long-term receivables	16	1 185	1 215	1 185	1 215
Total financial fixed assets		14 512	12 032	14 548	12 038
Total fixed assets		65 256	61 580	45 161	40 564
Current assets					
<i>Inventories, etc.</i>					
Stock		164 745	148 480	164 745	148 480
Pre-payment to suppliers		22 759	30 632	22 759	30 632
Total inventories, etc.		187 504	179 112	187 504	179 112
<i>Short-term receivables</i>					
Accounts receivables	28	12 579	36 458	12 579	36 458
Participations in group companies		–	–	2 597	2 374
Prepaid expenses and accrued income	17	8 345	9 236	8 345	9 236
Other receivables		8 023	24 184	8 023	24 184
Total short-term receivables		28 947	69 878	31 544	72 252
Liquid funds	28	13 119	81 725	13 090	81 696
Total current assets		229 570	330 715	232 138	333 060
TOTAL ASSETS		294 826	392 295	277 299	373 624

SEK thousand	Note	Group		Parent Company	
		06-04-30	04-12-31	06-04-30	04-12-31
EQUITY AND LIABILITIES					
Equity in the Group					
Share capital		604	602	–	–
Other capital contributed		88 985	87 064	–	–
Reserves		-230	235	–	–
Profit/loss brought forward including profit/loss for the year		37 420	45 766	–	–
Total equity in the Group		126 779	133 667	–	–
Equity in the Parent Company 18					
<i>Restricted equity</i>					
Share capital		–	–	604	602
Reserve fund		–	–	87 364	–
Share premium reserve		–	–	–	87 064
Total restricted equity		–	–	87 968	87 666
<i>Non-restricted equity</i>					
Share premium reserve		–	–	1 621	–
Profit/loss brought forward		–	–	45 478	27 125
Profit/loss for the year		–	–	-8 293	18 823
Total equity		–	–	38 806	45 948
Total equity in Parent Company		–	–	126 774	133 614
Long-term liabilities					
Long-term, interest-bearing liabilities	21, 28	16 250	17 500	–	–
Provisions	19	5 648	1 680	5 648	1 680
Total long-term liabilities		21 898	19 180	5 648	1 680
Short-term liabilities					
Current account overdraft facility	21, 22, 28	16 843	–	–	–
Other short-term, interest-bearing liabilities	21, 28	1 000	2 467	16 843	1 467
Accounts payables	28	92 478	177 274	92 478	177 274
Other liabilities		8 415	18 494	8 348	18 429
Accrued expenses and deferred income	23	25 309	39 533	25 104	39 480
Warranty and guarantee provisions	20	2 104	1 680	2 104	1 680
Total short-term liabilities		146 149	239 448	144 877	238 330
Total liabilities		168 047	258 628	150 525	240 010
TOTAL EQUITY AND LIABILITIES		294 826	392 295	277 299	373 624
Memorandum items					
Pledged assets	24	86 000	86 000	71 000	71 000
Contingent liabilities	25	–	–	17 521	18 565

30 Changes in shareholders' equity

Group

SEK thousand	Share capital	Other capital contributed	Reserves	Profit/loss brought forward	Total shareholders' equity
Shareholders' equity, 01-01-2004	602	87 064		26 892	114 558
Translation differences for the year			235		235
Profit/loss for the year				18 874	18 874
Shareholders' equity, 31-12-2004	602	87 064	235	45 766	133 667
Effects of conversion to IAS 39				-47	-47
Warrant premium received		300			300
New share issue	2	1 621			1 623
Translation differences for the year			-465		-465
Profit/loss for the year				-8 299	-8 299
Shareholders' equity, 30-04-2006	604	88 985	-230	37 420	126 779

Share capital

The item Share capital includes the registered share capital of the parent company. The share capital consists of 6,040,680 Series A shares (quota value: SEK 0.10).

Other capital contributed

The item Other capital contributed includes the total of the transactions between NetOnNet and its shareholders. These transactions consist of a new share issue at a premium. The amount included in Other capital contributed corresponds entirely to Capital Received in addition to the nominal value of the new share issue.

Reserves

Reserves consist in their entirety of translation differences relating to conversion of foreign subsidiaries and branches in accordance with IAS 21.

Profit/loss brought forward

Profit/loss brought forward refers to the total accumulated profits and losses generated in the Group.

Parent Company

SEK thousand	Share capital	Reserve fund	Share premium reserve restricted equity	Share premium reserve non-restricted equity	Profit/loss brought forward	Profit/loss for the year	Total shareholders' equity
Shareholders' equity, 01-01-2004	602		87 064		17 510	9 380	114 556
Transfer from previous year's profit/loss					9 380	-9 380	
Translation differences for the year					235		235
Profit/loss for the year						18 823	18 823
Shareholders' equity, 31-12-2005	602		87 064		27 125	18 823	133 614
Transfer from previous year's profit/loss					18 823	-18 823	
Warrant premium received			300				300
Transfer share premium reserve in accordance with the new Companies Act		87 364	-87 364				
New share issue	2			1 621			1 623
Translation differences for the year					-470		-470
Profit/loss for the year						-8 293	-8 293
Shareholders' equity, 30-04-2006	604	87 364		1 621	45 478	-8 293	126 774

Translation differences for the year refer to translation differences relating to conversion of foreign subsidiaries and branches in accordance with IAS 21 and RR 32.

SEK thousand	Group		Parent Company	
	2005/06 16 months	2004 12 months	2005/06 16 months	2004 12 months
Cash flow from operations				
Operating income	-8 922	21 559	-10 061	20 623
<i>Adjustments for items not included in cash flow</i>				
Depreciation	12 176	4 965	11 286	4 295
Provisions	4 392	700	4 392	700
Exchange rate differences	-594	385	-594	385
Interest received	85	413	121	413
Interest paid	-1 972	-1 463	-862	-581
Tax paid	-513	-168	-513	-168
Cash flow from operating activities before changes in working capital	4 652	26 391	3 769	25 667
Cash flow from changes in working capital				
Inventory	-8 392	-84 175	-8 392	-84 175
Accounts receivables	23 879	1 288	23 879	1 288
Other short-term receivables	17 101	-29 046	16 825	-29 340
Accounts payables	-84 796	104 204	-84 796	104 204
Other short-term receivables	-25 322	16 159	-25 413	16 148
Cash flow provided by operating activities	-72 878	34 821	-74 128	33 792
Investment activities				
Acquisition of intangible fixed assets	-	-18 252	-	-18 252
Acquisition of tangible fixed assets	-13 374	-4 698	-13 374	-4 698
Change in financial fixed assets	-	121	-	121
Cash flow from investment activities	-13 374	-22 829	-13 374	-22 829
Financing activities				
Amortization	-1 250	-2 600	-	-1 600
Change in current account overdraft facility	16 843	-	16 843	-
Warrant premium received	300	-	300	-
New share issue	1 623	-	1 623	-
Cash flow from financing activities	17 516	-2 600	18 766	-1 600
Cash flow for the year	-68 736	9 392	-68 736	9 363
Liquid funds, opening balance	81 725	72 472	81 696	72 472
Exchange rate differences	130	-139	130	-139
Liquid funds, closing balance*	13 119	81 725	13 090	81 696
Unutilised credit on 30-04-2006	63 150	60 000	63 150	60 000

* Liquid funds
Liquid funds refers bank balances and short-term investments with a duration of less than 3 months.

