

NeoNet's Interim Report 1 January – 30 September 2004

Stockholm, 26 October 2004

The Quarter in Summary

- Net sales increased by 18% to SEK 45.6 m (SEK 38.7 m).
- The earnings after tax amounted to SEK -5.9 m (SEK -5.9 m).
- The earnings per share amounted to SEK -0.12 (SEK -0.13).
- The operating earnings before depreciation and net financial items increased by 321% to SEK 5.9 m (SEK 1.4 m).
- The underlying cash flow increased to SEK 2.7 m (SEK -3.9 m) as a result of strong operating earnings (EBITDA) and a decrease in investments.

Nine Months in Summary

- Net sales increased by 42% to SEK 155.2 m (SEK 109.3 m).
- The earnings after tax amounted to SEK -15.8 m (SEK -32.6 m).
- The earnings per share amounted to SEK -0.31 (SEK -0.75).
- The operating earnings before depreciation and net financial items increased by SEK 29.5 m to SEK 18.9 m (SEK -10.6 m).
- The underlying cash flow increased to SEK 6.1 m (SEK -30.8 m).
- In June NeoNet launched a new generation of the trading platform with enhanced performance and increased flexibility and capacity.
- In the first half of 2004 NeoNet began to offer trading on the Madrid and Lisbon Exchanges as well as on the Swiss Virt-x.
- Simon Nathanson took up the position as the company's President and CEO on 15 March.
- NeoNet's issue of debentures with detachable warrants injected SEK 50.6 m before issue and guarantee costs of SEK 2.4 m.

Events After the End of the Period

- NeoNet initiated a co-operation with the Swiss company SIS SegalInterSettle regarding an integrated trading, clearing and settlement solution for mutual clients.
- The integration of the U.S. operation taken over in connection with the Lexit acquisition is complete, which means that all trading now goes through NeoNet's system.

CEO's Statement

"In the third quarter our earnings grew, our underlying cash flow and transaction costs improved, personnel expenses and other operating expenses were reduced, and the average earnings per new client increased. As a consequence of the investments in the trading system and in the company that was acquired last year the depreciations increased, but NeoNet's operations are clearly showing a better result.

We have also succeeded in our goal of increasing trading volume from clients and exchanges outside the Swedish stock market, where we already hold a strong position. This expansion is in part a result of the new sales organization that was established this year.

The new generation of our trading system, NeoNet Trader, has met with a positive response from clients, and the enhancement of our trading system's functionality and performance is continuing at a good pace, albeit with significantly lower levels of investment than last year. The annual rate of investment estimated for the third quarter is SEK 14 m, which is SEK 17 m less than the full-year figure for 2003.

Over the past few months NeoNet has launched co-operations with SIS, SimCorp, and Thomson. These are leading players in the industry who, in various ways, facilitate clients' trading with NeoNet. These types of agreements offer great potential benefits and means a broadened our distribution network.

I believe that we will benefit from the strong increase in electronic direct trading. It is entirely realistic to predict that a third of all trading by professional investors will be executed in this way in a couple of years.

With a more efficient operation that can handle significantly greater volumes, NeoNet's growth will lead to greater profitability and increased cash flow."

More information is available from:

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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

During this quarter, installation of the new generation of our trading system was completed for a number of clients. Most of them have switched to the new system which offers new client functionality and significantly increased performance, flexibility and capacity.

As part of the integration of Lexit's operation, considerable preparations have been made to switch trading activity to the common trading and back office systems and to shut down the systems that Lexit has been using.

An agreement has been signed with SimCorp A/S that will allow clients using SimCorp's software to trade via NeoNet. With the support of the agreement announced earlier with Thomson Financial, NeoNet can now also offer trading via NeoNet to clients that are connected to the AutEx network.

Revenues and earnings

The Group's transaction revenues for the quarter amounted to SEK 44.1 m compared to SEK 37.5 m for the same period last year, which is an increase of 18%.

Revenues from trading on the connected exchanges rose on the whole during the first nine months 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 24% and 41% 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.-Sept. 2004		Jan.-Sept. 2003		Change 04/03
	Rev- enues	Share	Rev- enues	Share	
Stockholm	61.6	40%	49.7	47%	24%
Helsinki	24.3	16%	17.3	16%	41%
Copenhagen & Oslo	11.1	7%	7.9	7%	49%
Frankfurt	7.0	5%	6.0	6%	17%
Euronext	17.8	12%	14.1	14%	26%
London, Milan, Madrid & Virt-x	10.2	7%	6.2	6%	65%
Nasdaq & NYSE	19.5	13%	4.2	4%	370%
Total	151.5	100%	105.4	100%	44%

The operating earnings before depreciation and net financial items for the quarter improved, amounting to SEK 5.9 m compared to SEK 1.4 m for the third quarter of 2003.

