

Stockholm, 30 January 2003

## NeoNet's Year-End Report 1 January – 31 December 2002

### 2002 in Summary

- Transaction revenues amounted to SEK 184.7 m compared to SEK 190.1 m the previous year. Revenues from electronic trading increased by 10% to reach SEK 157 m totaling 85% (75%) of transaction revenues for the year.
- Trading on exchanges other than Stockholm Stock Exchange increased to 56% (51%) of the transaction revenues. Revenues from U.S. clients increased by 25%.
- The operating earnings before depreciation and net financial items amounted to SEK 0.4 m (23.3 m). The pre-tax loss was SEK –31.7 m (3.5 m). The year's results were negatively affected by realized and unrealized exchange rate losses of SEK –3.2 m (1.9 m) on funds tied up in foreign currencies.
- Measures to reduce costs by a net amount of at least SEK 25 m and to increase the cash flow by at least SEK 35 m on an annual basis were initiated during the third quarter. Implementation of the program of measures is not associated with any one-time costs.
- The consolidated shareholders' equity amounted to SEK 228.1 m (255.6 m) at the end of the period and the equity/assets ratio to 59% (31%). The Group's cash in hand, adjusted for items relating to the settlement of clients' equity transactions, amounted to SEK 164.5 m (193.1 m at the beginning of the year).
- Investments totaled SEK 36.9 m (36.0 m), which is equivalent to 20% (19%) of the transaction revenues.
- The number of new clients was high, especially in the U.K., the U.S. and the Nordic countries.
- A sales and representative office was opened in London.
- Trading started on the Nasdaq, the Milan Stock Exchange and the Brussels Stock Exchange. The Oslo Stock Exchange was also connected electronically to NeoNet's exchange network.

### The Fourth Quarter in Summary

- Revenues amounted to SEK 42.0 m compared to 53.2 m for the same period the previous year.
- The operating earnings before net financial items and depreciation amounted to SEK –0.9 m (3.2 m). The pre-tax loss was SEK –8.9 m compared to SEK –4.0 m the previous year.
- 54% of the fourth quarter revenues came from trading on exchanges other than Stockholm Stock Exchange.

- Agreements were entered into with Macgregor and Eze Castle to increase the distribution channels to leading institutions, primarily in the U.S..

### CEO's Statement

"The market trend that started in 2000 with turnover reductions on the exchanges continued, almost without exception, across the board in 2002. During the second half of the year, for the first time in NeoNet's history, we suffered falling trading values and revenues. Despite the fact that we have had a continued high inflow of new clients, we have been unable to compensate for the unfavorable market. The exchanges on which NeoNet is involved in trading reported falling turnovers of an average of 24%. In this context, our 3% reduction in revenues during the year should be seen as evidence of the strength of NeoNet's offering. The revenue growth in the U.S. where revenue increased by 25%, was particularly gratifying.

Although we are reporting operating earnings, the pre-tax result was negative at SEK –31.7 m. Investments in new exchange connections increased cost levels during the first half of the year, but during the final quarter of the year, personnel and other operating expenses fell as a result of the program of measures intended to slow the pace of investment, reduce costs and improve the cash flow.

Nasdaq, the Milan Stock Exchange and the Brussels Stock Exchange have been added to NeoNet's trading offering, and in 2002, a sales office was opened in London to increase the focus on existing and potential clients in the extensive U.K. market. NeoNet entered into two new strategic partnerships with suppliers of systems for securities and portfolio management. These agreements have increased our distribution channels, primarily in the U.S., and aim to give several leading institutions faster access to equity trading via NeoNet.

In 2002, NeoNet increased its market share in all markets with the exception of the Helsinki Stock Exchange and we have established ourselves internationally as a well-positioned player with a clear brand. NeoNet has strong future growth potential and good opportunities for leverage affecting the earnings when trading values increase. Our offering is cost efficient, of high quality, and gives clients a powerful tool for executing equity transactions on the world's leading exchanges.

So far we have only seen the beginning of the trend toward a new structure on the global market for equity trading, and it is therefore my belief that NeoNet has considerable long-term potential."

Since the inception in 1996 NeoNet has focused on efficient and neutral agency brokerage. NeoNet provides the institutional investor industry with execution services offering a single point of electronic access to multiple equity marketplaces worldwide. Clients have direct market access to one third of the world's equity market capitalization. Trading is also available over NeoNet's international trading desk. NeoNet has offices in Stockholm, New York and London, is listed on the Stockholm Stock Exchange (ticker NEO), and has clients in twelve countries globally.