The consolidated accounts for NetOnNet AB for the fiscal year ending on 30 April, 2006, have been approved for publication by the Board of Directors and the Managing Director and will be submitted to the annual general meeting in 2006 for approval. The parent company is a Swedish public listed company (publ) with its registered office in Borås, Sweden.

Consistency with standards and legislation

The consolidated accounts have been drawn up in accordance with the International Financial Reporting Standards (IFRS). Since NetOnNet AB is a company in the EU, only IAS/IFRS approved by the EU are applied. Furthermore, the consolidated accounts have been drawn up in accordance with Swedish legislation by applying the Swedish Financial Accounting Standards Council's recommendation RR 30 (Supplementary accounting rules for groups). The parent company's annual report has been drawn up in accordance with Swedish legislation and by applying the Swedish Financial Accounting Standards Council's recommendation RR 32 (Accounting for legal entities).

There is no deviation between the parent company's accounting principles and the consolidated accounting principles.

Revised accounting principles

The consolidated accounts for 2005 are the first to be drawn up with the full adoption of IFRS. IFRS 1 (First Time Adoption of IFRS) provides transitional rules for so-called first-time adopters.

The comparative figures for 2004 have been prepared in accordance with IFRS 1 and have not had any effects on the profit/loss, equity or cash flow compared with accounting principles applied previously.

IAS 39 (forward rate agreements are valued at their market value) has been applied since 1 January, 2005, which has had the following effect on consolidated equity:

Equity on 31-12-2004	133 667
Effect of transition to IAS 39	-47
Equity on 01-01-2005	133 620
Total capital employed (SEK thousand)	
Total capital employed on 31-12-2004	392 295
Effect of transition to IAS 39	18
Total capital employed on 01-01-2005	392 313

With the situation at present, it is estimated that new standards from IFRS to be applied from 2006/2007 will not have any effect on the company's accounting principles.

Valuation

Assets and liabilities have been valued at their acquisition values unless otherwise stated. Receivables are reported in the amount likely to be received.

Classification

Fixed assets and long-term liabilities consist almost entirely of amounts that are expected to be recovered or paid more than 12 months from the closing day. Current assets and short-term liabilities consist almost entirely of amounts expected to be recovered or paid within 12 months of the closing day.

Use of assessments

In order to be able to prepare accounts in accordance with generally accepted accounting principles, assessments and assumptions must be made that affect reported asset and debt items and income and expense items, respectively, as well as other information provided. The actual outcome could differ from these assessments. The most important sources of uncertainty when preparing NetOnNet's annual accounts are obsolescence assessments of stocks, the calculation of warranty and guarantee provisions and the calculation of environmental provisions (WEEE).

Consolidated accounts

All subsidiaries, which are companies where the Group holds or controls more than 50 per cent of the votes or where the Group alone exercises a controlling influence as a result of agreements, are con-

solidated. Subsidiaries are consolidated from the day the Group has control over the company and subsidiaries sold are included in the consolidated accounts up until the day the Group ceases to control the company. In order to achieve uniform accounting in the Group, subsidiaries adapt their accounting to be in accordance with the consolidated accounting principles when preparing their accounts.

The consolidated accounts are prepared in accordance with acquisition method. The equity in the subsidiaries acquired is determined on the basis of a market valuation of assets and liabilities at the time of the acquisition. In cases when the market valuation of assets and liabilities results in values other than the acquired company's book values, these market values constitute the group's acquisition value. If the acquisition value of the subsidiary's shares is higher than the value of the net assets estimated at the time of the acquisition, the difference is reported as goodwill on consolidation. If the acquisition value is less than the value of the net assets, the difference is reported as negative goodwill on consolidation, which is recognised as income in conjunction with the acquisition.

The effects of all intra-group transactions such as income, expenses, receivables and liabilities as well as unrealised gains and group contributions have been eliminated.

The business in Germany is conducted in the form of a branch and is thus included in the parent company's accounts. The consolidated accounts cover only the parent company and the limited partnership company KB Ekholma 1.

NetOnNet is a general partner in Netonet KB and KB Ekholma 1. KB Ekholma 1 is, in turn, a limited partner in Netonet KB while Netonet KB is a limited partner in KB Ekholma 1. Netonet KB is not included in the consolidated accounts since it does not conduct any business and the holding is not significant. NetOnNet AB owns companies in Spain, the UK and France; these companies do not conduct any business. The sole reason for establishing the companies is to protect NetOnNet's domain name in these countries. These companies have not been consolidated in the consolidated accounts.

Exchange rates

The following exchange rates have been used in the consolidation of the branch in Germany:

	Average exchange rates				Closing day rates			
	2005/06	2004	2003	20002	2005/06	2004	2003	2002
EUR	9.29790	8.97860	9.12500	9.16270	9.29900	9.00700	9.09400	9.19250

Reporting foreign branches

The German business is conducted in the form of a branch and is defined as an independent company in accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates) and is thus recalculated in accordance with its functional currency according to the current method. In view of the fact that the German branch conducts its business with a large degree of independence and invoices in the local currency, it is classified as an independent foreign business entity. The current method means that all assets, provisions and other liabilities are translated at the exchange rate on the accounting date while all items in the income statement are translated at the average exchange rate for the year.

The conversion differences arising are partly an effect of the difference between the income statements' average exchange rates and the closing day rates and partly the result of converting the net assets at a different exchange rate at the end of the year compared with the beginning of the year. The conversion differences are not recognised in the income statements; instead, they are passed directly to equity.

Segment reporting

NetOnNet applies IAS 14 Segment reporting. The company's risks and opportunities are mainly affected by the fact that it is active in two different countries, Sweden and Germany. Accordingly, the company's operations are reported primarily by geographical area. The company's risks and opportunities are secondarily associated with the goods offered to its customers, namely, consumer electronics for mainly private consumers. The products are divided into a number of product areas. But the nature of the goods is the same, the purchasing process and the handling process are the same, the customer category is the same and the markets are the same, which means that the opportunities and risks are

similar. Accordingly, NetOnNet is active in only one line of business, which means that the secondary segment in the accounts coincides with the accounts for the company as a whole.

Revenue recognition

Net sales consist almost exclusively of sales of goods. Revenue is recognised on delivery of the products to the customer, i.e. when the risk has been transferred to the customer. Sales are reported net after VAT and discounts. In the consolidated accounts, intra-group sales are eliminated.

Presentation currency

The presentation currency is the Swedish krona (SEK). All amounts reported are in SEK thousand unless otherwise stated.

Foreign currency transactions

Purchases and sales in foreign currencies are reported at the exchange rates prevailing on the dates of the transactions. Receivables and liabilities in foreign currencies are valued at the closing day rate.

Exchange rate differences are included in operating income with the exception of exchange rate differences relating to financial items.

Intangible assets

Acquired intangible assets

Software-related expenditures are capitalised to the extent that they are expected to produce identifiable benefits in the future. These expenditures consist of externally invoiced costs and direct costs of labour. To the extent that they are not of significant value to the company in the future, these expenditures are charged to income immediately.

