

## NeoNet's Interim Report 1 January – 30 June 2004

Stockholm, 19 August 2004

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### The Quarter in Summary

- **Net sales increased by 34% to SEK 45.7 m (SEK 34.0 m).**
- **The earnings after tax amounted to SEK -12.6 m (SEK -13.6 m).**
- **The earnings per share amounted to SEK -0.25 (SEK -0.31).**
- The operating earnings before depreciation and net financial items increased by SEK 6.6 m to SEK 0.1 m (SEK -6.5 m).
- NeoNet's issue of debentures with detachable warrants and with preferential rights injected SEK 50.6 million before deductions for issue and guarantee costs amounting to SEK 2.4 m.
- Trading on the Madrid Exchange offered from June.
- NeoNet launched a new trading platform in June with enhanced performance and increased flexibility and capacity.

### The First Half in Summary

- Net sales amounted to SEK 109.6 m (SEK 70.6 m).
- The earnings after tax amounted to SEK -9.9 m (SEK -26.8 m).
- The earnings per share amounted to SEK -0.20 (SEK -0.61).
- In the first quarter NeoNet began to 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

- An agreement was signed with SimCorp A/S that allows clients using SimCorp's software to trade via NeoNet.

**More information is available from:**  
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### CEO's Statement

"The year got off to a very strong start but the trading intensity among our clients – professional investors – was clearly lower in May and June, in line with lower turnover on exchanges in general. Revenue growth in the second quarter was 34% compared to the same period last year. The lower revenues for the second quarter compared to the first quarter this year, led to negative earnings after tax for the quarter.

A positive development is that the portion of revenues coming from clients in the rest of Europe, outside Sweden, is increasing and the portion of revenues from trading on the U.S. exchanges remains high.

In line with our plans, we have reduced investments by just over 30% compared with the same period in 2003. Cost synergies have been achieved according to plan in connection with the acquisition of Lexit, particularly with respect to personnel expenses. We will continue to work on adjusting our cost levels to compensate to the extent possible for the weaker market.

In June we launched the new generation of our trading system, NeoNet Trader, which has new client functionality, significantly enhanced performance and increased flexibility and capacity. The new system will allow us to adjust more quickly to the trading needs of professional investors and to handle significantly higher trading values than today. Work is also progressing according to plan on the gradual phase-out of the system that came with the acquisition of Lexit.

We have taken a number of steps to achieve an even greater focus on sales. Our customer support function and sales organization have been combined to form a single department. The sales organization has been reinforced by the recruitment of additional sales staff to enable us to more efficiently cover the important European markets. Efforts were intensified during the quarter to strengthen relationships with existing and potential clients and this is expected to begin to bear fruit in the second half of the year.

We see a clear trend among professional clients toward increased use of efficient direct market access. NeoNet provides this access through a powerful offering with integrated trading on 16 of the world's leading exchanges."

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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

A new generation of the trading system was launched with new client functionality, significantly enhanced performance and increased flexibility and capacity.

NeoNet can now offer trading on the Madrid Exchange via its trading system, which means that clients are currently offered trading on a total of 16 of the world's leading exchanges.

### Revenues and earnings

The Group's transaction revenues for the quarter amounted to SEK 44.6 m, compared to SEK 32.7 m for the same period last year, which is an increase of 36%.

Revenues from trading rose on the whole on the connected exchanges during the first half of the year. 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, revenues 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 45% and 55% respectively, compared to the same period last year.

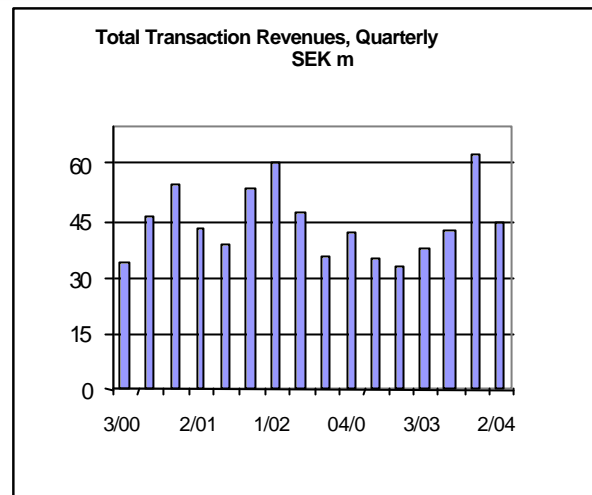
### Transaction Revenues by Exchange (SEK m) and Share of Total Revenues and Changes from Year to Year

	Jan.-June 2004		Jan.-June 2003		Change 04/03
	Rev- enues	Share	Rev- enues	Share	
Stockholm	45.2	42%	31.2	47%	45%
Helsinki	17.6	16%	11.4	17%	55%
Copenhagen & Oslo	7.1	7%	5.0	8%	42%
Frankfurt	4.3	4%	4.2	6%	4%
Euronext	11.7	11%	9.6	14%	21%
London, Milan, Madrid & Virt-x	7.4	7%	3.9	5%	89%
Nasdaq & NYSE	14.1	13%	2.6	3%	435%
Total	107.4	100%	67.9	100%	58%

The operating earnings before depreciation for the quarter improved, amounting to SEK 0.1 m compared to SEK -6.5 m for the second quarter of 2003.

