

## NeoNet's Interim Report 1 January – 30 June 2006

Stockholm, 17 August 2006

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### The Second Quarter in Summary

- Operating revenues increased by 75% to SEK 102.5 m (58.5).
- Operating earnings before depreciation and net financial items (EBITDA) increased by 180% to SEK 22.1 m (7.9).
- Earnings before tax were SEK 11.7 m (0.1)
- Earnings after tax increased to SEK 8.3 m (0.1).
- Earnings per share before dilution were SEK 0.16(0.00).
- Underlying cash flow was strengthened and amounted to SEK 17.3 m (3.7).

### Six Months in Summary

- Operating revenues increased by 64% to SEK 191.5 m (116.7).
- Operating earnings before depreciation and net financial items (EBITDA) increased by 101% to SEK 41.7 m (20.7).
- Earnings before tax were SEK 22.7 m (4.3).
- Earnings after tax increased by 270% to SEK 15.9 m (4.3).
- Earnings per share before dilution were SEK 0.31 (0.08).
- Underlying cash flow amounted to SEK 31.8 m (12.7).

### Significant Events

- One of the world's largest banks has signed a contract to use NeoNet XG (eXchange Gateway). NeoNet has three clients using the new system and software services.

### NeoNet in the First Half of 2006

The positive growth trend that NeoNet has been experiencing for a long period of time continued in the second quarter. Exchange activity among NeoNet's clients was high and the company's revenues for the quarter and the first six months were up by 75% and 64% respectively, compared to the same periods last year. The earnings have developed well and the operating earnings at the EBITDA level increased by 180% for the quarter and 101% for the first six months. The earnings before tax were SEK 11.7 m (0.1) for the quarter and SEK 22.7 m (4.3) for the first six months.

The demand continues to increase for high quality electronic direct market access with minimal delay in trading. Institutional investors are using direct market access for an increasing proportion of their trading. This means that direct market access is a business critical part of NeoNet's clients' operations, which is raising the level of quality and performance expectations. This trend benefits NeoNet as the company offers a stable and fast trading platform with advanced trading functionality, access to a wide variety of marketplaces, and highly valued services to clients. The clients also appreciate the fact that NeoNet does not engage in any proprietary trading, which eliminates the risk of conflicts of interest with client trading.

During the second quarter, one of the world's largest banks decided to use the new product, NeoNet eXchange Gateway (XG). This order is a breakthrough for the product. An additional contract was signed earlier in the year. Investment banks and broker-dealers want to be able to combine trading using their own exchange memberships with trading via a broker on exchanges where they are not members. NeoNet is able to meet this growing demand with its NeoNet XG system and software service. The strengths in NeoNet's offering are the service's relatively short implementation time, a broad range of exchanges, and the stability, functionality and performance of the platform.

NeoNet is broadening the base of its business with trading on more and more exchanges, a growing number of clients in numerous countries, and a new product area in the form of NeoNet XG.

### **Markets**

Many exchanges are demonstrating strong growth in turnover. This is having a positive impact on NeoNet since the company's clients normally increase their trading when the general volumes grow. Interest in direct market access continues to be strong, and the growth trend for this type of trading is stable and enduring.

Until recently there was a clear distinction between financial software companies and broker-dealers. Now a pattern is emerging within the sector whereby previously well-defined roles are becoming less and less distinct as clients' needs are changing. Many clients want to be able to conduct all of their trading through a single platform. Based on its role as an agency broker, NeoNet has created software services and combined these with brokerage services. Software companies, on the other hand, have responded to this demand by forming alliances to link broker-dealers to their order management systems.

Direct market access is increasingly a business critical part of a client's transaction chain. This, in combination with more advanced trading patterns among clients, is increasing the demand for direct market access. This means that the focus on the performance and reliability of the platform increases when clients conduct more and more of their trading electronically. As trading becomes increasingly advanced, minimal delay and offering the fastest possible access to the connected exchanges are becoming more important. Clients are also demanding advanced functionality and a high level of user-friendliness in their trading activity.

### **Clients**

Trading among NeoNet's clients during the first half of the year was very intense and it increased during the second quarter. The growth is a result of several interacting factors. Successful sales efforts have increased the number of clients and led to a greater proportion of trading being conducted via NeoNet by both new and existing clients. NeoNet also benefits from the sharp increase in volumes on the exchanges. Finally, the underlying trend of increasing direct market access trading is also promoting growth.