Capitalised software costs are reported at acquisition value less accumulated depreciation.

Expenditures for acquisitions of trademarks and similar rights have been capi-

talised in the balance sheet and are recognised at their acquisition value less accumulated depreciation. There have been no write-downs.

Internally developed intangible assets

No internally developed intangible assets have been capitalised.

Tangible fixed assets

Buildings and land, accrued expenses related to non-owned properties and equipment are recognised at their historical acquisition cost less accumulated depreciation. Repairs and maintenance are charged to income as they arise. Additional expenditures are capitalised only if they generate economic benefits that exceed the original performance of the asset. There have been no write-downs. Land is not depreciated.

Write-downs

If there is any indication that an asset has diminished in value, the recoverable amount of the asset is determined. The recoverable amount is the highest of an asset's net selling price and value in use. When determining the value in use, a present value calculation is made of the estimated future payments that the asset can be expected to give rise to during the period of utilization. In the present value calculation, imputed interest before tax is used, which reflects the current market interest rate and the risk related to the asset. If the recoverable amount is less than the book value, the asset is written down to its recoverable amount. Reversals of write-downs are made if there is no longer any reason for these write-downs. Write-downs and reversals of write-downs are recognized in the income statement.

Depreciation

Depreciation is based on the original acquisition value less the estimated residual value and taking into account any depre-

ciation made. Straight-line depreciation is applied over the asset's estimated period of utilisation. The following periods of utilisation are used when calculating depreciation:

Buildings	25 years
Trademarks and similar rights	5 years
Accrued expenses related to non-owned properties	5 years
Software	5 years
Other equipment	5 years
Computer equipment	4 years

Inventories

Inventories are valued at the lower of acquisition value and market. The acquisition value includes the purchase price, customs duties, transport costs and any other cost directly related to the article. Trade discounts, bonuses and the like are deducted from the purchase price. The acquisition value of inventories has been calculated and determined with the help of weighted average prices. The net realizable value consists of the estimated selling price under normal business circumstances less the estimated costs necessary to achieve a sale. The requisite deductions for obsolescence have been made. Obsolescence is calculated by analyzing the turnover rate of the individual products. A low turnover rate could indicate a need for write-downs.

Financial instruments

As of 1 January, 2005, financial instruments are valued and reported in the group in accordance with IAS 39. Financial instruments reported in the balance sheet include assets such as liquid funds, accounts receivables, loan receivables and derivatives. Items regarded as liabilities and equity include accounts payables, loans and derivatives. Financial instruments are initially reported at an acquisition value equivalent to the instrument's fair value with additions for transaction costs for all financial instruments except those that belong to the financial asset category reported at fair value via the income statement. Further reporting then depends on

how instruments are classified in accordance with the following.

A financial asset or financial liability is recognised in the balance sheet when the company becomes party to the instrument's contractual terms. Accounts receivable are recognised in the balance sheet once an invoice has been issued. Any liability is recognised when the other party has performed their contractual obligations for which payment is required, even if no invoice has been received. Accounts payable are recognised once an invoice has been received.

A financial asset is removed from the balance sheet once the rights as per the contract are realised or fall due, or the company loses control over the rights. The same applies to part of a financial asset. A financial liability is removed from the balance sheet once the contractual obligation has been fulfilled or has otherwise expired. The same applies to part of a financial liability.

The acquisition and sales of financial assets are reported on the trade date, which is the day on which the company commits itself to acquire or sell the asset.

Financial assets valued at fair value via the income statement. This category consists of two sub-groups: financial assets held for trading and other financial assets that the company has initially chosen to place in this category. A financial asset is classified as being held for trading if it is acquired for the purpose of being sold in the short term. Derivatives are classified as being held for trading. Assets in this category are continuously measured at fair value with changes in value reported in the income statement.

Derivatives (forward rate agreements)

All derivatives are reported at their fair value. Value changes are reported in the income statement under Other financial income and expenses. Hedge accounting is not used for cash flow hedging.

Financial investments

Financial investments consist of either financial fixed assets or short-term investments, depending on the purpose of the holding. If the term or the expected term

of the investment is more than one year, they consist of financial fixed assets and if it is shorter than one year, they consist of short-term investments.

When valued at fair value via the income statement, the value change is reported as net financial income/expense.

Liquid funds comprise cash funds and instantly accessible balances at banks and similar institutions. Short-term investments have a term from the acquisition date of less than three months.

Accounts receivables

Accounts receivables are reported at the amount they are expected to accrue after deductions for unsecured receivables that have been assessed individually. The expected term of accounts receivables is short, which is why the value has been reported at a nominal amount without any discounting. Write-downs of accounts receivables are reported in the operating expenses.

Provisions

Provisions are defined as obligations that are related to the accounting year or earlier accounting years and whose existence on the accounting date is certain or probable but the amounts of which and when they will be redeemed are uncertain. In the balance sheet, provision is made for estimated repair expenditures and losses of margins with respect to products that can be returned while under guarantee, normally up to two years from the date of sale. The company also makes provision for environmental charges in accordance with the EU's WEEE directive. Provisions are made on the basis of sales, but assumptions are by their nature uncertain since the circumstances they refer to are far in the future and the WEEE directive did not come into force until August, 2005. Consequently, the company has only limited experience of the effects. Provisions are divided into short-term and long-term provisions. See also Notes 19 and 20.

Income taxes

The company's total tax consists of current tax and deferred tax. Current tax is calculated for the fiscal profit/loss for the year. Deferred tax is calculated as per the balance sheet method based on all temporary differences in the reported and fiscal values of assets and liabilities.

The evaluation of deferred taxes is based on nominal amounts and the tax rates applying on the closing day. Deferred tax relating to deficit deductions is reported to the extent that it is probable that the deductions can be utilised for future surpluses. See also Note 15.

Pensions

NetOnNet has pension schemes both in Sweden and abroad. All the pension schemes, with the exception of the ITP pension scheme Alecta, are so-called defined contribution plans and their cost is reported continuously as NetOnNet pays the pension contributions to the insurance companies. The ITP pension scheme with Alecta is a so-called defined benefit plan, which covers several employers. The cost of this plan is also reported continuously as NetOnNet pays the pension contributions to Alecta, which is in accordance with the exception stated in IAS 19 concerning reporting of definite benefits plans, which cover several employers. On 31-03-2006, Alecta's funding ratio was 141.7% (128.0). See Note 6 for pension expenses for the year.

Borrowing costs

Borrowing costs are charged to the income for the period to which they relate with the exception of the part that is included in an asset's acquisition value. Borrowing costs, which are directly attributable to purchase, construction or production of a fixed asset, and which require of necessity a significant period of time to make ready for intended use or sale are included in the asset's acquisition value.

Leasing

Leasing contracts, where financial risks and benefits are essentially the same as in the case of direct ownership of the asset, are classified as financial leasing. Other contracts are classified as operational leasing. The financial leasing contracts in the group relate mainly to computers and vehicles, which total an insignificant amount and are thus reported as operational leasing contracts. This means that no leased assets in the consolidated accounts are recognised as fixed assets; instead the leasing charge is recognised as an expense on a straight-line basis over the leasing period. See also Note 8.