## THE GROUP

### Operations

There has been a strong inflow of clients; both in Europe and the U.S.. NeoNet today has clients in twelve countries, and in 2002 NeoNet opened a sales and representative office in London.

NeoNet signed partnership agreements during the year with the American systems suppliers Macgregor and Eze Castle for the purpose of strengthening distribution channels.

Trading was initiated on Nasdaq, the Milan Stock Exchange and the Brussels Stock Exchange. Oslo was also connected electronically to the exchange network in 2002.

NeoNet's ambition to offer trading on the New York Stock Exchange and Virt-x, and thereby 80% of the market capitalization of the world's exchanges, still stands, although completion will probably be delayed until 2004 because the ongoing development of a new system platform is being prioritized.

### Trading value, revenues and earnings

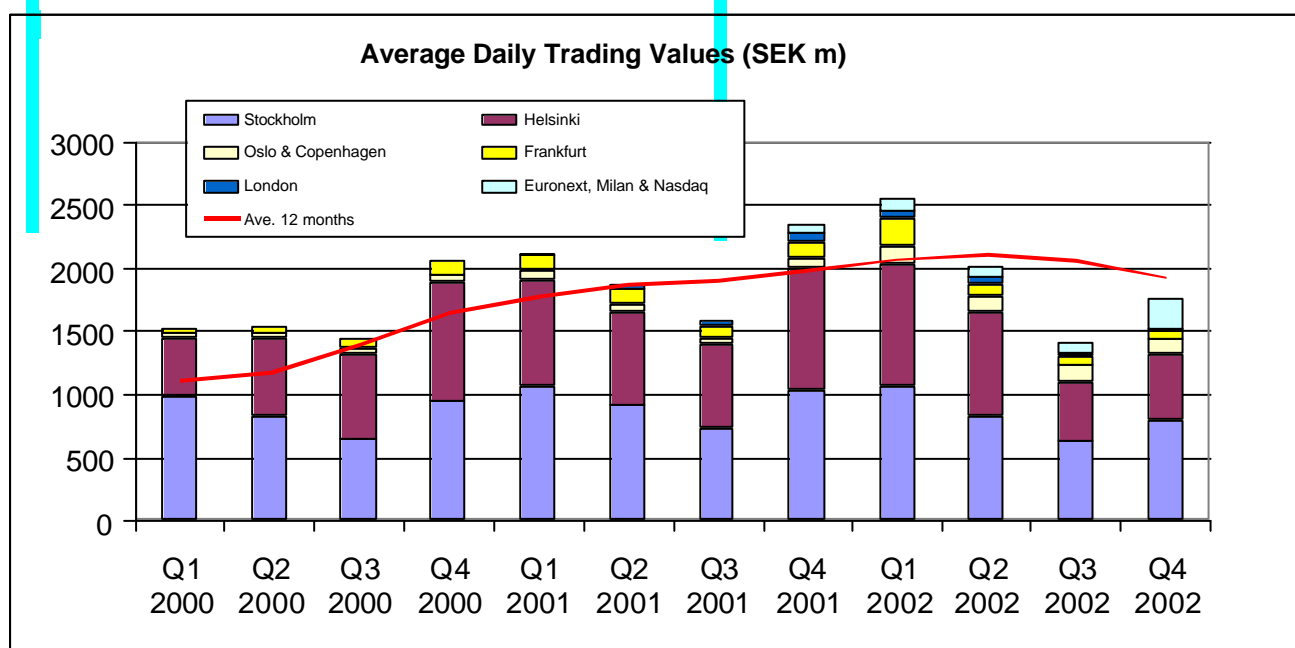
NeoNet's average daily trading value for the twelve-month period fell by 3% to SEK 1,918 m. The exchanges that are the most important for NeoNet reported turnover reductions of around 24%.

The average daily intermediated trading value for the fourth quarter was SEK 1,758 m, a decrease of 25% compared to SEK 2,337 m for the same period the previous year. The decrease should be seen in the context of reported turnover reductions on the exchanges of an average of 30%.