During the first six months of the year, two more clients decided to use the services within the framework of NeoNet XG. This means that NeoNet now has a total of three clients with contracts for the service. Most recently, one of the world's largest banks signed a contract to use NeoNet's system and software services to trade on eight exchanges.

### **Offering and Product Development**

NeoNet has two offerings: brokerage services via *NeoNet Agency Brokerage* where NeoNet acts as the client's broker, and the new *NeoNet eXchange Gateway (XG)* which offers system and software services where NeoNet is responsible for operation, hardware, software and infrastructure.

During the period, NeoNet added the option to trade on both the Vienna Stock Exchange and SWX Swiss

Exchange. This means that professional investors can now trade via NeoNet on 20 leading exchanges in Europe and North America.

In the next stage, NeoNet will add trading on Eurex to be able to offer clients European index futures. The development of advanced order types will continue and program trading will be enhanced further.

Although the NeoNet XG services have a short lead time for implementation, the sell-in period is longer than for the company's brokerage service. The longer selling process is explained by the longer term effects for the client when opting to use NeoNet XG, compared to choosing NeoNet's brokerage services. In combination with the brokerage service, NeoNet XG offers a new opportunity for clients to conduct all of their trading via one supplier – NeoNet.

### **Revenues**

Operating revenues increased during the period by 64% to SEK 191.5 m (116.7). Operating earnings for the quarter amounted to SEK 102.5 m (58.5), an increase of 75%.

Transaction revenues, consisting of brokerage commission fees for executed client transactions, increased by 65% to SEK 188.8 m (114.2) for the year to date. Transaction revenues for the quarter increased by 76% amounting to SEK 100.9 m (57.2).

The increase in revenues is partly due to the general growth in volumes on many markets and partly to an increasing number of clients executing a larger proportion of their trading via NeoNet.

The revenues from NeoNet XG only amount to a small sum which is included in the item "Other operating revenues."

Revenues from clients' trading on the exchanges in both North America and Europe outside the Nordic region are showing strong growth, both as a proportion of revenues and in absolute terms. Revenues from the Nordic Exchanges are also increasing. Transaction revenues from trading on the Nordic and other European markets are roughly equal, representing approximately three sevenths each. Trading on the North American exchanges represents just over one seventh of the revenues.

The trend in revenues from clients based in Europe outside the Nordic region remains very positive. These clients have increased both in absolute terms and as a proportion of total revenues. There has also been good revenue growth from clients in other geographical regions. During the period, clients in the Nordic countries and the rest of Europe each accounted for 40%, while clients in North America accounted for the remainder of the strongly increasing transaction revenues.

**Costs**

NeoNet's variable trading, clearing and settlement costs are largely related to the number of transactions. Since the volumes were increasing during the first and second quarters at the same time as the average size of transactions was declining, the total transaction costs grew at a faster pace than the transaction revenues. The transaction margin was also affected by steadily falling brokerage commission fee rates resulting from price competition. However, for both the last quarter and the six-month period, the net transaction revenues increased considerably in absolute terms.

The strong rise in trading volumes during the period has also led to a greater demand for temporary settlement loans as well as credits and deposits to provide security to clearing houses. This increased interest costs, which is the reason for the SEK 2.6 m fall in net interest income to SEK -7.3 m (-4.7).

Personnel and other operating costs for the six-month period were SEK 71.5 m (55.3). This increase is explained, among other things, by the additional costs relating to electronic trading support services, new exchange memberships, measures to strengthen the organization, and increasing costs associated with flexible salaries.

**Earnings**

The Group's earnings before depreciation and net financial items (EBITDA) amounted to SEK 22.1 m (7.9) for the quarter, giving an operating margin of 22% (14%). The EBITDA for the half year was SEK 41.7 m (20.7) and the operating margin was 22% (18%).

The reported earnings after tax for the quarter were SEK 8.3 m (0.1). The earnings per share for the period were SEK 0.16 (0.00). The earnings after tax for the six-month period amounted to SEK 15.9 m (4.3) and the earnings per share were SEK 0.31 (0.08). Unlike the same periods last year, the reported earnings for the first and second quarters of 2006 were charged with tax costs.

(For further details on the earnings items, see pages 5 and 6.)

**Cash Flow**

The underlying cash flow for the quarter was SEK 17.3 m (3.7) and for the six-month period SEK 31.8 m (12.7). The positive trend is a result of the improvement in EBITDA.

(For further details, see the Underlying Cash Flow diagram on page 5. For a summarized cash flow statement, see page 7.)