Cash flow statements

Cash flow statements have been drawn up using the indirect method, which means that operating income is adjusted for transactions, which do not involve receipts or disbursements.

Liquid funds are defined as cash and bank balances as well as short-term investments with a maturity of less than three months. Unutilised credits are not recognised as liquid funds.

Share options**Group**

Share-related remuneration is reported in accordance with IFRS 2. As the options are assigned at market price, there is no effect on the accounts in accordance with IFRS 2. Option premiums are recognised in the consolidated accounts as other capital contributed.

Parent Company

Funds received for stock options issued but not yet assigned are recognised in the reserve fund and the share premium reserve depending on when the funds are received. For the options, which have been exercised for subscription to shares, the funds for the shares subscribed to have

been transferred to the share capital and share premium reserve. The cost of drawing up and issuing the share options is passed to equity. The company's share premium reserve as of 31 December, 2005, has been transferred to the reserve fund. Funds as of 01-01-2006 have been transferred to the share premium reserve, which, in accordance with the new Companies' Act, is reported as non-restricted equity. See also Note 18.

Contingent liabilities

A contingent liability is reported above the line when there is:

- a possible commitment arising from an event that has occurred and whose occurrence is confirmed only by one or more uncertain future events, which is not completely under the company's control, or
- a commitment arising from an event that has occurred, but is not being reported as a liability or provision because it is unlikely that an outflow of resources will be necessary to meet the commitment or it is not possible to calculate the size of the commitment with sufficient accuracy.

Note 1 Segment reporting

Group

Reporting by geographical segment (SEK thousand)

	Sweden		Germany		Total	
	2005/06 16 months	2004 12 months	2005/06 16 months	2004 12 months	2005/06 16 months	2004 12 months
PROFIT/LOSS						
External net sales	1 168 807	700 745	493 149	304 238	1 661 956	1 004 983
Internal net sales	398 132	257 440	7 274	17 352	–	–
Total	1 566 939	958 185	500 423	321 590	1 661 956	1 004 983
Operating income	18 003	34 078	-26 925	-12 519	-8 922	21 559
Net financial income/expense	-1 945	-1 088	58	38	-1 887	-1 050
Profit/loss before tax	16 058	32 990	-26 867	-12 481	-10 809	20 509
OTHER INFORMATION						
Assets	271 415	375 955	23 411	34 735	294 826	410 690
Eliminations / Unapportioned assets	–	–	–	–	–	-18 395
Total assets	271 415	375 955	23 411	34 735	294 826	392 295
Liabilities	156 335	240 916	50 223	47 045	206 558	287 961
Eliminations/Unapportioned liabilities	–	–	–	–	-38 513	-29 333
Total liabilities	156 335	240 916	50 223	47 045	168 045	258 628
Investments, tangible fixed assets	8 272	4 134	5 102	564	13 374	4 698
Investments, intangible fixed assets	–	18 242	–	10	–	18 252
Change, provisions	2 679	875	1 713	-175	4 392	700
Depreciation, tangible fixed assets	6 048	3 548	864	421	6 912	3 969
Depreciation, intangible fixed assets	5 261	993	3	3	5 264	996

Internal prices between the business operations in Sweden and Germany are set according to the “arm’s length” principle, i.e. between parties who are independent of each other and well-informed and have an interest in the transaction being carried out. This is regulated by means of both pricing and internal debiting.

Note 2 Intra-group transactions

NetOnNet leases warehouse space from its subsidiary KB Ekholma 1. The rent cost amounts to SEK 2,172 (1,629) thousand. There have be no other transactions with KB Ekholma 1.

Note 3 Average number of employees

Group and Parent Company	Number of employees	2005/06		2004	
		Of which men	Number of employees	Of which men	Number of employees
Sweden	127	98	104	76	
Germany	45	37	39	29	
China	3	2	–	–	
Total	175	137	143	105	

Note 4 Gender distribution of company management

Group and Parent Company	Number of men	2005/06		2004	
		Number of women	Number of men	Number of women	Number of men
The Board of Directors	6	–	6	–	
Management team	5	2	6	1	

Note 5 Absence due to illness

Absence due to sickness in relation to the Total number of normal working hours	2005/06		2004	
	1 jan – 30 April	1 jan – 31 Dec	1 jan – 30 April	1 jan – 31 Dec
Total absence due to illness, %	4,0	3,0	4,0	3,0
Absence due to illness for men, %	3,8	2,9	3,8	2,9
Absence due to illness for women, %	4,9	3,2	4,9	3,2
Absence due to illness, employees up to 29 years old	4,3	3,8	4,3	3,8
Absence due to illness, employees from 30 years old	3,5	1,0	3,5	1,0

The proportion of absence due to sickness for more than 60 consecutive days is 24.0 (0.1) per cent.

Note 6 Salaries, other remuneration and social security expenses

Group and Parent Company	2005/06		2004	
	Salaries and other remuneration	Social security expenses	Salaries and other remuneration	Social security expenses
Group and Parent Company	71 145	26 449	43 431	15 718
Of which pension expenses		5 915		2 668

Of the Group's and the Parent Company's pension expenses, TSEK 623 (508) relates to the group's CEO.

Salaries and other remuneration by country, CEO and other employees.

Group and Parent Company	2005/06		2004	
	Board and CEO	Other employees	Board and CEO	Other employees
Sweden	2 484	51 147	1 923	32 086
Germany	–	16 595	–	9 422
China	–	919	–	–
Total	2 484	68 661	1 923	41 508

Note 6 cont.

Preparatory and decision processes

The Board has not appointed any committees to consider specific questions as it holds the view that the whole Board is responsible for all significant questions. Accordingly, questions concerning remuneration are considered by the whole Board. The Board authorised the Chairman to reach an agreement with the CEO concerning his salary and other terms of employment. The Chairman of the Board then reports back to the Board.

Remuneration for other senior executives has been determined by the CEO.

The Chairman of the Board and board members have received a fee determined by the Annual General Meeting.

The Board of Directors

During the extended fiscal year, the members of the Board of Directors received fees amounting to TSEK 550 (200), including TSEK 183 (100) for the Chairman of the Board. These directors' fees are paid monthly, i.e. 1/12 of the annual amount, up until the next Annual General Meeting. Board members who are employed by the company have not received a fee. TSEK 213 (235) in consulting fees for services in addition to the board's work have been charged to income. No other remuneration or benefits have been paid to the Chairman of the Board and no pension expenses have been charged to the consolidated accounts.

CEO

Remuneration for the CEO consists of a basic salary, possible variable remuneration (bonus) and a pension. The variable remuneration is based on the financial performance of the company and has comprised a maximum of 50% of the CEO basic salary. CEO pension is based on a defined benefit plan in accordance with the ITP plan.

For the portion of CEO salary exceeding 7.5 basic amounts, the CEO has chosen an alternative ITP plan. From the age of 65 years, the CEO will receive a lifelong retirement pension.

A salary of TSEK 1,721 (1,640), including a bonus of TSEK 0 (300), paid to the CEO has been recognised as an expense together with pension insurance for the CEO amounting to TSEK 623 (508).

The CEO's terms of employment include a mutual period of notice of 12 months.

