

**Neonet Securities AB****Org.nr. 556530-4804****Interim report 2016-01-01 - 2016-09-30****General**

Neonet Securities AB, 556530-4804, is a securities company under the supervision of the Swedish FSA. The company is a wholly owned subsidiary of KCG Holding Inc.

On July 27th 2016 KCG Holding Inc. announced that it has entered into a definitive agreement to acquire Neonet Securities AB. The transaction was approved by the Swedish FSA on 7th September 2016 and thereafter the acquisition was completed.

**Operations**

Neonet Securities AB operates as an agency broker (only executing orders on behalf of its clients and is not engaged in any proprietary trading activities) and is uniquely placed as an independent and technology capable direct member of European stock exchanges and MTFs. It is recognised for its skills in Execution and Algorithmic Trading and Smart Order Routing and also offers a number of hosted trading services such as exchange gateways and order execution-related functionality. Neonet Securities AB has, in addition to Sweden, clients in approximately 20 countries.

Neonet Securities AB's independence makes it an appealing counterparty for both buy and sell side firms who see Neonet Securities AB as a neutral and an un-conflicted player.

Neonet Securities AB operates only as an agent and executes orders on behalf of clients. Transactions are settled on a delivery versus payment basis. The majority of the firm's revenue is collected as commission, though the firm does have a number of clients who use Neonet's hosted technology platform. These clients are typically invoiced and might have contractual payment relationships or a hybrid model combining commission and invoicing.

2016 started well but as market volumes fell during the second quarter and has remained at low levels, in spite of maintaining market share, the company found itself with larger than expected losses.

KCH Holding Inc.'s acquisition of Neonet Securities is expected to result in cost savings through consolidating exchange memberships, market data, routing and other operational costs while simultaneously expanding KCG's breadth and commitment to Europe. The integration process has started and is in its initial phase.

**Earnings**

The company's income before appropriations and tax amounted to -22 353 (-15 111) Tkr.

**Investments**

Investments during the period was amounted to 422 (192) Tkr.

**Liquidity and financial position**

Shareholder's equity at September 30, 2016 amounted to 46 564 (48 934)Tkr.

At September 30 Neonet Securities AB had a capital base of SEK 46 482 (48 862) Tkr and a total Risk Exposure amount of 173 606 (161 681) Tkr, which is equal to a total capital ratio of 26.8 (30.2) %. The capital base consists to 100% of core Equity Tier 1 capital. After the completeness of the transaction in September Neonet Securities received a Capital injection of 24.000 Tkr from KCH Holding Inc.

Neonet complies with current regulatory capital adequacy requirements. For additional information about Neonet Securities AB's capital adequacy, see [www.neonet.com](http://www.neonet.com).

Current net cash and cash equivalents at September 30, 2016, amounted to 53 341 (55 789) Tkr, and consisted of bank deposits adjusted for receivables and liabilities in the settlement process. The liquidity reserve amounts to 10.000 (10.000) TSEK and is held as deposits at the company's main banking contact. The company's liquidity position is assessed as sufficient.

The company has temporary settlement loans. These loans run only from the contractual settlement date until the underlying transaction has been settled, normally less than three days.

**Significant event after the balance date**

During October 2016 the company has from KCG Holdings Inc. received a further capital and liquidity injection of 10.000 Tkr. After the injection Neonet Securities AB's capital base (which to 100% consist of Core Equity Tier 1 capital) amounts to 56.482 Tkr and net cash and cash equivalents amounts to 63 341 Tkr. The amounts are pro forma as per 30 September 2016.

<b>Income Statement, (Tkr)</b>	<b>2016-01-01</b>	<b>2015-01-01</b>
	<b>2016-09-30</b>	<b>2015-09-30</b>
Transaction revenue	68 353	78 265
Transaction expenses	-28 344	-30 475
Interest income	0	13
Interest expenses	-1016	-850
Net gains/losses on financial transactions	134	-258
Other operating revenue	22 433	21 111
<b>Total operating revenue, net</b>	<b>61 560</b>	<b>67 806</b>
General administrative expenses		
- Other operating expenses	-43 788	-43 210
- Personnel expenses	-39 624	-38 516
Depreciation and amortization	-501	-1191
<b>Total operating expenses</b>	<b>-83 913</b>	<b>-82 917</b>
<b>Operating income</b>	<b>-22 353</b>	<b>-15 111</b>
<b>Income/loss for the period</b>	<b>-22 353</b>	<b>-15 111</b>

<b>Balance sheet (Tkr)</b>	<b>2016-09-30</b>	<b>2015-09-30</b>
<b>ASSETS</b>		
Treasury bills	20 000	10 000
Lending to credit institutions	31 599	62 553
Intangible assets	81	72
Property, plant and equipment	817	712
Other assets	180 011	53 258
Prepaid expenses and accrued income	4 767	4 760
<b>Total assets</b>	<b>237 275</b>	<b>131 355</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>		
Liabilities to credit institutions	152 889	22 147
Deposits and borrowings from the public	594	216
Other liabilities	25 360	33 476
Accrued expenses and deferred income	11 868	26 582
<b>Total liabilities</b>	<b>190 711</b>	<b>82 421</b>
<b>Equity</b>		
<i>Restricted equity</i>		
Share capital (480 000 shares à nom. 100 SEK)	48 000	48 000
Statutory reserve	939	939
<i>Non-restricted equity</i>		
Free reserve	19 978	15 106
Income/loss for the year	-22 353	-15 111
<b>Total equity</b>	<b>46 564</b>	<b>48 934</b>
<b>Total liabilities, provisions and equity</b>	<b>237 275</b>	<b>131 355</b>

<b>Memorandum items (Tkr)</b>	<b>2016-09-30</b>	<b>2015-09-30</b>
<b>Other pledged assets</b>		
Blocked funds	4 968	16 316
Pledged assets for settlement purposes	37 155	39 597

<b>Cash flow statement, (Tkr)</b>	<b>2016-01-01 2016-09-30</b>	<b>2015-01-01 2015-09-30</b>
Cash and cash equivalents at beginning of year	47 823	39 347
Cash flow from operating activities before changes in operating assets and liabilities	-22 553	-14 229
Net Cash flow from changes in operating assets and liabilities	-9 307	2 592
Net Cash flow from operating activities, attributable to settlement of equity transactions on behalf of clients	-12 076	20 293
Net Cash flow from investing activities	-422	-192
Net Cash flow from financing activities	28 000	15 000
Foreign exchange gains/losses in cash and cash equivalents	134	-258
<b>Cash and cash equivalents at end of the period</b>	<b>31 599</b>	<b>62 553</b>
Net Cash flow for the period	-16 224	23 206

The company's auditor has not reviewed this interim report.

Stockholm 2016-09-20

Tim Wildenberg  
CEO