**Investments**

Investments, comprising system development and hardware purchases, totaled SEK 4.4 m (4.3) for the quarter and for the six-month period, SEK 8.3 m (8.1). Investments were made during the quarter in equipment for increased redundancy and network capacity.

Investments represented 4% (8%) of the transaction revenues for the quarter and 4% (7%) for the six-month period. Fixed assets include development projects in progress worth SEK 0.1 m. With respect to goodwill and other intangible assets, an impairment test will be carried out at year-end comparing the accounting value with the recovery value. The intangible asset consisting of NeoNet's in-house developed trading system, is depreciated on an ongoing basis for a period of three to five years.

**Employees**

NeoNet has employees and sales representation in Sweden, the USA, the UK, Italy, France and Germany. The number of employees in the Group at the end of the period was 94 (80 at the beginning of the year).

During the six-month period, NeoNet strengthened its organization in areas such as brokerage, sales, IT, and clearing & settlement.

**Liquidity and Financial Position**

The NeoNet Group's current liquid assets consist of the sum of bank deposits, interest-bearing instruments, the difference between contract settlement receivables and liabilities, and receivables – mainly from clearing houses and similar institutions – less temporary cash and securities loans.

The net amount of these items as of 30 June was SEK 175.3 m. The corresponding holding of current liquid assets at the beginning of the year was SEK 148.2 m. The gross liquid assets recognized in the balance sheet amounted to SEK 541.1 m, of which SEK 499.7 m consisted of blocked funds, compared to SEK 184.3 m, and SEK 158.4 m respectively at the beginning of the year. Fluctuations in the liquid assets recognized in the balance sheet are normal for this kind of business.

As of the closing date, 30 June 2006, the interest-bearing receivables amounted to SEK 529.5 m (349.3) and the interest-bearing current liabilities to SEK 324.3 m (146.1).

The debenture loan of SEK 50.6 m carries interest of 10% and falls due for payment on 13 April 2007. The company has the right to redeem the loan in December 2006, but has not yet come to a decision on this. The consolidated shareholders' equity at the end of the period was SEK 258.8 m (249.7 m on 1 January 2006). The equity per share was SEK 5.10 (4.48).

In the final part of the second quarter, parties holding TO5 series warrants exercised their option to subscribe for 1,552,472 shares. The amount raised, SEK 9.3 m, was recognized on the closing date as "Other injected capital," while the number of registered shares was the same as at the end of the second quarter. After completed registration in the third quarter, the number of outstanding warrants was reduced to 13,462,945 and the number of shares was increased to 52,293,710.

Capital coverage was 41% (38%) and the consolidated equity/assets ratio was 24% (32%).

The Group has a significant disputed receivable claim with a nominal value of EUR 1.1 m. The status of the case has not changed since the last report was published.

The Annual General Meeting, which was held on 4 May resolved to authorize the Board of Directors to buy back shares and warrants in NeoNet for a value not exceeding SEK 22 m. The buy backs have so far been limited to 256,000 warrants for a value of SEK 2.1 m.

**Outlook**

NeoNet has a strong market position within the rapidly growing direct market access segment. The company's strength lies in access to a large number of marketplaces, an advanced, high-performance system platform, and a high level of service. These factors, combined with the fact that NeoNet is a neutral player that primarily uses its own exchange memberships, create a highly competitive equity trading service.

NeoNet's diversification becomes more evident as trading volumes grow on more marketplaces, the number of clients in numerous countries increases, and new revenues are generated by NeoNet XG. Altogether, this is expected, in the long term, to generate more stable revenues which are less susceptible to short-term fluctuations on the stock market than in the past.

NeoNet does not provide forecasts.