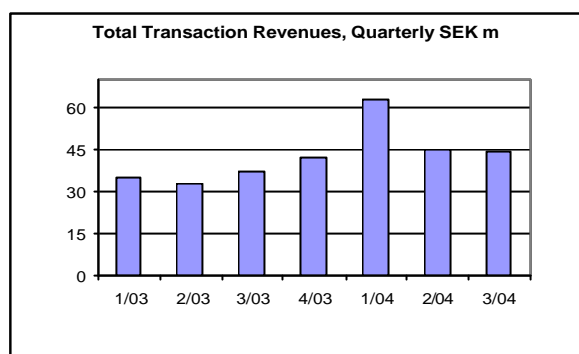
Transaction costs in relation to transaction revenues for the third quarter decreased by about 7% compared to the previous quarter.

Personnel and other operating expenses were reduced by around 16% (SEK 4.8 m) compared to the previous

quarter. However, in comparison with the third quarter of 2003, these costs have increased by SEK 0.8 m. This increase is explained by the additional costs relating to the acquisition of operations in November 2003. Considerable savings have been realized as a result of synergy effects, and costs are now largely at the same level as before the acquisition.

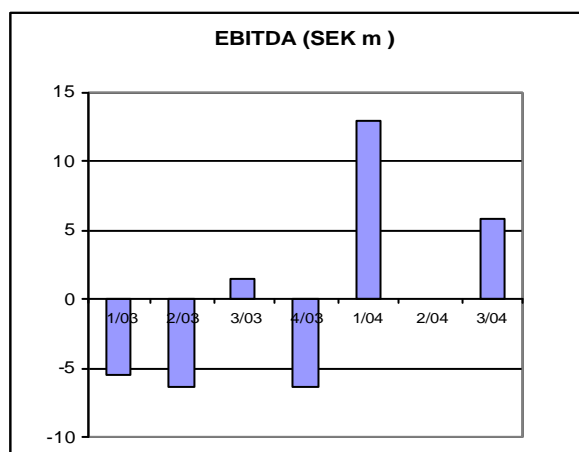
The number of employees in the Group at the end of the period was 75 (88 at the beginning of the year).

The Group's pre-tax losses for the quarter amounted to SEK -5.9 m compared to SEK -5.9 m the same quarter the previous year. The earnings per share for the third quarter were negative at SEK -0.12 (SEK -0.13).



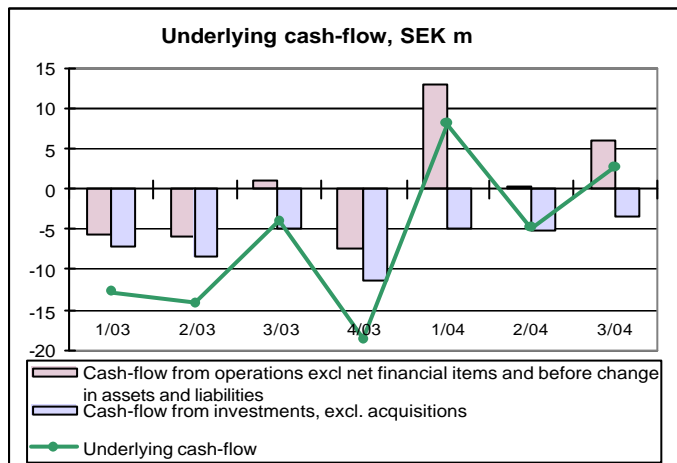
Income Statement in Summary

	Q3 2004	Q2 2004	Q1 2004	Q4 2003	Q3 2003
SEK m					
Transaction revenues	44.1	44.6	62.8	42.2	37.5
Other operating revenues	1.5	1.1	1.1	2.6	1.2
Net sales	45.6	45.7	63.9	44.8	38.7
Transaction costs	-13.9	-15.0	-20.2	-16.2	-12.3
Personnel expenses	-12.1	-14.1	-15.7	-19.6	-11.4
Other operating expenses	-13.7	-16.5	-15.1	-15.7	-13.6
Operating earnings/losses before depreciation (EBITDA)	5.9	0.1	12.9	-6.7	1.4
Operating margin	13%	0%	21%	-16%	4%
Depreciation	-9.2	-9.2	-8.6	-8.0	-6.6
Net financial items	-2.6	-3.5	-1.6	-1.6	-0.7
Pre-tax earnings/losses	-5.9	-12.6	2.7	-16.2	-5.9



Cash flow

The cash flows crucial for the Group's earning capacity are the flows from ongoing operations and from investment activity, which together constitute the underlying cash flow. In addition, there is considerable cash flow from the settlement of clients' equity transactions. These latter flows however, which fluctuate considerably, have little bearing on the actual earnings. (See page 5, note ***). The current liquid assets amounted to SEK 141,7 m at the end of the period.