Other senior executives

Remuneration for other senior executives consists of a basic salary, possible variable remuneration, other benefits and a pension. The apportionment between basic salary and bonus will be proportionate to the office holder's responsibility and authority. Pensions are based on a defined benefit plan in accordance with the ITP plan. The retirement age is 65 years and pensions are transferable. The management team consisted of seven persons in addition to the CEO.

Other senior executives (not including the CEO) have received salaries and other benefits amounting to TSEK 4,911 (3,351). Consulting fees of TSEK 6,318 paid to acting senior executives have been recognized as an expense. During the year, bonuses amounting to TSEK 36 were paid out to other senior executives. Pension expenses related to the management team (not including the CEO) amount to TSEK 1,293 (1,027).

The periods of notice vary from two to six months, both on the part of the company and the employees.

Stock option program

In April, 2003, an stock option program was launched for key persons and senior executives at NetOnNet. The options have been sold at their market price and thus do not constitute a tax-

able benefit. The options are priced in accordance with the Black & Scholes model. The option premium paid was SEK 7.34 per option and yielded SEK 602 thousand. A total of 82,000 options were issued, each entitling the holder to subscribe for one new share in NetOnNet at a price of SEK 65 during the period 1 January – 30 June, 2006. Upon full conversion, the share capital of NetOnNet will increase by SEK 8,20, which is equivalent to a dilution of 1.3% of the share capital and the number of votes.

On the closing date 30 April, 2006, 25,000 options had had been converted into 25,000 new shares.

In April, 2005, the Annual General Meeting decided in favour of launching a stock option program and tasked the board to carry out the program up until the next Annual General Meeting. The program is directed at senior executives at NetOnNet. As a result of the extended fiscal year, the program will continue until the Annual General Meeting in September, 2006. It has been decided that the price of the stock options will be calculated with the help of the Black & Scholes model so that the options can be sold at their market price and thus not constitute a taxable benefit.

On 30 April, 2006, 30,000 options had been sold at an option premium of SEK 10.00 per option and yielded SEK 300 thousand.

The maximum number of stock options issued during the ongoing program has been set at 150,000, each entitling the holder to subscribe for one new share in NetOnNet AB at a price of SEK 135.00 during the period 1 January, 2009 – 30 June, 2009. Upon full conversion, the share capital of NetOnNet will increase by SEK 15,000, which is equivalent to a dilution of 2.49%.

Note 7 Remuneration for auditors

Group and Parent Company	2005/06	2004
Audit assignments, Ernst & Young AB	510	785
Other assignments, Ernst & Young AB	188	191
Audit assignments, Ernst & Young AG	113	–
Total	811	976

Note 8 Operational leasing contracts

Leasing expenses for the period	Group		Parent Company	
	2005/06	2004	2005/06	2004
Leasing expenses for the period	12 862	5 197	15 034	6 826
Within one year	11 744	7 843	13 373	9 472
Later than one year but within 5 years	39 481	14 360	41 110	15 989
Later than 5 years	9 293	–	9 293	–
Total*	60 518	22 203	63 776	25 461
* Whereof leasing expenses relating to computers and vehicles	262	292	262	292

The operational leasing contracts relate to computers, vehicles and premises. NetOnNet is entitled to purchase leased property when the leasing contracts expire. There are no restrictions connected with the leasing contracts.

The leases on the premises expire in 2007, 2008, 2010 and 2015 and contain index clauses based on a price index. The leases are automatically extended unless one of the parties gives notice of termination of the leases on dates specified in the contracts.

Note 9 Financial income and expenses

	Group		Parent Company	
	2005/06	2004	2005/06	2004
Financial income	85	415	85	415
Financial expenses	-1 456	-1 095	-311	-210
Financial exchange rate differences	-516	-370	-516	-370
Total	-1 887	-1 050	-742	-165

Note 10 Tax

	Group		Parent Company	
	2005/06	2004	2005/06	2004
Current tax	–	–	–	–
Deferred tax	2 510	-5 765	2 510	-5 765
Total	2 510	-5 765	2 510	-5 765

As a result of utilising loss deductions, NetOnNet AB pays no corporate tax.

Reconciliation of the tax expense for the year and reported income before tax:

	Group		Parent Company	
	2005/06	2004	2005/06	2004
Reported income before tax	-10 809	20 512	-10 803	20 458
Tax in accordance with the current tax rate (28%)	3 026	-5 743	3 026	-5 743
Effect of non-deductible expenses	-516	-22	-516	-22
Previously unreported tax claim in respect of loss deductions	–	4 130	–	4 130
Total	2 510	-1 635	2 510	-1 635

See Note 15 for information on deferred tax claim.

Note 11 Earnings per share

	Group		Parent Company	
	2005/06	2004	2005/06	2004
Net profit for the year	-8 299	18 874	-8 293	18 823
Net profit for calculation of earnings per shares after dilution	-8 299	18 874	-8 293	18 823
Fair value per share when calculating the effect of dilution (SEK)	6 021 118	6 015 680	6 021 118	6 015 680
Dilution, number of shares	-8 299	18 874	-8 293	18 823
Average number of shares after dilution	82	102	82	102
Dilution number of shares	16 127	34 668	16 127	34 668
Average number of shares after dilution	6 037 245	6 050 348	6 037 245	6 050 348
Number of shares at end of period	6 040 680	6 015 680	6 040 680	6 015 680

As the number of ordinary shares changed (previous year: 0 shares) during the period, the average number of shares amounts to 6,021,118 (6,015,680). In addition to the number of shares at the end of the period, there are also a number of potential shares outstanding, relating to share options purchased by senior executives and key persons in 2003 and the ongoing option program in 2005. A dilution effect arises if the present value of the subscription price is lower than the ordinary share's fair value. This dilution effect is the difference between the number of shares to which the holders of share options are entitled to subscribe and the number of shares valued at fair value to which this subscription settlement corresponds. The difference is treated as a share issue for which the company does not receive payment. When calculating the dilution effect, a fair value corresponding to the average price for the year per share of SEK 82 (102) and a discount interest rate of 5.0 per cent have been used.

Note 12 Intangible fixed assets

	Group		Parent Company	
	2005/06	2004	2005/06	2004
Trademarks and similar rights				
Opening acquisition value	599	589	239	229
Purchases	–	10	–	10
Sales/disposals	–	–	–	–
Closing accumulated acquisition values	599	599	239	239
Opening depreciation	-281	-161	-125	-77
Sales/disposals	–	–	–	–
Depreciation for the year	-158	-120	-62	-48
Closing accumulated depreciation	-439	-281	-187	-125
Closing value according to plan	160	318	52	114
Software				
Opening acquisition value	18 242	–	18 242	–
Purchases	644	18 242	644	18 242
Sales/disposals	–	–	–	–
Closing accumulated acquisition values	18 886	18 242	18 886	18 242
Opening depreciation	-876	–	-876	–
Sales/disposals	–	–	–	–
Depreciation for the year	-5 106	-876	-5 106	-876
Closing accumulated depreciation	-5 982	-876	-5 982	-876
Closing value according to plan	12 904	17 366	12 904	17 366

Note 13 Tangible fixed assets

Buildings and land	Group		Parent Company	
	2005/06	2004	2005/06	2004
Opening acquisition value	22 096	22 096	–	–
Purchases	–	–	–	–
Closing accumulated acquisition values	22 096	22 096	–	–
Opening depreciation	-1 287	-695	–	–
Depreciation for the year	-790	-592	–	–
Closing accumulated depreciation	-2 077	-1 287	–	–
Closing value according to plan	20 019	20 809	–	–

In the acquisition value for 2004, borrowing expenses amounting to TSEK 228 have been capitalised in accordance with IAS 23. The interest rate applied to determine the amount of the borrowing expenses, which are included in the building's acquisition value, is 5.3%.