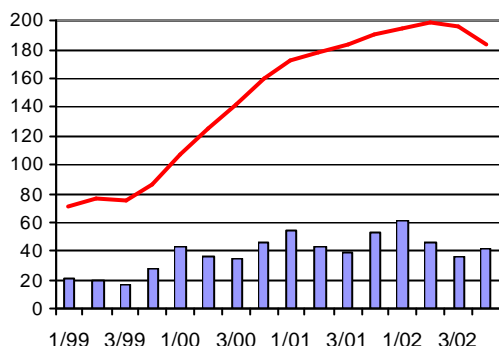
The consolidated transaction revenues for the period increased to SEK 184.7 m compared to SEK 190.1 m the previous year, which is a decrease of 3%. Trading on the Euronext exchanges (connected to NeoNet at the beginning of 2002) increased and accounted for 8% of the revenues for the year. The market launch of Nasdaq via NeoNet has progressed slower than expected and revenues have therefore so far been marginal.

### Distribution of Transaction Revenues by Exchange, SEK m

	Jan.-Dec. 2002		Jan.-Dec. 2001	
Stockholm	82.1	44%	93.3	49%
Helsinki	51.9	28%	64.1	34%
Copenhagen & Oslo	11.3	6%	6.8	3%
Frankfurt	13.9	8%	14.3	8%
London	9.0	5%	10.0	5%
Euronext	15.4	8%	1.6	1%
Milan & Nasdaq	1.1	1%	-	-
Total	184.7	100%	190.1	100%



### Transaction Revenues, Quarterly and Rolling Four Quarters, SEK m



The fourth quarter's transaction revenues amounted to SEK 42.0 m, compared to SEK 53.2 m for the same period the previous year. The usual seasonal upturn in the fourth quarter was not as strong in 2002 due to the fall in turnover on the leading exchanges.

The operating earnings before depreciation and net financial items for the year amounted to SEK 0.4 m (23.3 m) and for the quarter SEK –0.9 m (3.2 m).

There are two reasons for the fall in earnings; firstly, there was a lower rate of revenue growth due to the current market conditions, and secondly, the newly connected exchanges had an initial negative impact on the gross margin.

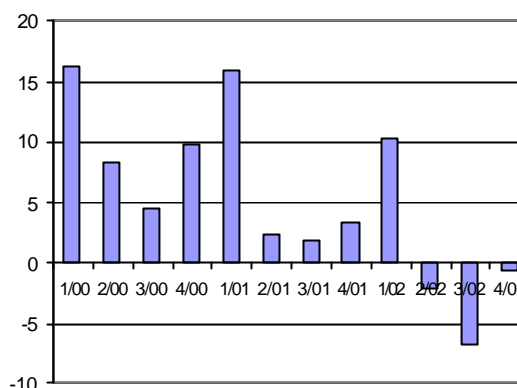
Compared to the two previous quarters in 2002, the reported operating earnings for the fourth quarter improved. Personnel and other operating expenses fell in the fourth quarter by 16% or SEK 7 m below the corresponding period the previous year.

In order to improve the gross margin, reduce costs and increase the cash flow further, the following and other measures were initiated during the year:

- Introduction of a new structure for services purchased in connection with clearing and settlement operations. This involves significant changes in routines and processes and is therefore expected to be fully implemented in just over six months.
- Reduction in the use of consultants, continued reduction of personnel expenses, and renegotiation of contracts for datacommunication etc..
- Slower pace for system development.

These measures will reduce costs by at least SEK 25 m net per year. This is equivalent to a reduction of around 12% on the cost levels at the end of the second quarter of 2002. Although the impact on the results for 2002 was limited, the measures are expected to have a greater effect from the beginning of 2003 and full effect by mid-2003. The annual cash flow will also improve by at least SEK 35 m.

### Earnings before Net Financial Items, Depreciation and Tax, Quarterly SEK m



### Income Statement in Summary

SEK m	Oct.- Dec. 2002	Oct.- Dec. 2001	Jan.- Dec. 2002	Jan.- Dec. 2001
Transaction revenues	42.0	53.2	184.7	190.1
Other operating income	1.7	1.8	7.0	7.2
Transaction expenses <sup>1</sup>	-16.4	-15.7	-63.6	-49.2
Personnel expenses	-13.2	-14.6	-53.8	-56.6
Other operating exp. <sup>2</sup>	-15.0	-21.5	-73.9	-68.2
Operating earnings/losses before depreciation (EBITDA)	-0.9	3.2	0.4	23.3
Operating margin	-2%	6%	0%	12%
Depreciation	-8.7	-6.4	-29.8	-23.2
Net financial items	0.7	-0.8	-2.3	3.4
Pre-tax earnings/losses	-8.9	-4.0	-31.7	3.5

Realized and unrealized exchange rate losses of SEK 3.2 m on funds tied up in foreign currencies had a negative impact on the net financial items. At the end of 2002 NeoNet took steps to reduce the effects of exchange rate fluctuation in the future.

