

## NeoNet's Interim Report 1 January – 31 March 2004

Stockholm, 6 May 2004

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### The Quarter in Summary

- **Net sales increased 75% to SEK 63.9 m (SEK 36.6 m).**
- **The earnings after tax increased by SEK 15.9 m to SEK 2.7 m (SEK -13.2 m).**
- **The earnings per share increased by SEK 0.35 to SEK 0.05 (SEK -0.30).**
- The operating earnings before depreciation and net financial items increased by SEK 18.4 m to SEK 12.9 m (SEK -5.5 m), which gives an operating margin of 21%.
- NeoNet can offer trading on the Lisbon Exchange and the Swiss Virt-x.
- Simon Nathanson took up the position as the company's President and CEO on 15 March.

### Events after the end of the period

- NeoNet's new issue of debentures with detachable warrants and with preferential rights was heavily oversubscribed. The debenture loan raised approximately SEK 50 m for NeoNet before deduction for issue and guarantee costs.

### CEO's Statement

"As the new CEO, it gives me great pleasure to report NeoNet's strong revenue growth this period – a full 75 percent. This is a confirmation of the fact that our offering is attractive.

The operating earnings increased substantially and we are now in the black. We have also maintained personnel and operating expenses at a stable level, despite additional costs associated with the acquisition of Lexit. Investments in system development and computers were reduced by SEK 1.6 m to SEK 4.9 m.

The new issue of debentures with detachable warrants was fully subscribed, which I see as proof of the shareholders' faith in our business model and potential.

We are now in a very strong position from which to continue to grow through the 15 leading exchanges on which we offer trading and through the continued inflow of new clients. The debenture loans raised around SEK 50 m for NeoNet, and this is being used to satisfy the collateral requirements for securities trading. We also have an organizational structure prepared for growth. This year we will strengthen our offering by launching a new generation of our trading system that offers far greater flexibility and capacity. This was preceded last year by a new system and simplified routines for improved client service within the back office.

With an offering and an organization prepared for growth, our priorities are clear for 2004. We will be working systematically to recruit new clients and increase revenue from existing ones while continuing to focus on our costs."

### More information is available from:

Simon Nathanson, President and CEO

Tel. +46 (0)8 454 15 51

[simon.nathanson@neonet.biz](mailto:simon.nathanson@neonet.biz)

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Since inception in 1996 NeoNet has focused on efficient and neutral agency brokerage. NeoNet provides professional investors with execution services offering a single point of access to leading equity marketplaces worldwide. Clients can execute orders using electronic direct market access or via NeoNet's international trading desks. NeoNet has offices in New York, London and Stockholm, is listed on the Stockholm Stock Exchange (ticker NEO), and has clients in more than 15 countries globally.

## THE GROUP

### Operations

NeoNet can now offer trading on the Lisbon exchange and the Swiss Virt-x. The New York Stock Exchange was also integrated into NeoNet's trading system during the quarter, which means that NeoNet currently offers trading on 15 of the world's leading exchanges. Integrated trading on the Madrid exchange will be offered through NeoNet's system in the second quarter of 2004.

An agreement was signed with Thomson Financial regarding connection to Thomson AutEx Order Routing Network to increase the number of distribution alternatives and make it easier to start trading with NeoNet.

### Revenues and earnings

The Group's transaction revenues during the period amounted to SEK 62.8 m, compared to SEK 35.2 m for the same period last year, which is an increase of 78%.

Revenues on all of the connected exchanges rose during the quarter. The very substantial increase in revenues on the U.S. exchanges is a result of the acquisition of Lexit, which conducted a large portion of its trading in the U.S. As a result of this, revenue from trading in the U.S. made up a significant portion, 13%, of the total. On the exchanges that are the most important to NeoNet, namely Stockholm and Helsinki, NeoNet's transaction revenues increased by 80% and 34% respectively, compared to the first quarter last year.