The acquisition value of land amounted to TSEK 7,283 (7,283).

During the year, the assessed value was fixed at TSEK 10,337, including TSEK 8,600 as the value of the building.

Accrued expenses related to non-owned property	Group		Parent Company	
	2005/06	2004	2005/06	2004
Opening acquisition value	2 776	2 280	2 776	2 280
Purchases	270	496	270	496
Closing accumulated acquisition values	3 046	2 776	3 046	2 776
Opening depreciation	-1 001	-559	-1 001	-559
Depreciation for the year	-618	-442	-618	-442
Closing accumulated depreciation	-1 619	-1 001	-1 619	-1 001
Closing value according to plan	1 427	1 775	1 427	1 775

Equipment	Group		Parent Company	
	2005/06	2004	2005/06	2004
Opening acquisition value	16 690	12 842	16 673	12 825
Purchases	12 069	4 202	12 069	4 202
Sales/disposals	–	-344	–	-344
Exchange rate differences for the year	38	-10	38	-10
Closing accumulated acquisition values	28 797	16 690	28 780	16 673
Opening depreciation	-7 410	-4 826	-7 402	-4 821
Sales/disposals	–	343	–	343
Depreciation for the year	-5 374	-2 933	-5 369	-2 930
Exchange rate differences for the year	221	6	221	6
Closing accumulated depreciation	-12 563	-7 410	-12 550	-7 402
Closing value according to plan	16 234	9 280	16 230	9 271

Note 14 Participations in Group companies

Company name	Share of capital	Book value
KB Ekholma 1	99,9%	36

NetOnNet AB is a general partner in the subsidiary KB Ekholma 1, corp. ID no. 916896-3800, with its registered office in Ullared, Sweden. KB Ekholma 1 owns the property Falkenberg Ullared 1:130, where the Warehouse Shop in Ullared is stationed.

This limited partnership company was purchased in 2001.

NetOnNet AB owns 100% of the shares in the dormant companies:

- NetOnNet Ltd, corp. ID no. 04137, London, UK. Share capital: GBP 100
- NetOnNet SL, corp. ID no. B62348826, Barcelona, Spain. Share capital: EUR 3,005.06
- NetOnNet SARL, corp. ID no. B439197302, Paris, France. Share capital: EUR 8,000

Note 15 Deferred tax claim

	Group		Parent Company	
	2005/06	2004	2005/06	2004
Deferred tax claim relating to loss deductions	13 327	10 817	13 327	10 817
Total	13 327	10 817	13 327	10 817

The accounting of deferred tax is reviewed at the end of every accounting period. The management team and the Board of Directors contribute to this review with assessments of the probability of the deferred tax claims being able to be realised by means of future taxable income. For the fiscal year 2005/2006, a deferred tax claim, in accordance with applicable accounting rules, has been capitalised in the accounts since business operations in 2003 and 2004 generated a profit and the Board and the management team feel that operations will generate a profit in the foreseeable future and that there will probably be future taxable surpluses to justify a deferred tax claim of more than SEK 13 million, which will enable loss deductions to be utilised.

Note 16 Other long-term receivables

Deposits	Group		Parent Company	
	2005/06	2004	2005/06	2004
Opening acquisition value	1 215	1 344	1 215	1 344
Additional receivables during the year	–	–	–	–
Deductible receivables during the year	-51	-121	-51	-121
Exchange rate differences for the year	21	-8	21	-8
Total	1 185	1 215	1 185	1 215

Note 17 Prepaid expenses and accrued income

	Group		Parent Company	
	2005/06	2004	2005/06	2004
Prepaid rental/leasing costs	1 087	908	1 087	908
Accrued bonus income	118	4 932	118	4 932
Insurance	725	215	725	215
Settlement of freight costs	–	2 232	–	2 232
Commissions	741	136	741	136
Other items	5 674	813	5 674	813
Total	8 345	9 236	8 345	9 236

Note 18 Share capital

Share capital

The registered share capital amounts to SEK 604,068 (601,568) and consists of 6,040,680 (5,015,680) shares with a quota value of SEK 0.10. NetOnNet has only one type of share with all shares having the same voting power.

Share premium reserve

When shares are issued at a premium, the amount equivalent to amount received over and above the nominal value of the shares is transferred to the share premium reserve. The share premium reserve existing on 31 December, 2005, has been transferred to the reserve fund and is included in restricted equity. Shares issued at a premium as of 1 January, 2006, have been transferred to the share premium reserve in non-restricted equity.

Purchase of own shares

During the year, no shares were purchased or transferred. There was no holding of own shares on 30 April, 2006.

Option program

NetOnNet has launched a total of four option programs, one of which is still outstanding.

Concluded option programs

The first program involved 102,920 share options entitling the holders to subscribe for a corresponding number of shares at a price of SEK 35.00 during the second half of 2002. The option program was fully subscribed and yielded SEK 3.6 million. The second program involved 80,600 share options entitling the holders to subscribe for a corresponding number of shares at a price of SEK 31.00 during the second half of 2003. During this period, holders of options subscribed for 43,400 new shares, which yielded SEK 1.3 million. The remaining 31,000 options have expired. The third program involved 82,000 share options entitling the holders to subscribe for a corresponding number of shares at a price of SEK 65.00 during the first half of 2006. As of 30 April,

2006, holders of options have subscribed for 25,000 new shares, which has yielded SEK 1.6 million. The remaining 57,000 options expire on 30 June, 2006.

Outstanding program for share options

In 2005, share options were issued to senior executives at NetOnNet. The options were sold at their market price. The option premium paid was SEK 10.00 per option and yielded a total of SEK 300 thousand. Each option entitles the holder to subscribe for one new share in NetOnNet AB at a price of SEK 135 per share during the period 1 January, 2009, to 30 June, 2009. The program is ongoing and will be concluded by the Annual General Meeting in September, 2006. The maximum number of share options issued in the program is 150,000. This option program contains no conditions that could result in extra costs for the company, e.g. social security contributions.

Registered shares

	2005/06	2004
Number of outstanding shares at beginning of period	6 015 680	6 015 680
New share issue from option program in 2003	25 000	–
Number of outstanding shares at end of period	6 040 680	6 015 680

Non-restricted equity is available for distribution given that a number of other criteria are satisfied. Non-restricted equity consists of the profit/loss brought forward, the share premium reserve (as of 01-01-2006) and the profit/loss for the year. Restricted equity is not available for distribution. Restricted equity consists of the share capital, the share premium reserve and reserve fund.