**The Parent Company**

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

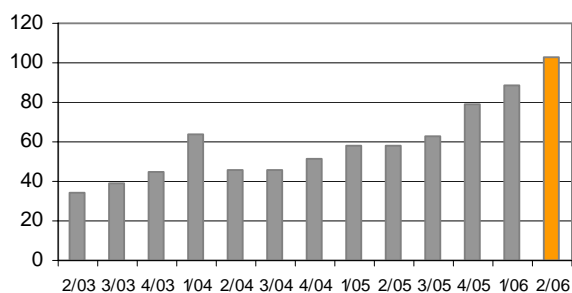
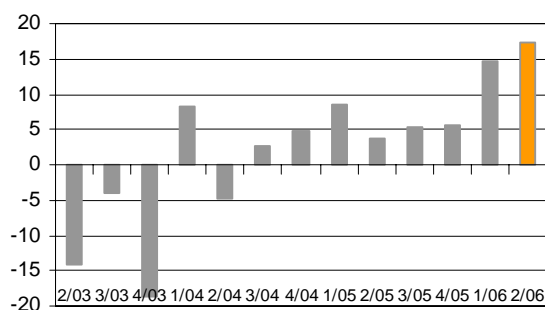
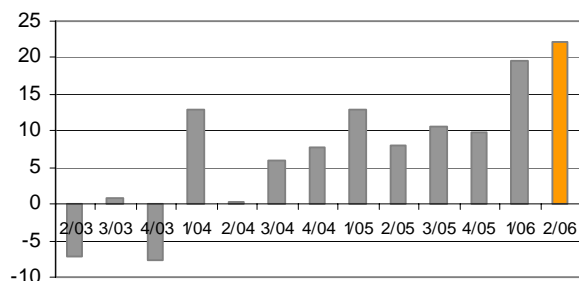
The parent company reported a net sales of SEK 0.0 m (0.0 m). The earnings before tax for the six-month period amounted to SEK -5.9 m (-5.4).

Equity in the parent company amounted to SEK 228.0 m at the end of the period (SEK 233.7 m at the beginning of the year).

No investments were made in 2006 or 2005. The liquid assets on 30 June amounted to SEK 6.7 m, compared to SEK 0.4 m at the beginning of the year.

**FINANCIAL DEVELOPMENT IN SUMMARY**

SEK m	3 months Apr.-June 2006	3 months Apr.-June 2005	6 months Jan.-June 2006	6 months Jan.-June 2005	12 months July 2005- June 2006	12 months July 2004- June 2005	12 months Jan.-Dec. 2005
<b>Income Statement</b>							
Transaction revenues	100.9	57.2	188.8	114.2	327.8	207.8	253.2
Operating earnings	102.5	58.5	191.5	116.7	332.8	213.9	258.0
Operating earnings before depreciation (EBITDA)	22.1	7.9	41.7	20.7	62.1	34.3	41.0
Operating margin	22%	14%	22%	18%	19%	16%	16%
Earnings after tax	8.3	0.1	15.9	4.3	38.4	-2.0	26.8
<b>Underlying cash flow</b>							
from operations (excl. Net interest income)	21.6	8.0	40.1	20.8	58.5	34.8	38.8
from investments	-4.4	-4.3	-8.3	-8.1	-15.9	-14.7	-15.7
Total underlying cash flow	17.3	3.7	31.8	12.7	42.6	20.1	23.1

**Operating Revenues, quarterly, SEK m**

**Underlying cash flow, SEK m**

**Operating earnings before net financial items  
and depreciation (EBITDA), SEK m**


The underlying cash flow consists of the sum of:

- cash flow from ongoing operations excluding interest income and changes in assets and liabilities of ongoing operations;
- investment activity excluding acquisitions.

A summary of the Cash Flow Statement can be found further on in this report.

**FINANCIAL STATEMENTS IN SUMMARY**

## Consolidated Income Statement

SEK m	3 months Apr.-June 2006	3 months Apr.-June 2005	6 months Jan.-June 2006	6 months Jan.-June 2005	12 months July 2005- June 2006	12 months July 2004- June 2005	12 months Jan.-Dec. 2005
<b>Transaction revenues</b>	<b>100.9</b>	<b>57.2</b>	<b>188.8</b>	<b>114.2</b>	<b>327.8</b>	<b>207.8</b>	<b>253.2</b>
Transaction expenses	-42.5	-22.0	-78.3	-40.7	-136.7	-75.7	-99.1
<b>Transaction revenues, net</b>	<b>58.4</b>	<b>35.2</b>	<b>110.5</b>	<b>73.5</b>	<b>191.1</b>	<b>132.1</b>	<b>154.1</b>
Other operating revenues	1.6	1.3	2.7	2.5	5.0	6.1	4.8
Other operating expenses	-15.7	-14.3	-30.0	-26.9	-61.4	-49.4	-58.3
Personnel expenses	-22.2	-14.4	-41.5	-28.4	-72.6	-54.4	-59.5
Net earnings from financial transactions	0.4	0.4	-0.1	0.0	-0.7	-1.9	-0.6
Depreciation	-5.9	-5.9	-11.6	-11.7	-23.9	-25.9	-24.0
Interest income	3.3	1.3	5.2	2.1	8.4	3.7	5.3
Interest expenses	-8.2	-3.5	-12.5	-6.8	-21.3	-12.3	-15.6
Net interest expense	-4.9	-2.2	-7.3	-4.7	-12.9	-8.6	-10.3
<b>Earnings before tax</b>	<b>11.7</b>	<b>0.1</b>	<b>22.7</b>	<b>4.3</b>	<b>24.6</b>	<b>-2.0</b>	<b>6.2</b>
Tax	-3.4	0.0	-6.8	0.0	13.7	0.0	20.6
<b>Earnings after tax</b>	<b>8.3</b>	<b>0.1</b>	<b>15.9</b>	<b>4.3</b>	<b>38.4</b>	<b>-2.0</b>	<b>26.8</b>
Earnings per share before dilution, SEK	0.16	0.00	0.31	0.08	0.76	-0.04	0.53
Earnings per share after dilution, SEK	0.14	0.00	0.27	0.08	0.66	-0.04	0.48
Number of shares, 000	50,741*	50,585	50,741*	50,585	50,741*	50,585	50,590
Average number of shares, 000	50,665	50,584	50,630	50,583	50,608	50,583	50,585
Average number of shares after dilution, 000	59,394	55,303	59,358	55,303	58,129	52,811	55,745