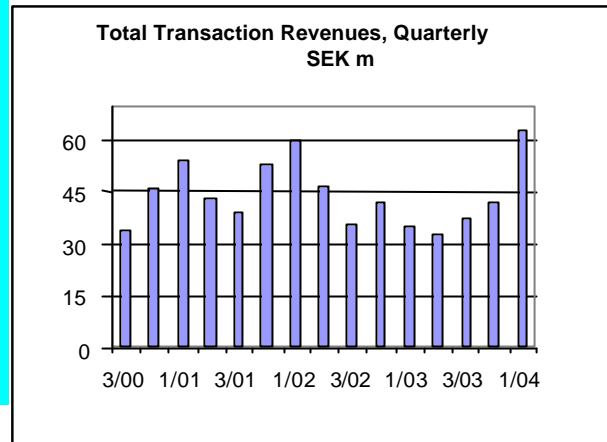
### Transaction Revenues by Exchange (SEK m) and Share of Total Revenues and Changes from Year to Year (%)

	Jan.-Mar. 2004		Jan.- Mar. 2003		Change 04/03
	Revenues	Share	Revenues	Share	
Stockholm	29.1	46%	16.2	46%	80%
Helsinki	10.2	16%	7.6	22%	34%
Copenhagen & Oslo	3.7	6%	2.5	7%	48%
Frankfurt	2.0	3%	1.7	5%	18%
Euronext	5.4	9%	4.2	12%	29%
London, Milan, Madrid <sup>1</sup> & Virt-x	4.4	7%	2.2	6%	100%
Nasdaq & NYSE	8.0	13%	0.8	2%	900%
<b>Total</b>	<b>62.8</b>	<b>100%</b>	<b>35.2</b>	<b>100%</b>	<b>78%</b>

The operating earnings before depreciation improved considerably in this quarter amounting to SEK 12.9 m compared to a loss of SEK -6.7 m for the previous quarter and SEK -5.5 m the first quarter of 2003.

Personnel and other operating expenses were down SEK 4.5 m compared to the previous quarter. However, compared to the first quarter of 2003, these expenses have increased by SEK 3.1 m, which is explained by the additional costs associated with acquired operations.

Depreciation has increased due to the goodwill that arose in connection with the Lexit acquisition.

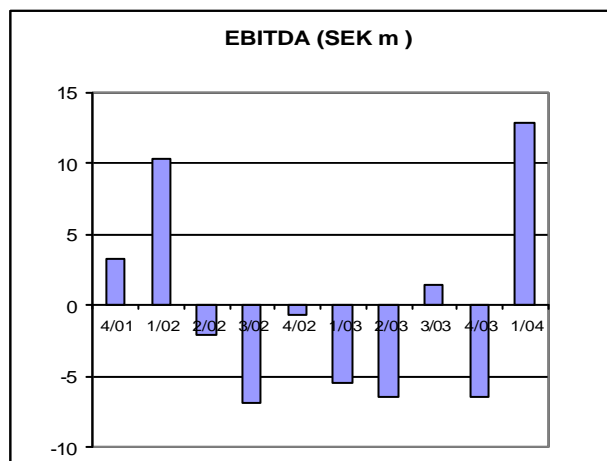


### Income Statement in Summary

SEK m	Jan.- Mar. 2004	Oct.- Dec. 2003	Jul.- Sept. 2003	Apr.- Jun. 2003	Jan.- Mar. 2003
Transaction revenues	62.8	42.2	37.5	32.7	35.2
Other operating earnings	1.1	2.6	1.2	1.3	1.4
Net sales	63.9	44.8	38.7	34.0	36.6
Transaction costs	-20.2	-16.2	-12.3	-12.3	-14.4
Personnel expenses	-15.7	-19.6	-11.4	-13.4	-13.4
Other operating expenses	-15.1	-15.7	-13.6	-14.8	-14.3
Operating earnings/losses before depreciation (EBITDA)	12.9	-6.7	1.4	-6.5	-5.5
Operating margin	21%	-16%	4%	-20%	-16%
Depreciation	-8.6	-8.0	-6.6	-6.5	-7.0
Net financial items	-1.6	-1.6	-0.7	-0.4	-0.5
Pre-tax earnings/losses	2.7	-16.2	-5.9	-13.4	-13.0

The Group reported pre-tax earnings for the quarter of SEK 2.7 m compared to a loss of SEK -16.2 m for the previous quarter and SEK -13.0 m for the first quarter last year. The earnings per share for the quarter amounted to SEK 0.05 (SEK -0.30).