Clients

The sales organization has been made more efficient and reinforced by the recruitment of additional sales staff to better cover the important European markets. The new clients this year are of a high quality in that they are using NeoNet for trading on several markets and have generated higher average revenues than was the case in the previous years. Three quarters of the new clients come from the U.S. and Europe outside the Nordic region.

20% of the clients accounted for 80% of the transaction revenues for the period. Revenues from clients based in Europe, outside Sweden, increased considerably in both actual figures and as a percentage of total revenues.

Transaction Revenues by Client Location SEK m

	Jan.-Sept. 2004		Jan.-Sept. 2003	
	Amount	Share	Amount	Share
Sweden	75.7	50%	61.9	59%
Rest of Europe	45.5	30%	18.3	17%
North America	30.3	20%	25.2	24%
Total	151.5	100%	105.4	100%

Investments

Investments in system development and computers decreased significantly during the quarter to SEK 3.4 m (SEK 5.0 m). Investments for the nine-month period decreased to SEK 13.4 m (SEK 19.8 m). SEK 11.0 m (SEK 18.1 m) of this amount was used to enhance NeoNet's electronic trading system. Investments represented 9% (19%) of transaction revenues. The new trading platform's useful life is expected to last at least five years, and consequently the depreciation for this asset has been set to five years.

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 clearinghouses and similar institutions, less liabilities for temporary settlement loans. The net amount of these items as of 30 September 2004 amounted to SEK 141.7 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 152.6 m, of which SEK 114.8 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 and a consequence of the nature of business.

The consolidated shareholders' equity amounted to SEK 218.1 m at the end of the period (SEK 234.3 m at the beginning of the year). The capital adequacy ratio amounted to 48% (82%) and the consolidated equity/assets ratio was 57% (62%). The equity per share amounted to SEK 4.31 (SEK 4.45).

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

Although the summer months were very weak, revenues grew steadily in August and September.

Increased direct market access trading, made possible by players like NeoNet, leads to increased client demands with respect to neutrality, stability and functionality. This works in NeoNet's favor because the Company can offer the new trading platform and has an efficient organization and a business model, according to which we only execute trades on behalf of clients.

Based on NeoNet's strong position, the management expects the Company to see a continued increase in share of trading from existing clients and to recruit new ones in Europe and the U.S.

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 loss for the period before tax and year-end appropriations of SEK -6.7 m (SEK 0.5 m). The decrease in earnings is explained by the lower net interest income of SEK 2.8 m, compared to SEK 10.0 m for the same period last year.

Equity in the parent company amounted to SEK 283.1 m at the end of the period (SEK 289.8 m at the beginning of the year). The liquid assets as of 30 September amounted to SEK 2.7 m, compared to SEK 1.6 m at the beginning of the year.

Consolidated Income Statement*

	3 months July-Sept.	3 months July-Sept.	9 months Jan.-Sept.	9 months Jan.-Sept.	12 months Oct.-Sept.	12 months Oct.-Sept.	12 months Jan.-Dec.
SEK m	2004	2003	2004	2003	2004	2003	2003
Transaction revenues	44.1	37.5	151.5	105.4	193.7	147.4	147.6
Transactions costs**	-13.9	-12.3	-49.1	-39.0	-59.1	-47.4	-55.2
Interest income	0.7	0.7	1.9	2.6	2.6	4.9	3.3
Interest expenses	-2.5	-1.0	-7.8	-3.3	-9.3	-4.8	-4.8
Net earnings from financial transactions	-0.8	-0.4	-1.8	-1.0	-2.5	-1.1	-1.7
Other operating revenues	1.5	1.2	3.7	3.9	6.2	5.7	6.5
Total operating revenues, net	29.1	25.7	98.4	68.6	131.6	104.7	95.7
Other operating costs and expenses	-13.7	-13.6	-45.2	-42.6	-67.3	-65.5	-58.2
Personnel expenses	-12.1	-11.4	-42.0	-38.1	-61.6	-51.4	-57.7
Depreciation	-9.2	-6.6	-27.0	-20.2	-35.0	-28.9	-28.2
Total operating expenses	-35.0	-31.6	-114.2	-100.9	-163.9	-145.8	-144.1
Operating earnings/losses	-5.9	-5.9	-15.8	-32.3	-32.3	-41.1	-48.4
Tax	0	0.1	0	-0.3	1.6	-0.3	1.3
Earnings/losses for the period	-5.9	-5.8	-15.8	-32.6	-30.7	-41.4	-47.1
Earnings per share, SEK	-0.12	-0.13	-0.31	-0.75	-0.62	-0.95	-1.05
Earnings per share after full dilution, SEK	-0.12	-0.13	-0.31	-0.75	-0.62	-0.95	-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	49,902	43,665	44,726
Average number of shares after full dilution, 000	50,582	43,665	50,582	43,665	49,902	43,664	44,726