Personnel and other operating expenses were down slightly compared to the previous quarter. However, compared to the second quarter of 2003, these expenses have increased by SEK 2.4 m, which is explained by the additional costs associated with acquired operations. Savings have been realized as a result of synergy effects.

Depreciation on the new trading system has begun in the second quarter and depreciation costs are consequently higher than the previous quarter.

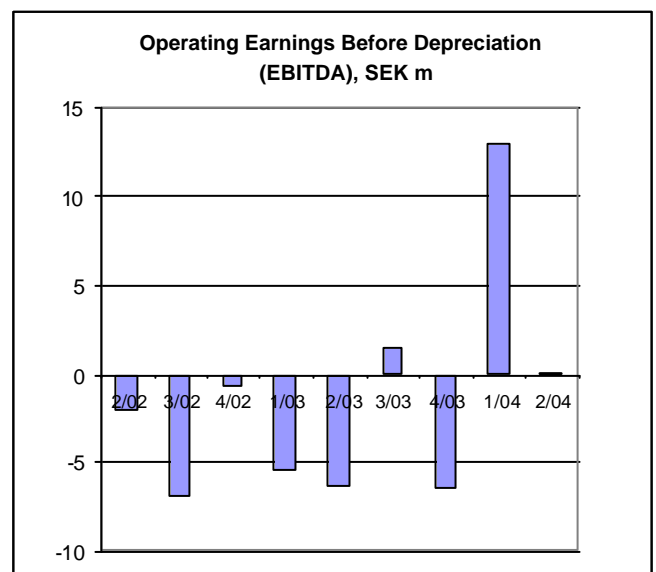


### Income Statement in Summary

SEK m	Apr.- June 2004	Jan.- Mar. 2004	Oct.- Dec. 2003	July- Sept. 2003	Apr.- June 2003
Transaction revenues	44.6	62.8	42.2	37.5	32.7
Other operating revenues	1.1	1.1	2.6	1.2	1.3
Net sales	45.7	63.9	44.8	38.7	34.0
Transaction costs	-15.0	-20.2	-16.2	-12.3	-12.3
Personnel expenses	-14.1	-15.7	-19.6	-11.4	-13.4
Other operating expenses	-16.5	-15.1	-15.7	-13.6	-14.8
Operating earnings/losses before depreciation (EBITDA)	0.1	12.9	-6.7	1.4	-6.5
Operating margin	0%	21%	-16%	4%	-20%
Depreciation	-9.2	-8.6	-8.0	-6.6	-6.5
Net financial items	-3.5	-1.6	-1.6	-0.7	-0.4
Pre-tax earnings/losses	-12.6	2.7	-16.2	-5.9	-13.4

The Group reported pre-tax losses for the quarter of SEK -12.6 m compared to SEK -13.4 m for the same quarter last year. The earnings per share for the quarter were negative at SEK -0.20 (SEK -0.61).

The number of employees working for the Group at the end of the period was 75 (88 at the beginning of the year).



### Clients

Efforts to strengthen relations with existing and potential clients have been intensified.

20% of the clients accounted for 76% of transaction revenues. No single client accounted for more than 10% of revenues. Revenues from clients based in Europe, outside Sweden, increased considerably in both actual figures and as a percentage of total revenues.

### Distribution of Transaction Revenues by Client Location SEK m

	Jan.-June 2004		Jan.-June 2003	
	Amount	Share	Amount	Share
Sweden	56.4	52%	41.3	61%
Rest of Europe	29.6	28%	10.3	15%
North America	21.4	20%	16.3	24%
Total	107.4	100%	67.9	100%

### Investments

Investments in system development and computers decreased to SEK 10.0 m (SEK 14.8 m). Of this amount, SEK 8.0 m (SEK 14.4 m) was used to enhance NeoNet's electronic trading system. Investments represented 9% (22%) of transaction revenues. The new system platform was put into operation in the second quarter and this affected depreciation in the amount of SEK 1.1 m. Depreciation of the platform is expected to amount to SEK 13.0 on an 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 as of 30 June 2004 amounted to SEK 132.4 m. 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 224.3 m, of which SEK 187.4 m consisted of blocked funds, compared to SEK 135.1 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.