The number of employees working for the Group at the end of the period was 85 (88 at the beginning of the year).



<sup>1</sup> Through the Lexit system only.

## Clients

In general, the inflow of clients during the period was good, particularly in Europe. At the end of the period, NeoNet had 197 clients (188 at the beginning of the year).

20% of the clients accounted for 81% of the transaction revenues for the period. No single client accounted for more than 7% of the revenues.

## Distribution of Transaction Revenues by Client Location SEK m

	Jan.-March 2004		Jan.-March 2003	
	Amount	Share	Amount	Share
Sweden	35.8	57%	19.9	56%
Rest of Europe	14.2	23%	6.6	19%
North America	12.8	20%	8.7	25%
Total	62.8	100%	35.2	100%

## Investments

Investments in system development and computers decreased to SEK 4.9 m (SEK 6.5 m). Of this amount, SEK 3.8 m (SEK 5.7 m) was used to enhance NeoNet's electronic trading system. Investments represented 8% (16%) of transaction revenues. The fixed assets include development projects in progress, primarily in respect of the new system platform, at SEK 40.7 m. According to current accounting rules depreciation according to plan commences when the system is put into use, which, in the case of the new system, is expected to be during the summer of 2004. Depreciation of the investments made to date in the platform will amount to SEK 11.9 m on annual basis.

## Liquidity and financial position

The NeoNet Group's current liquid assets consist of the sum of funds deposited with banks, the difference between contract settlement receivables and liabilities, and receivables primarily from clearing houses and similar institutions, excluding liabilities for temporary settlement loans. The net amount of these items amounted to SEK 133.1 m as of 31 March 2004. The corresponding current liquid assets at the beginning of the year amounted to SEK 109.8 m. The gross liquid assets reported in the balance sheet amounted to SEK 143.1 m, of which SEK 110.0 m consisted of blocked funds, compared to SEK 135.2 m and SEK 103.9 m, respectively, at the beginning of the year. Fluctuations in the liquid assets reported in the balance sheet are normal for this kind of business.

Due to the increased amount of liquid assets tied up as a result of the collateral requirements for clearing and settlement, the two main shareholders, Hans Karlsson and Staffan Persson, provided NeoNet with a loan in the first quarter of a maximum of SEK 20 m with annual interest of 10%. Three other shareholders, who had entered into guarantee agreements in connection with the new issue of debenture loans, had loaned SEK 9 m to NeoNet by the end of March with an annual interest of 10%. All of these loans were repaid in the beginning of April.

At an extraordinary general meeting on 19 February, a decision was taken to issue a debenture loan with detachable warrants aimed at the shareholders at the

end of the first quarter. The debenture loan amounts to SEK 50.6 m. The reason for the loan is that NeoNet needs to ensure the company is able to continue to expand and to reduce the risk for the company from possibly being compelled to limit its trading values as a result of collateral requirements for clearing and settlement processes. There was significant interest in the priority issue and the demand exceeded the issue amount. The issue was subscribed to 97.3 percent with support of subscription privilege. The remaining portion (2.7 percent) was distributed among subscribers who expressed an interest in subsidiary subscription. Subsidiary allocation has been done in relation to the unit rights that each subscriber used for primary subscription. The issue guarantee has not been used. The full issue amount of SEK 50.6 m was received in April. The transaction expenses (SEK 2.6 m) and interest on the loan, will be reported during the course of the term of the loan and amounts to around SEK 5.3 m annually.