The Group reported a pre-tax loss for the quarter of SEK –8.9 m and for the year of SEK –31.7 m compared to SEK –4.0 m and SEK 3.5 m respectively for the corresponding quarter the previous year and the previous year.

The earnings per share for the full year amounted to SEK –0.74 (0.15).

The number of employees in the Group at the end of the year was 78 (76).

### Clients

Most of the client growth for 2002 occurred in the U.S., the U. K. and the Nordic countries.

<sup>1</sup> Including variable costs for settlement.

<sup>2</sup> Excluding variable costs for settlement, but including costs for purchased services charged to clients.

Transaction revenues from U.S. clients increased by 25% compared to the previous year. At the same time, a fall in revenue from clients in Europe outside Sweden was reported. This was mainly the result of a fall in turnover on the exchanges in Stockholm and Helsinki.

20% of the clients account for 79% of the transaction revenues.

**Distribution of Transaction Revenues by Client Location, SEK m**

	Jan.-Dec. 2002		Jan.-Dec. 2001	
Sweden	96.2	52%	94.4	50%
The rest of Europe	37.2	20%	54.8	29%
U.S.	51.3	28%	40.9	21%
Total	184.7	100%	190.1	100%

**Investments**

Investments were made in 2002 for a total of SEK 36.9 m (36.0 m). Of this amount SEK 28.6 m (26.9 m) was used to enhance NeoNet's electronic exchange network. Investments correspond to 20% (19%) of the transaction revenues.

**Liquidity and financial position**

The Group had cash in hand as of December 31 of SEK 164.5 m (193.1 m). Of this amount, SEK 37.0 consisted of a net liability (SEK 404.3 m at the beginning of the year) in settlement positions, temporary settlement loans and deposits with clearing houses, making reported liquid assets in the balance sheet of SEK 201.5 m as of December 31, compared to SEK 597.4 m at the beginning of the year. Fluctuations in reported liquid assets are normal for this kind of business.

The Group had no interest-bearing liabilities except for intra-day loans to cover delays in clients' delivery or payment of securities. The duration of such loans is from the settlement due date until settlement of the underlying transaction has taken place, normally less than three days.

The consolidated shareholders' equity amounted to SEK 228.1 m (255.6 m) at the end of the year. The capital adequacy ratio improved to 92% (79%). The consolidated equity/assets ratio was 59% (31%) and the shareholders' equity per share amounted to SEK 5.22 (5.99).

The companies within the group had an unrecorded deferred income tax asset of SEK 9.5 m resulting from net operating loss carryforwards of SEK 28.5 m.

The Group has a disputed claim of a nominal amount of SEK 10.2 m (EUR 1.1 m). At present no provisions are deemed necessary.

The subsidiary NeoNet Securities AB has joined other exchange members in taking legal action against Stockholm Stock Exchange in a dispute over repayment of value added tax. NeoNet's share of the total claim amounts to SEK 4.3 m. This amount has not been entered as an asset in the balance sheet.

**Financial objectives**

NeoNet's long-term financial goals 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 transaction revenues.

**Outlook**

NeoNet works exclusively with equity transactions on the major exchanges on behalf of institutional clients. Revenues are sourced from commissions based on the value of the transactions executed. NeoNet does not conduct any proprietary equity trading and accordingly, revenues and earnings over a given period are influenced by client activity and quoted stock prices. As a result, the daily trading values, and consequently also the revenues and earnings, exhibit fluctuations. Revenues and earnings are also subject to seasonal variations.

The market volumes for stock trading has been falling and the development is uncertain especially short term. Despite a growth in number of clients and in many cases increased trading from existing clients, the initiated measures to reduce costs may need to be supplemented by additional measures.

Based on NeoNet's earlier development the financial objectives are considered realistic to achieve in a market that is showing a positive development.

## 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 is responsible for investor relations and communication.

The parent company reported a pre-tax result for the year before year-end appropriations of SEK 0.0 m (-3.3 m).

In May the parent company implemented a new issue of shares worth SEK 7 m in the subsidiary NeoNet Securities AB. In October the parent company made a conditional stockholder contribution of SEK 20 m to NeoNet Securities AB. No investments were made in 2002 (0.4 m).