Note 19 Long-term provisions

	Group		Parent Company	
	2005/06	2004	2005/06	2004
Opening balance	1 680	2 660	1 680	2 660
Utilised amounts	–	-712	–	-712
New provisions	3 968	1 412	3968	1 412
Transfer to short-term provisions	–	-1 680	–	-1 680
Closing balance	5 648	1 680	5 648	1 680

Note 20 Short-term provisions

	Group		Parent Company	
	2005/06	2004	2005/06	2004
Opening balance	1 680	–	1 680	–
Utilised amounts	1 680	–	1 680	–
New provisions	2 104	–	2 104	–
Transfer from long-term provisions	–	1 680	–	1 680
Closing balance	2 104	1 680	2 104	1 680

Note 21 Interest-bearing liabilities

This note contains information on the Group's contractual terms regarding interest-bearing liabilities. For more information on NetOnNet AB's exposure to interest risks and the risk of exchange rate changes, please refer to Note 28.

Long-term liabilities	Cur- rency	Current interest rate	Repayment	Group Book value		Parent Company Book value	
				2005/06	2004	2005/06	2004
Bank loan	SEK	4.84%	30-06-2008	8 125	8 750	–	–
Bank loan	SEK	4.38%	30-06-2006	8 125	8 750	–	–
Total long-term liabilities				16 250	17 500	–	–

Short-term liabilities	Cur- rency	Current interest rate	Repayment	Group Book value		Parent Company Book value	
				2005/06	2004	2005/06	2004
Current account overdraft facility	SEK	2.83%		16 843	–	16 843	–
Current account overdraft facility	EUR	3.40%		–	–	–	–
Short-term portion of bank loan	SEK	4.84%	30-06-2008	500	1 000	–	–
Short-term portion of bank loan	SEK	4.38%	30-06-2006	500	–	–	–
Bank loan	SEK			–	1 467	–	1 467
Total short-term liabilities				17 843	2 467	16 843	1 467

Note 22 Current account overdraft facility

	Currency	Group		Parent Company	
		2005/06	2004	2005/06	2004
Credit granted	SEK	60 000	60 000	60 000	60 000
Credit utilised	SEK	16 843	–	16 843	–
Credit granted	EUR	2 150	–	2 150	–
Credit utilised	EUR	–	–	–	–

Note 23 Accrued expenses and deferred income

	Group		Parent Company	
	2005/06	2004	2005/06	2004
Holiday pay liability	4 584	2 767	4 584	2 767
Social security contributions	2 774	1 973	2 774	1 973
Goods in transit	150	6 751	150	6 751
Deliveries received but not invoiced	5 449	16 649	5 449	16 649
Other items	12 352	11 393	12 147	11 340
Total	25 309	39 533	25 104	39 480

Note 24 Pledged assets

	Group		Parent Company	
	2005/06	2004	2005/06	2004
Property mortgages	15 000	15 000	–	–
Corporate mortgages	71 000	71 000	71 000	71 000
Total	86 000	86 000	71 000	71 000

Collateral is pledged for guarantees, Letters of Credit, foreign currency forward rate agreements and debts to credit institutions.

Note 25 Contingent liabilities

	Group		Parent Company	
	2005/06	2004	2005/06	2004
General partner liability in KB Ekholma 1	–	–	17 521	18 565
Total	–	–	17 521	18 565

Note 26 Effects of changes in exchange rates

Exchange rate differences recognised in the income statement	2005/06	2004
Exchange rate differences recognised in operating income items	4 031	2 089
Exchange rate differences recognised in financial items	-516	-370
Total	3 515	1 719

Exchange rate differences recognised in financial items refer to unrealised exchange rate differences when valuing forward contracts at market value.

Note 27 Valuation of financial instruments

At the end of 2005/06, the value of forward rate agreements purchase orders amounted to TSEK 8,458 (27,381), which corresponds to the future net flow. The average forward exchange rate as regards USD was 7.41 (6.63). This means that the outstanding

currency risk has been eliminated with regard to contracted purchase orders. The unrealised loss (forward exchange rate compared with the exchange rate on the accounting date) amounted to TSEK 516. Of the outstanding forward contracts totalling TSEK 8,458 as per

30-04-2006, none have a duration of more than 3 months. If there had been no forward contracts during the year, net income would have been adversely affected by a further TSEK -10,411 (4,737) in exchange rate differences.

Note 28 Financial risk management**Financial assets**

The financial assets that are available and utilised in the Group are liquid funds, accounts receivables and short-term interest-bearing investments. All amounts stated below under financial assets correspond to the book values in the Group. The book values correspond to the fair values of the respective assets.

Liquid funds

The liquid funds available and utilised in the Group are placed in bank accounts. The Group's liquid funds consist of

the local currencies in Sweden, Germany and China and foreign currency accounts in USD and EUR. The Group's total liquid funds amounting to TSEK 13,119 (81,725) on 30-04-2006 consisted of TSEK 7,229 (29,110) in SEK at an interest rate of 0.98%, TSEK 789 (5,541) in a foreign currency account in USD at an interest rate of 4.05%, TSEK 1,007 (32,653) in a foreign currency account in EUR at an interest rate of 1.85%, TSEK 4,050 (14,421) in EUR at an interest rate of 1.14% and TSEK 44 (0) in Chinese CNY at an interest rate of 0.72%.

Accounts receivables

The Group's accounts receivables consist solely of receivables in the respective country's local currency. The terms of payment for accounts receivable are C.O.D., direct payments, payment by credit card, payment by instalments and 10 or 30 days net. On 30-04-2006, the Group's accounts receivables totalled TSEK 12,579 (36,458), including TSEK 8,722 (25,141) in SEK and TSEK 3,857 (11,317) in EUR.

Short-term investments

According to the company's financial policy, investments may only be made in stocks and shares whose short and long-term credit rating is at least A according to Standard & Poor's or A2 according to Moody's Investor Service. As of 30-04-2006, there were no short-term investments in the Group.

Financial liabilities

The financial liabilities existing and utilised the Group consist of accounts payable and loans from credit institutions. The book values correspond to the fair values of the respective assets.

Accounts payables

The Group's accounts payables consist of liabilities in SEK, EUR, GBP, USD and NOK. The terms of payment are the standard terms applied in the trade. The Group's accounts payable amounting to TSEK 92,478 (177,274) consisted of TSEK 56,493 (153,066) in SEK, TSEK 11,510 (16,235) in EUR, TSEK 1,050 (2,536) in GBP, TSEK 23,420 (5,437) in USD and TSEK 5 (0) in NOK.

Loans from credit institutions

On 30-04-2006, the Group had two property loans, each of TSEK 8,625 (9,250). The interest rates are fixed and will be renegotiated on 30-06-2006 and 30-06-2008, respectively. The interest rates are 4.38% (4.38) and 4.84% (4.84), respectively. The fair value of the loans amounts to TSEK 17,425 (20,916). (Fair value is the amount at which a debt is settled between two knowledgeable parties who are independent of each other and have an interest in the transaction being carried out.)

Financial risks

NetOnNet's business operations are exposed to the risks described below. The company's financial policy specifies how these financial risks should be managed and defines the risk exposure with which the company's business may be conducted. A low risk profile is the main objective.