The consolidated shareholders' equity amounted to SEK 236.8 m at the end of the period (SEK 234.3 m at the beginning of the year). The capital adequacy ratio amounted to 43% (63%) and the consolidated equity/assets ratio was 53% (66%). The equity per share amounted to SEK 4.68 (SEK 4.91).

The Group has a disputed claim of a nominal amount of SEK 10.3 m (EUR 1.1 m). In September 2003 a suit was filed in the matter with the Stockholm District Court. At present no accounting provisions are deemed necessary.

The Group is also involved in legal disputes, which are a natural aspect of the business. According to Group management, the outcome of such disputes is not expected to result in any significant costs.

## Financial objectives

The long-term financial objectives are to be able to report annual revenue growth of at least 50% and in the long term, earnings before depreciation and net financial items of at least 25% of the transaction revenues.

## Outlook

The market volumes for stock trading have stabilized recently and although the outlook for stock trading is very difficult to predict, there are several indications, not least the earnings to date, that 2004 will be a much better year for NeoNet than 2003.

## PARENT COMPANY

The parent company, which is not an operating company, carries out group-wide functions such as group management, financial management, business development, investor relations and communications.

The parent company reported earnings before tax and year-end appropriations of SEK -2.4 m (SEK 0.2 m). Equity in the parent company amounted to SEK 288.1 m (SEK 239.7 m) at the end of the period. The liquid assets as of 31 March amounted to SEK 0.8 m, compared to SEK 1.6 m at the beginning of the year. Simon Nathanson took up the position as President and CEO on 15 March.

**Consolidated Income Statement\***

SEK m	3 months	3 months	12 months	12 months	12 months
	Jan.-Mar. 2004	Jan.-Mar. 2003	April-Mar. 2004	April-Mar. 2003	Jan.-Dec. 2003
<b>Transaction revenues</b>	<b>62.8</b>	<b>35.2</b>	<b>175.2</b>	<b>159.6</b>	<b>147.6</b>
Transaction costs**	-20.2	-14.4	-61.0	-61.1	-55.2
Interest income	0.7	0.9	3.1	6.5	3.3
Interest expenses	-2.3	-1.0	-6.1	-6.0	-4.8
Net earnings from financial transactions	0.0	-0.4	-1.2	0.3	-1.7
Other operating revenues	1.1	1.4	6.2	6.7	6.5
<b>Total operating revenues, net</b>	<b>42.1</b>	<b>21.7</b>	<b>116.2</b>	<b>106.0</b>	<b>95.7</b>
Other operating costs and expenses	-15.1	-14.3	-59.0	-67.8	-58.2
Personnel expenses	-15.7	-13.4	-60.1	-52.7	-57.7
Depreciation	-8.6	-7.0	-29.8	-30.4	-28.2
<b>Total operating expenses</b>	<b>-39.4</b>	<b>-34.7</b>	<b>-148.9</b>	<b>-150.9</b>	<b>-144.1</b>
<b>Operating earnings/losses</b>	<b>2.7</b>	<b>-13.0</b>	<b>-32.7</b>	<b>-44.9</b>	<b>-48.4</b>
Tax	0.0	-0.2	1.5	0.6	1.3
<b>Earnings/losses for the period</b>	<b>2.7</b>	<b>-13.2</b>	<b>-31.2</b>	<b>-44.3</b>	<b>-47.1</b>
Earnings per share, SEK	0.05	-0.30	-0.67	-1.02	-1.05
Earnings per share after full dilution, SEK	0.05	-0.30	-0.67	-1.02	-1.05
Number of shares, 000	50,582	43,665	50,582	43,665	50,582
Average number of shares, 000	50,582	43,665	46,443	43,593	44,726
Average number of shares after full dilution, 000	50,582	43,665	46,443	43,629	44,726