The equity in the parent company amounted to SEK 239.9 m (231.2 m) at the end of the year. The liquid assets as of December 31 amounted to SEK 2.9 m compared to SEK 15.5 m as of the same date in 2001. The reduction is explained by the fact that funds have been loaned to subsidiaries.

In April 50,000 warrants were utilized to subscribe for 1,000,000 shares in the company, which increased the restricted equity by SEK 8.0 m.

Pursuant to a decision taken at the Annual General Meeting in April, the Group has launched two warrants programs for the benefit of the employees. A total of 439,500 warrants were transferred to employees in Sweden and the U.S..

500 of the 58,050 warrants in the 1999/2002 warrants program were utilized. This involved an issue of 10,000 new shares in the company, which increased restricted equity by SEK 0.1 m. The new shares were registered on November 25 bringing the total number of shares to 43,664,700.

## Annual General Meeting

The Annual General Meeting will be held on May 7, 2003 at 6.30 p.m..

The Board of Directors intends to propose to the meeting that no dividends are paid.

**Consolidated Income Statement\***

SEK m	3 month Oct.-Dec. 2002	3 month Oct.-Dec. 2001	12 month Jan.-Dec. 2002	12 month Jan.-Dec. 2001
<b>Transaction revenues</b>	<b>42.0</b>	<b>53.2</b>	<b>184.7</b>	<b>190.1</b>
Commission expenses	-7.3	-7.2	-27.6	-24.1
Interest income	2.3	2.5	8.1	8.0
Interest expenses	-1.5	-1.7	-7.2	-6.5
Net earnings from financial transactions	-0.1	-1.6	-3.2	1.9
Other operating revenues	1.7	1.8	7.0	7.2
<b>Total operating revenues, net</b>	<b>37.1</b>	<b>47.0</b>	<b>161.8</b>	<b>176.6</b>
General administrative costs				
Other operating expenses	-24.1	-30.0	-109.9	-93.3
Personnel expenses	-13.2	-14.6	-53.8	-56.6
Depreciation	-8.7	-6.4	-29.8	-23.2
<b>Total operating expenses</b>	<b>-46.0</b>	<b>-51.0</b>	<b>-193.5</b>	<b>-173.1</b>
<b>Operating earnings/losses</b>	<b>-8.9</b>	<b>-4.0</b>	<b>-31.7</b>	<b>3.5</b>
Tax	0.0	4.5	-0.3	2.8
<b>Earnings/losses for the period</b>	<b>-8.9</b>	<b>0.5</b>	<b>-32.0</b>	<b>6.3</b>
Earnings per share, SEK	-0.20	0.01	-0.74	0.15
Earnings per share after full dilution, SEK	-0.20	0.01	-0.74	0.14
No. of shares, 000	43,665	42,655	43,665	42,655
Average no. of shares, 000	43,661	42,655	43,344	41,927
Average no. of shares after full dilution, 000	44,053	45,052	44,623	45,079

**Consolidated Balance Sheet**

SEK m	Dec. 31, 2002	Dec. 31, 2001
<b>ASSETS</b>		
Cash and lending to credit institutions	201.5	597.4
Intangible fixed assets	58.3	51.1
Goodwill	0.6	0.8
Tangible fixed assets	15.7	15.5
Other assets	101.3	141.6
Prepaid expenses and accrued income	7.1	6.7
<b>Total assets</b>	<b>384.5</b>	<b>813.1</b>
<b>LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>		
Liabilities to credit institutions	35.8	54.4
Other liabilities	104.1	481.6
Accrued expenses and deferred income	15.2	17.9
Subordinated debt	-	0.4
Provisions	1.3	3.2
Shareholders' equity		
Share capital	2.2	2.1
Restricted reserves	241.5	228.1
Earnings carried forward	16.4	19.1
Earnings/losses for the period	-32.0	6.3
<b>Total liabilities, provisions and shareholders' equity</b>	<b>384.5</b>	<b>813.1</b>
<b>Memorandum items</b>		
<i>Other pledged securities</i>		
Blocked funds, credit institutions	133.3	548.9
Blocked assets (Other assets)	15.8	8.1
Floating charge	15.0	16.0
<b>Securities pledged for own debt</b>		
Shares in subsidiaries	-	23.5