A new debenture loan with detachable warrants aimed at the shareholders was issued at the end of the first quarter. The full issue funds amounting to SEK 50.6 m were received in April. Transaction costs, which amount to SEK 2.4 m, and interest on the loan will be reported during the course of the loan's term, with an annual cost of around SEK 5.9 m. This negatively affected the interest expenses during the quarter by SEK 1.0 m.

The consolidated shareholders' equity amounted to SEK 224.2 m at the end of the period (SEK 234.3 m at the beginning of the year). The capital adequacy ratio amounted to 47% (61%) and the consolidated equity/assets ratio was 46% (56%). The equity per share amounted to SEK 4.43 (SEK 4.59).

The Group has a disputed claim of a nominal amount of SEK 10.1 m (EUR 1.1 m). The Group is also involved in

other 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.

### Outlook

The market volumes for stock trading over the past few months have fallen from the very high levels at the beginning of the year.

Increased direct trading and a significant amount of interest in efficient cross-border trading are clear trends identified among the clients. Based on a competitive offering combined with stronger client relations and a reinforced sales organization, NeoNet's management intends to continue to increase the company's share of trading among existing clients and secure new ones in Europe and the U.S.

### PARENT COMPANY

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

The parent company reported a loss before tax and year-end appropriations of SEK -4.8 m (SEK 0.3 m). The decrease in earnings is explained by the lower net interest income of SEK 2.1 m, compared to SEK 6.7 m for the same period last year.

Equity in the parent company amounted to SEK 285.4 m at the end of the period (SEK 289.8 m at the beginning of the year). The liquid assets as of 30 June amounted to SEK 1.1 m, compared to SEK 1.6 m at the beginning of the year.

Consolidated Income Statement*	3 months	3 months	6 months	6 months	12 months	12 months	12 months
	April-June	April-June	Jan.-June	Jan.-June	July-June	July-June	Jan.-Dec.
SEK m	2004	2003	2004	2003	2004	2003	2003
<b>Transaction revenues</b>	<b>44.6</b>	<b>32.7</b>	<b>107.4</b>	<b>67.9</b>	<b>187.1</b>	<b>145.5</b>	<b>147.6</b>
Transactions costs**	-15.0	-12.3	-35.2	-26.7	-63.7	-55.5	-55.2
Interest income	0.5	1.1	1.2	2.0	2.5	5.7	3.3
Interest expenses	-2.8	-1.4	-5.3	-2.3	-7.7	-5.6	-4.8
Net earnings from financial transactions	-1.1	-0.1	-1.0	-0.6	-2.2	-0.2	-1.7
Other operating revenues	1.1	1.3	2.2	2.7	6.0	6.1	6.5
<b>Total operating revenues, net</b>	<b>27.3</b>	<b>21.3</b>	<b>69.3</b>	<b>43.0</b>	<b>122.0</b>	<b>96.0</b>	<b>95.7</b>
Other operating costs and expenses	-16.5	-14.8	-31.5	-29.0	-60.7	-63.3	-58.2
Personnel expenses	-14.2	-13.4	-29.9	-26.8	-60.8	-52.3	-57.7
Depreciation	-9.2	-6.5	-17.8	-13.6	-32.4	-30.2	-28.2
<b>Total operating expenses</b>	<b>-39.9</b>	<b>-34.7</b>	<b>-79.2</b>	<b>-69.4</b>	<b>-153.9</b>	<b>-145.8</b>	<b>-144.1</b>
<b>Operating earnings/losses</b>	<b>-12.6</b>	<b>-13.4</b>	<b>-9.9</b>	<b>-26.4</b>	<b>-31.9</b>	<b>-49.8</b>	<b>-48.4</b>
Tax	0.0	-0.2	0.0	-0.4	1.7	0.2	1.3
<b>Earnings/losses for the period</b>	<b>-12.6</b>	<b>-13.6</b>	<b>-9.9</b>	<b>-26.8</b>	<b>-30.2</b>	<b>-49.6</b>	<b>-47.1</b>
Earnings per share, SEK	-0.25	-0.31	-0.20	-0.61	-0.63	-1.13	-1.05
Earnings per share after full dilution, SEK	-0.25	-0.31	-0.20	-0.61	-0.63	-1.13	-1.05
Number of shares, 000	50,582	43,665	50,582	43,665	50,582	43,665	50,582
Average number of shares, 000	50,582	43,665	50,582	43,665	48,163	43,661	44,726
Average number of shares after full dilution, 000	50,582	43,665	50,582	43,665	48,163	43,661	44,726