Consolidated Balance Sheet

SEK m	30 Sept. 2004	30 Sept. 2003	31 Dec. 2003
ASSETS			
Cash and lending to credit institutions	152.6	101.7	135.1
Intangible fixed assets	64.0	62.0	67.9
Goodwill	70.9	0.5	76.9
Tangible fixed assets	7.4	11.7	11.1
Contract settlement receivables, net	48.9	83.7	86.4
Other assets	33.1	46.9	51.0
Pre-paid expenses and accrued income	8.9	6.3	5.2
Total assets	385.8	312.8	433.6
LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY			
Liabilities to credit institutions	29.2	51.5	91.6
Securities loans	62.4	45.4	61.9
Other liabilities	9.0	7.5	21.8
Accrued expenses and deferred income	16.5	12.4	24.0
Subordinated debt	50.6	-	-
Provisions	-	1.7	-
Shareholders' equity			
Share capital	2.5	2.2	2.5
Restricted reserves	292.6	238.4	291.8
Earnings/losses carried forward	-61.2	-13.7	-12.9
Earnings/losses for the period	-15.8	-32.6	-47.1
Total liabilities, provisions and shareholders' equity	385.8	312.8	433.6
Memorandum items			
Blocked funds, credit institutions	114.8	76.8	103.9
Blocked funds, clearing houses (included in the item "Other assets")	13.9	22.1	11.6
Floating charge	15.0	15.0	15.0

Consolidated Cash-Flow Statement

SEK m	Jan.- Sept. 2004	Jan.- Sept. 2003	Jan.- Dec. 2003
Cash flow from ongoing operations excluding settlement of executed equity transactions	18.8	-21.1	-26.3
Cash flow from ongoing operations attributable to settlement of executed equity transactions***	-26.7	-56.8	6.5
Cash flow from investment activity	-13.4	-19.8	-54.9
Cash flow from financing activity	40.6	-1.1	10.0
Cash flow for the period	19.3	-98.8	-64.7
Liquid assets at beginning of year	135.1	201.5	201.5
Liquid assets, translation difference	-1.8	-1.0	-1.7
Liquid assets at end of period	152.6	101.7	135.1

* 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.

*** 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 balance day with respect to settlement positions.

Change in Consolidated Shareholders' Equity

SEK m	Jan.- Sept. 2004	Jan.- Sept. 2003	Jan.- Dec. 2003
Opening shareholders' equity	234.3	228.1	228.1
Non-cash issue		-	54.6
Translation difference	-0.4	-1.2	-1.3
Earnings/losses for the period	-15.8	-32.6	-47.1
Closing shareholders' equity	218.1	194.3	234.3

The restricted equity amounted to SEK 295.2 m (SEK 240.6 m) at the end of the period. The non-restricted equity was SEK -77.0 (SEK -46.3 m).

The accumulated translation difference as of 30 September 2004 was SEK -3.5 m (SEK -2.8 m).

Consolidated Key Figures

SEK m	Jan.-Sept. 2004	Jan.-Sept. 2003	Jan.-Dec. 2003
Earnings/losses in summary			
Operating earnings/losses before net financial items and depreciation	18.9	-10.5	-17.0
Operating earnings/losses before net financial items	-8.1	-30.6	-45.2
Margins			
Operating margin	12%	Neg.	Neg.
Net margin	Neg.	Neg.	Neg.
Profit margin	Neg.	Neg.	Neg.
Yield			
Average capital employed	405.6	321.9	332.6
Return on shareholders' equity	Neg.	Neg.	Neg.
Return on capital employed	Neg.	Neg.	Neg.
Financial position			
Equity/assets ratio	57%	62%	54%
Interest cover	Neg.	Neg.	Neg.
Debt/equity ratio	0.4	0.5	0.7
Capital adequacy ratio	47%	82%	42%
Share data			
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	-0.31	-0.75	-1.05
Equity per share, SEK	4.31	4.45	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, SEK	-0.31	-0.75	-1.05
Equity per share after full dilution, SEK	4.31	4.45	4.63
No. of employees at end of period	75	71	88
Average no. of employees	83	76	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, interest costs excluded, 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, 26 October 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, 26 October 2004

PricewaterhouseCoopers AB

Eva Riben
Authorized Public Accountant

Website

www.neonet.biz

Parent company's corporate registration number

556530-1263

Financial Reporting

Year-End Report 2004, 10 February 2005

Interim Report Q1 2005, 10 May 2005