**Consolidated Cash-Flow Statement**

SEK m	Jan.-Dec. 2002	Jan.-Dec. 2001
Cash flow from ongoing operations excluding settlement of executed equity transactions	-2.2	10.9
Cash flow from ongoing operations attributable to settlement of executed equity transactions**	-357.7	324.4
Cash flow from investment activity	-36.9	-36.0
Cash flow from financing activity	4.1	4.0
<b>Cash flow for the period</b>	<b>-392.7</b>	<b>303.3</b>
Liquid assets, opening balance	597.4	292.2
Liquid assets, translation differences	-3.2	1.9
<b>Liquid assets, closing balance</b>	<b>201.5</b>	<b>597.4</b>

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

\*\*The 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.-Dec. 2002	Jan.-Dec. 2001
Shareholders' equity, opening balance	255.6	235.1
New issue of shares coincident with utilization of warrants	8.1	16.0
Premium, warrants	0.2	-
Repurchase of warrants	-	-3.3
Translation difference	-3.8	1.5
Earnings/losses for the period	-32.0	6.3
<b>Shareholders' equity, closing balance</b>	<b>228.1</b>	<b>255.6</b>

The restricted equity was SEK 243.7 m (230.2 m) at the end of the year. The non-restricted equity was SEK -15.6 m (25.4 m).

The accumulated translation difference as of December 31, 2002 was SEK -1.7 m (2.2 m).

**Consolidated key figures**

SEK m	Jan.-Dec. 2002	Jan.-Dec. 2001
<b>Earnings/losses in summary</b>		
Operating earnings before net financial items and depreciation	0.4	23.3
Operating earnings/losses before net financial items	-29.4	0.1
<b>Margins</b>		
Gross margin	61%	75%
Operating margin	0%	12%
Net margin	Neg.	0%
Profit margin	Neg.	3%
<b>Yield</b>		
Average capital employed	427.2	415.9
Return on equity	Neg.	3%
Return on capital employed	Neg.	2%
<b>Operational key figures</b>		
Average number of trading days on connected exchanges	252	251
Average daily trading value	1 918	1 975
<b>Financial position</b>		
Equity/assets ratio	59%	31%
Interest cover	Neg.	154%
Debt/equity ratio	0.5	2.0
Capital adequacy ratio	92%	79%
<b>Share data</b>		
No. of shares, 000	43,665	42,655
Average no. of shares, 000	43,344	41,927
Earnings per share, SEK	-0.74	0.15
Equity per share, SEK	5.22	5.99
No. of shares after full dilution, 000	43,665	44,816
Average number of shares after full dilution, 000	44,623	45,079
Earnings per share after full dilution, SEK	-0.72	0.14
Equity per share after full dilution, SEK	5.22	6.09

No. of employees at end of period	78	76
Average no. of employees	79	67

**Definitions, key financial ratios**
**Gross margin**

Gross earnings, i.e. revenues less translation expenses and costs of services purchased and charged to clients, as a percentage of transaction revenues.

**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 expenses, divided by interest expenses.

**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 2000:6).

**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 average number of shares in the period.

**Equity per share after full dilution**

Closing shareholders' equity plus the upcoming issue of shares in relation to the average number of shares after the issue of shares.

\*Net financial items include, as from the Q1 interim report, realized and unrealized exchange rate gains/losses on funds tied up in foreign currencies. The comparative figures for the previous periods have been re-stated.

**Accounting principles**

The consolidated accounts have been prepared in accordance with Swedish legislation governing the annual reports of credit institutions and securities corporations (ÅRKL) and the Swedish Financial Supervisory Authority's stipulation FFFS 2002:22, applicable because the parent company is a financial holding company.

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

All other accounting principles are the same as those applied in the preparation of the most recent annual report.

Stockholm, January 30, 2003

NeoNet AB (publ)

The Board of Directors

**Audit review**

We have reviewed this interim report/year-end report in accordance with the recommendation issued by the Swedish Institute of Authorized Public Accountants.

A review is significantly limited in scope compared to an audit.

We have not discovered anything that would indicate that this interim report/year-end report does not meet the requirements of Swedish legislation governing stock exchanges and annual reports.

Stockholm, January 2003

Öhrlings PricewaterhouseCoopers AB

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**Website**

[www.neonet.biz](http://www.neonet.biz)  
Visit the website to obtain additional financial information. The annual report for 2002 will be available on the website from April.

**Future financial reports**

Annual report for 2002, latest April 9, 2003  
Annual General Meeting 2003, May 7, 2003  
Interim report Q1 2003, May 7, 2003  
Interim report Q2 2003, August 21, 2003  
Interim report Q3 2003, October 23, 2003  
Year-end report 2003, January 29, 2004