Liquidity risk

Liquidity risk is the risk of not being able to fulfil payment obligations associated with financial instruments

as a result of insufficient liquidity or difficulties in raising external loans. Liquidity management at NetOnNet is carried out by the finance department within the framework of a financial policy adopted by the board. Today, NetOnNet has good liquidity and is able to utilise external financing. Consequently, the liquidity risk is considered to be low.

Credit risk

Credit risk is the risk that one party in a transaction with a financial instrument is unable to fulfil their obligation and thereby causes the other party to suffer a loss. In the case of customer credit risks, NetOnNet offers consumers the option of C.O.D., payment by credit card, direct payment or payment by instalments. Payment by instalments is offered in collaboration with an external finance company. This means that NetOnNet has no credit risks in the case of sales to consumers. In the case of sales to companies and authorities customers are offered the options of C.O.D., payment by credit card or direct payment and, in exceptional cases, credit, which always involves a customary prior credit rating check. Only a marginal portion of outstanding accounts receivable relate to sales to companies and authorities and only a small number of these paid via an invoice and could thus constitute a credit risk. The outstanding credit risk is judged to be very low. When liquidity peaks temporarily, liquid funds are invested in stocks and shares. The company's financial policy states that investments may only be made in stocks and shares with a short and long-term credit rating of at least A according to Standard & Poor's or A2 according to Moody's Investor Service. Consequently, the credit risk is judged to be low. The company's transactions with financial derivatives are only carried out with opposite parties with a good credit standing.

Cash flow risk

Cash flow risk is the risk of future cash flows, which are associated with a monetary financial instrument, varying in size. NetOnNet's cash flow varies as a result of seasonal variations. The company's credit volumes are

adjusted to take these fluctuations into account.

Currency risk

NetOnNet is exposed to currency risks in the case of EUR and USD. Currency risk refers to the risk of changes in the exchange rates affecting the Group's net income. Exchange rate changes affect the company's net income and equity in different ways:

Net income is affected when revenue from sales and expenditures for the purchase of goods are in different currencies (transaction exposure).

Net income is affected when the German branch's income statement is translated into SEK (translation exposure).

Net income is affected when the German branch's assets and liabilities are translated into SEK (translation exposure). NetOnNet's financial policy stipulates that the flow in foreign currency, the transaction exposure, for fixed orders must be hedged. The first hedging measure is to always utilise incoming currency for payments of purchases made in the same currency, netting. In addition, currency risk neutrality is achieved by transactions on the currency market with forward contracts. NetOnNet's objective is to hedge 100 per cent of its total flows by means of forward contracts. The purpose of this hedging is to secure the calculated purchase prices in the order book. The currency risk to which the company's net income and equity is exposed in the form of exchange rate differences, translation exposure, is not hedged.

Interest risk

Interest risk is the risk of the value of a financial instrument varying due to changes in market interest rates. The objective of the company's financial management is to limit short-term impact on the Group's net income and cash flow caused by fluctuations in the financial market. Depending on the liquidity situation, NetOnNet's net income is directly affected by changes in the market interest rates as a result of changes in the net financial result. Today, NetOnNet has two equally large property loans, which were originally fixed for 3 and 5 years, respectively, in order to limit the interest risk on borrowing.

Note 29 Transactions with related parties

There were no significant transactions with related parties during the

Borås, 14 June, 2006

Ebbe Pelle Jacobsen
Chairman of the Board

Jean-Francois Baril

Mattias Ledunger

Johan Röhss

Jan Friedman

Anders Halvarsson
CEO

Audit report

To the annual meeting of the shareholders of NetOnNet AB (publ)

Corporate identity number 556520-4137

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the managing director of NetOnNet AB (publ) for the financial year 2005/2006. The Board of Directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis,

evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the managing director and significant estimates made by the Board of Directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit/loss of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Borås, 14 June, 2006

Thomas Andersson
Authorized Public Accountant, Ernst & Young AB

Björn Grundvall
Authorized Public Accountant, Ernst & Young AB



Ebbe Pelle Jacobsen



Anders Halvarsson



Jan Friedman



Mattias Ledunger



Johan Röhss



Jean-Francois Baril

Board of directors

Ebbe Pelle Jacobsen, *Chairman*
Braschat, Belgien, Born 1949
CEO, Delsey S.A. – Paris, France
Board member since 2004
Number of shares: 2,175
Number of options: 0

Other Board assignments:
KVIK Holding A/S, Denmark
Denka Holding A/S, Denmark
Audionord Holding A/S, Denmark
Jörgen Möllers Fond, Denmark

Anders Halvarsson, *Board member*
Borås, Born 1964
Chief Executive Officer
Board member since 1999
Number of shares: 698,000*
Number of options: 12,000

Other Board assignments:
Simplicity AB

Jan Friedman, *Board member*
Stockholm, Born 1952
Senior Adviser, Jan Friedman AB
Chairman since 1999
Number of shares: 5,600
Number of options: 0

Other Board assignments:
Kanal Lokal AB, Tretti AB,
Twentyfourseven AB, Newsdesk AB
Lens On AB, Funka Nu AB
Hammarby Fotboll AB, Chairman

Mattias Ledunger, *Board member*
Lidingö, Born 1968
Portfolio Administrator,
Praktikertjänst AB:s pensions-
stiftelse
Board member since 2000
Number of shares: 1,200
Number of options: 0

Other Board assignments:
The CFA Society of Sweden
Porthos Asset Management AB

Johan Röhss, *Board member*
Stockholm, Born 1958
Investment Manager, Investor AB
Board member since 2002
Number of shares: 10,000
Number of options: 0

Other Board assignments:
Kunskapsskolan i Sverige AB
Indap AB Gambro AB, deputy
board member

Jean-Francois Baril, *Board member*
Helsinki, Born 1956
Senior Vice President Sourcing
and Procurement, NOKIA
Corporation
Board member since 2005
Number of shares: 1,100
Number of options: 0

No other Board assignments

Senior executives

Hans-Krister Andersson
Dong Guan, China, Born 1955
Director Own Brands & China
sourcing office
Employed since 2000
Number of shares: 626,000
Number of options: 8,000

Johan Birgersson
Lidingö, Born 1966
Director Marketing &
New Markets since 2004
Number of shares: 0
Number of options: 0

Nic Fletcher
Macclefield, UK, Born 1961
IT Director since 2004
Number of shares: 0
Number of options: 0

Anders Halvarsson
See Board of Directors

Hans Lindbohm
Bromma, Born 1958
Director of Logistics and
Technical Service since 2005
Number of shares: 2,000
Number of options: 0

Leslie Russell
Borås, Born 1955
Chief Merchandising and
Operations Officer
Employed since 2005
Number of shares: 0
Number of options: 0

Sanna Svensson
Borås, Born 1967
Chief Financial Officer
Employed since 2005
Number of shares: 4,000*
Number of options: 20,000

Päivi Wahlqvist
Borås, Född 1968
Director of Internetshop/
Customerservice
Employed since 2002
Number of shares: 0
Number of options: 8,000

Auditors

Thomas Andersson
Borås, Born 1954
Authorised Public Accountant
Ernst & Young
Auditor for NetOnNet AB
since 1999

Björn Grundvall
Onsala, Born 1955
Authorised Public Accountant
Ernst & Young AB
Auditor for NetOnNet AB
since 2004

* with family

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