\*) During the subscription period in June 2006, warrants were exercised to subscribe for 1,552,472 new shares. The newly issued shares had not been registered as of the end of the quarter. Following registration in the third quarter, the number of shares will be 52,293,710. The number of outstanding warrants is 13,462,945.

**FINANCIAL STATEMENTS IN SUMMARY**
**Consolidated Balance Sheet**

SEK m	30 June 2006	30 June 2005	31 Dec. 2005
<b>ASSETS</b>			
Liquid assets	541.1	350.0	184.3
Intangible fixed assets	50.0	57.7	53.7
Goodwill	77.7	77.7	77.7
Tangible fixed assets	6.1	6.4	5.8
Deferred tax asset	14.0	-	20.9
Contract settlement receivables, net	339.5	180.7	115.7
Other assets	65.2	21.7	20.2
Pre-paid expenses and accrued income	6.8	7.6	9.5
<b>Total assets</b>	<b>1 100.4</b>	<b>701.8</b>	<b>487.9</b>
<b>LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>			
Liabilities to credit institutions	326.0	146.1	77.1
Securities loans	406.7	243.5	73.9
Other liabilities	20.0	16.9	17.7
Accrued expenses and deferred income	39.0	19.4	20.0
Subordinated debt	49.9	49.1	49.5
Shareholders' equity			
Share capital	2.5	2.5	2.5
Other injected capital	215.6	206.1	206.2
Reserves	-3.6	-2.6	-2.3
Retained earnings including current year earnings	44.3	20.8	43.3
<b>Total liabilities, provisions and shareholders' equity</b>	<b>1 100.4</b>	<b>701.8</b>	<b>487.9</b>
<b>Memorandum items</b>			
Blocked funds, liquid assets	499.7	336.1	158.4
Blocked funds, contract settlement receivables	326.0	146.1	77.0
Floating charge	15.0	15.0	15.0
<b>Consolidated Cash Flow Statement</b>			
SEK m	Jan.- June 2006	Jan.- June 2005	Jan.- June 2005
Cash flow from ongoing operations, excluding settlement of executed equity transactions	13.1	28.8	48.3
Cash flow from ongoing operations attributable to settlement of executed equity transactions <sup>1)</sup>	358.9	185.2	13.1
Cash flow from investment activity	-8.3	-8.1	-15.7
Cash flow from financing activity	-6.8	0.0	-5.0
<b>Cash flow for the period</b>	<b>356.9</b>	<b>205.9</b>	<b>40.7</b>
Liquid assets at beginning of year	184.3	143.8	143.8
Liquid assets, translation difference	-0.1	0.3	-0.2
<b>Liquid assets at end of period</b>	<b>541.1</b>	<b>350.0</b>	<b>184.3</b>