**Consolidated Balance Sheet**

SEK m	31 Mar. 2004	31 Mar. 2003	31 Dec. 2003
<b>ASSETS</b>			
Cash and lending to credit institutions	143.1	23.2	135.1
Intangible fixed assets	67.3	58.4	67.9
Goodwill	74.9	0.6	76.9
Tangible fixed assets	10.0	15.1	11.1
Contract settlement receivables, net	101.9	168.1	86.4
Other assets	45.0	53.8	51.0
Pre-paid expenses and accrued income	8.1	7.5	5.2
<b>Total assets</b>	<b>450.3</b>	<b>326.7</b>	<b>433.6</b>
<b>LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>			
Liabilities to credit institutions	78.3	62.8	91.6
Securities loans	67.5	24.6	61.9
Other liabilities	47.4	8.8	21.8
Accrued expenses and deferred income	20.3	14.6	24.0
Provisions	-	1.5	-
Shareholders' equity			
Share capital	2.5	2.2	2.5
Restricted reserves	295.0	240.6	291.8
Earnings/losses carried forward	-63.4	-15.2	-12.9
Earnings/losses for the period	2.7	-13.2	-47.1
<b>Total liabilities, provisions and shareholders' equity</b>	<b>450.3</b>	<b>326.7</b>	<b>433.6</b>
<b>Memorandum items</b>			
Blocked funds, credit institutions	110.0	62.6	103.9
Blocked funds, clearing houses (other assets)	25.5	30.3	11.6
Floating charge	15.0	15.0	15.0

**Consolidated Cash Flow Analysis**

SEK m	Jan.-Mar. 2004	Jan.-Mar. 2003	Jan.-Dec. 2003
Cash flow from ongoing operations excluding settlement of executed equity transactions	28.5	-13.5	-26.3
Cash flow from ongoing operations attributable to settlement of executed equity transactions***	-34.4	-157.6	6.5
Cash flow from investment activity	-4.9	-6.5	-54.9
Cash flow from financing activity	18.8	-0.4	10.0
<b>Cash flow for the period</b>	<b>8.0</b>	<b>-178.0</b>	<b>-64.7</b>
Liquid assets at beginning of year	135.1	201.5	201.5
Liquid assets, translation difference	0.0	-0.3	-1.7
<b>Liquid assets at end of period</b>	<b>143.1</b>	<b>23.2</b>	<b>135.1</b>

\* The income statement is drawn up according to Swedish legislation governing financial statements for credit institutions and securities corporations.

\*\* Transaction costs are commissions and other variable costs relating to securities transactions. Starting with the interim report for the first quarter of 2004, this item includes costs for the sale of shares and variable sales commission payable to partners. These cost items were previously included in "Other operating costs." The comparative figures have been recalculated. The re-classification has not had any effect on the operating earnings/losses.

\*\*\* Cash flow attributable to settlement of equity transactions executed on behalf of clients varies considerably from day to day because of delays in clients' delivery of or payment for securities.

**Change in Consolidated Shareholders' Equity**

SEK m	Jan.-Mar	Jan.-Mar.	Jan.-Dec.
	2004	2003	2003
Opening shareholders' equity	234.3	228.1	228.1
Non-cash issue	-	-	54.6
Translation difference	-0.2	-0.5	-1.3
Earnings/losses for the period	2.7	-13.2	-47.1
<b>Closing shareholders' equity</b>	<b>236.8</b>	<b>214.4</b>	<b>234.3</b>

The restricted equity amounted to SEK 297.5 m (SEK 294.3 m) at the end of the period. The non-restricted equity was SEK -60.7 m (SEK -60.0 m).

Accumulated translation difference as of 31 March 2004 was SEK -3.3 m (SEK -2.1 m).