**Consolidated Balance Sheet**

SEK m	30 June	30 June	31 Dec.
	2004	2003	2003
<b>ASSETS</b>			
Cash and lending to credit institutions	224.3	116.0	135.1
Intangible fixed assets	66.5	62.6	67.9
Goodwill	72.9	0.5	76.9
Tangible fixed assets	8.7	12.7	11.1
Contract settlement receivables, net	77.5	88.9	86.4
Other assets	28.7	72.0	51.0
Prepaid expenses and accrued income	10.1	6.3	5.2
<b>Total assets</b>	<b>488.7</b>	<b>359.0</b>	<b>433.6</b>
<b>LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>			
Liabilities to credit institutions	59.0	76.4	91.6
Securities loans	129.0	21.8	61.9
Other liabilities	8.6	44.8	21.8
Accrued expenses and deferred income	17.3	13.5	24.0
Subordinated debt	50.6	-	-
Provisions	-	2.2	-
Shareholders' equity			
Share capital	2.5	2.2	2.5
Restricted reserves	294.8	239.3	291.8
Earnings/losses carried forward	-63.2	-14.4	-12.9
Earnings/losses for the period	-9.9	-26.8	-47.1
<b>Total liabilities, provisions and shareholders' equity</b>	<b>488.7</b>	<b>359.0</b>	<b>433.6</b>
<b>Memorandum items</b>			
Blocked funds, credit institutions	187.4	93.8	103.9
Blocked funds, clearing houses (included in the item "Other assets")	12.5	47.4	11.6
Floating charge	15.0	15.0	15.0

**Consolidated Cash-Flow Statement**

SEK m	Jan.-	Jan.-	Jan.-
	June	June	Dec.
	2004	2003	2003
Cash flow from ongoing operations excluding settlement of executed equity transactions	14.0	17.1	-26.3
Cash flow from ongoing operations attributable to settlement of executed equity transactions***	45.7	-86.2	6.5
Cash flow from investment activity	-10.0	-14.8	-54.9
Cash flow from financing activity	40.6	-1.0	10.0
<b>Cash flow for the period</b>	<b>90.3</b>	<b>-84.9</b>	<b>-64.7</b>
Liquid assets at beginning of year	135.1	201.5	201.5
Liquid assets, translation difference	-1.1	-0.6	-1.7
<b>Liquid assets at end of period</b>	<b>224.3</b>	<b>116.0</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 reclassification 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.-June	Jan.-June	Jan.-Dec.
	2004	2003	2003
Opening shareholders' equity	234.3	228.1	228.1
Non-cash issue			54.6
Translation difference	-0.2	-1.0	-1.3
Earnings/losses for the period	-9.9	-26.8	-47.1
<b>Closing shareholders' equity</b>	<b>224.2</b>	<b>200.3</b>	<b>234.3</b>

The restricted equity amounted to SEK 297.3 m (SEK 241.5 m) at the end of the period. The non-restricted equity was SEK -73.1 m (SEK -41.2 m).

The accumulated translation difference as of 30 June 2004 was SEK -3.3 m (SEK -2.7 m).

**Consolidated Key Figures**

SEK m	Jan.-June	Jan.-June	Jan.-Dec.
	2004	2003	2003
<b>Earnings/losses in summary</b>			
Operating earnings/losses before net financial items and depreciation	13.0	-11.9	-17.0
Operating earnings/losses before net financial items	-4.8	-25.5	-45.2
<b>Margins</b>			
Operating margin	12%	Neg.	Neg.
Net margin	Neg.	Neg.	Neg.
Profit margin	Neg.	Neg.	Neg.
<b>Yield</b>			
Average capital employed	444.5	332.3	332.6
Return on shareholders' equity	Neg.	Neg.	Neg.
Return on capital employed	Neg.	Neg.	Neg.
<b>Financial position</b>			
Equity/assets ratio	46%	56%	54%
Interest cover	Neg.	Neg.	Neg.
Debt/equity ratio	0.8	0.7	0.7
Capital adequacy ratio	47%	61%	42%
<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	-0.20	-0.61	-1.05
Equity per share, SEK	4.43	4.59	4.63
No. of shares after full dilution, 000	50,582	43,665	50,582
Average no. of shares after full dilution, 000	50,582	43,665	44,726
Earnings per share after full dilution, 000	-0.20	-0.61	-1.05
Equity per share after full dilution, SEK	4.43	4.59	4.63
No. of employees at end of period	75	72	88
Average no. of employees	83	78	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.

Stockholm, 19 August 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, 19 August 2004

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**

Interim report Q3 2004, 26 October 2004

Year-end report 2004, 10 February 2005

Interim report Q1 2005, 10 May 2005