**Change in Consolidated Shareholders' Equity**

SEK m	Share capital	Other injected capital	Reserves	Retained earnings	Total Shareholders' equity
<b>Jan.-June 2006</b>					
Opening balance 1 Jan. 2006	2.5	206.2	-2.4	43.4	249.7
Translation difference	-	-	-1.2	-0.4	-1.6
Payments received for new share subscriptions	0.0	9.4	-	-	9.4
Warrant buy-back	-	-	-	-2.1	-2.1
Dividend paid	-	-	-	-12.6	-12.6
Earnings/losses for the period	-	-	-	15.9	15.9
<b>Closing shareholders' equity 30 June 2006</b>	<b>2.5</b>	<b>215.6</b>	<b>-3.6</b>	<b>44.3</b>	<b>258.8</b>
<b>Jan.-June 2005</b>					
<b>SEK m</b>					
Opening balance 1 Jan. 2005	2.5	286.8	-16.2	-53.1	220.0
Reclassification of translation differences	-	-	16.1	-11.1	5.0
Translation difference	-	-	-2.5	-	-2.5
Reduction of share premium reserve	-	-80.7	-	80.7	0.0
Earnings/losses for the period	-	-	-	4.3	4.3
<b>Closing shareholders' equity 30 June 2005</b>	<b>2.5</b>	<b>206.1</b>	<b>-2.6</b>	<b>20.8</b>	<b>226.8</b>
<b>Jan.-Dec. 2005</b>					
<b>SEK m</b>					
Opening balance 1 Jan. 2005	2.5	286.8	-16.2	-53.1	220.0
Reclassification of translation differences	-	-	11.1	-11.1	0.0
Payments received for new share subscriptions	0.0	0.1	-	-	0.1
Translation differences	-	-	2.8	-	2.8
Reduction of share premium reserve	-	-80.7	-	80.7	0.0
Earnings/losses for the period	-	-	-	26.8	26.8
<b>Closing shareholders' equity 31 Dec. 2005</b>	<b>2.5</b>	<b>206.2</b>	<b>-2.3</b>	<b>43.3</b>	<b>249.7</b>

Accumulated translation differences on 30 June 2006 SEK -3.6 m (SEK -2.6 m).

1) The cash flow attributable to settlement of equity transactions executed on behalf of clients varies considerably from period to period depending on the situation on the closing day with respect to settlement positions.

**Accounting Principles**

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting.

Since 1 January 2005, the NeoNet Group has been applying the International Financial Reporting Standards (IFRS), as adopted by the EU, the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and the regulations of the Swedish Financial Supervisory Authority. The transition to IFRS, as adopted by the EU, from previous accounting principles has taken place according to IFRS 1.

The same accounting principles, definitions of key figures and calculation methods are used as in the most recent annual report.

The parent company applies the Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendation, RR32 Accounting for Legal Entities.

Stockholm, 17 August 2006

NeoNet AB (publ)

Simon Nathanson  
President and CEO

The interim report is issued by the President and CEO following authorization from the Board of Directors.

**Auditor's Review Report**

We have performed a review of the interim report for NeoNet AB (publ) for the period 1 January 2006 to 30 June 2006. Responsibility for preparing and presenting a fair interim report in accordance with IAS 34 rests with

the company's management. Our responsibility is to express an opinion on the interim report based on our review.

We have performed our review in accordance with Standard SÖG 2410 Review of interim financial information performed by the company's auditor, issued by FAR. A review consists of asking questions, in the first instance of persons responsible for financial and accounting matters; performing an analytical review; and carrying out other review measures. A review has a different focus and a significantly reduced scope compared to the focus and scope of an audit in accordance with Swedish Auditing Standards and good auditing practice in general. The measures carried out in a review do not allow us to be certain that we are aware of all the important circumstances which could have been identified if an audit had been performed. The opinion expressed on the basis of a review does not therefore offer the certainty of an opinion expressed on the basis of an audit.

Based on our review, no circumstances have emerged which give us reason to assume that the interim report is not, in all material aspects, prepared in accordance with IAS 34, the Annual Accounts Act for the parent company and the Annual Accounts Act for Credit Institutions and Securities Companies for the Group.

Stockholm, 17 August 2006

PricewaterhouseCoopers AB

Eva Riben  
Authorized Public Accountant

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**Contact information:**

Simon Nathanson  
Tel. +46 8 454 15 51  
[simon.nathanson@neonet.biz](mailto:simon.nathanson@neonet.biz)

**NeoNet AB (publ)**

Corporate identity number: 556530-1263  
Address: Box 7545, 103 93 Stockholm  
Visiting address: Kungsgatan 33  
Tel. +46 8 454 15 00  
Fax: +46 8 10 40 84  
[www.neonet.biz](http://www.neonet.biz)

**Financial Calendar**

Interim report Q3 2006, 25 October 2006, 8.25 a.m. CET  
Year-End Release 2006, 8 February 2007, 8.25 a.m. CET