**Consolidated key figures**

SEK m	Jan.-Mar.	Jan.-Mar.	Jan.-Dec.
	2004	2003	2003
<b>Earnings/losses in summary</b>			
Operating earnings/losses before net financial items and depreciation	12.9	-5.5	-17.0
Operating earnings/losses before net financial items	4.4	-12.5	-45.2
<b>Margins</b>			
Operating margin	21%	Neg.	Neg.
Net margin	7%	Neg.	Neg.
Profit margin	4%	Neg.	Neg.
<b>Yield</b>			
Average capital employed	478.1	329.3	332.6
Return on shareholders' equity	1%	Neg.	Neg.
Return on capital employed	1%	Neg.	Neg.
<b>Financial position</b>			
Equity/assets ratio	53%	66%	54%
Interest cover	214%	Neg.	Neg.
Debt/equity ratio	0.7	0.4	0.7
Capital adequacy ratio	43%	63%	32%
<b>Share data</b>			
No. of shares, 000	50,582	43,665	50,582
Average no. of shares, 000	50,582	43,665	44,726
Earnings per share, SEK	0.05	-0.30	-1.05
Equity per share, SEK	4.68	4.91	4.63
No. of shares after full dilution, 000	50,582	43,665	50,582
Average no. of shares after full dilution, SEK	50,582	43,665	44,726
Earnings per share after full dilution, SEK	0.05	-0.30	-1.05
Equity per share after full dilution, SEK	4.68	4.91	4.63
No. of employees at end of period	85	81	88
Average no. of employees	87	80	78

**Definitions, key financial ratios**

**Operating margin:** Operating earnings before net financial items (\*) and depreciation as a percentage of transaction revenues.

**Net margin:** Operating earnings before net financial items (\*) and tax as a percentage of transaction revenues.

**Profit margin:** Earnings after tax as a percentage of transaction revenues.

**Average capital employed:** Average total assets less average interest-free liabilities including deferred tax liability.

**Return on equity:**

Net earnings for the period as a percentage of the average shareholders' equity for the period.

**Return on capital employed:** Earnings for the year after net financial items plus interest costs in relation to the average capital employed.

**Equity/assets ratio:** Closing shareholders' equity as a percentage of the closing balance of total assets.

**Interest cover:** Operating earnings for the period plus interest costs, divided by interest costs.

**Debt/equity ratio:** Closing balance of interest-bearing provisions and liabilities in relation to the closing balance of shareholders' equity.

**Capital adequacy ratio:** Total capital base divided by the total risk-weighted amount of capital requirements for credit and market risk (Swedish Financial Supervisory Authority stipulation FFFS 2003:10). The basis of calculation according to FFFS 2003:10 had an effect on the key figures previous periods.

**Earnings per share:** Earnings after tax in relation to the average number of shares for the period.

**Equity per share:** The closing balance of shareholders' equity in relation to the number of shares at the end of the period.

**Equity per share after full dilution:** Closing shareholders' equity plus the upcoming issue of shares in relation to the number of shares after the issue of shares.

\* Net financial items include realized and unrealized exchange rate differences on funds tied up in foreign currencies.

**Accounting principles**

The consolidated accounts have been prepared in accordance with Swedish legislation governing the annual reports of credits institutions and securities corporations (ÅRKL) and the Swedish Financial Supervisory Authority's stipulation FFFS 2003:11, which is applicable because the parent company is a financial holding company.

This interim report has been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR20 on interim reports.

Starting from the interim report for the first quarter of 2004, costs for the sale of shares and variable sales commission payable to partners will be included in the item "Transaction costs." These costs were previously included in the item "Other operating costs." The comparative figures have been recalculated. All other accounting principles are the same as those applied in the preparation of NeoNet's most recent annual report.

Stockholm, 6 May 2004

NeoNet AB (publ)

Simon Nathanson  
President and CEO

**Auditor's review report**

We have reviewed this interim report in accordance with the recommendation issued by FAR (the institute for the accountancy profession in Sweden).

A review is significantly limited compared to an audit.

Nothing has come to our attention that would cause us to believe that the interim report does not meet the requirements of the Swedish Securities Exchange and Annual Accounts Acts.

Stockholm, 6 May 2004

Öhrlings PricewaterhouseCoopers AB

Per-Ove Zetterlund  
Authorized Public Accountant

**Website**

[www.neonet.biz](http://www.neonet.biz)

**Parent company's corporate registration number**

556530-1263

**Financial reporting in 2004**

Interim report Q2 2004, 19 August 2004

Interim report Q3 2004, 26 October 2004

Year-end report 2004, 10 February 2005

