

Neonet Securities AB

Org.nr. 556530-4804

Interim report 2017-01-01 - 2016-07-30

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 Virtu Financial Inc.

On April 20th 2017 Virtu Financial Inc announced that it has entered into an agreement to acquire KCG Holdings Inc, which acquired Neonet Securities during 2016. After obtaining the proper permits the deal was formally completed on July 20th 2017 and thereafter Neonet Securities is a part of the Virtu Financial Group.

On April 1st 2017 Johan Erikson assumed the position as the new CEO of Neonet Securities AB.

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. The company is recognized for its skills in Execution and Algorithmic Trading and Smart Order Routing. 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.

The vast majority of trading in Europe is executed under the exchange memberships held in the name of Neonet Securities AB, while trading on exchanges outside of Europe takes place through partners.

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.

Earnings

During the first half of the year, efforts to lower the company's cost level continued, resulting in a lower cost level in the first half of 2017 compared to last year. Market volumes continued to be low during 2017 and have led Neonet's revenues to remain at an unsatisfactory low level, despite maintaining market shares. As a result, Neonet for the first half of the year shows a continued loss, though at a slightly lower level than in the first half of 2016. The cost reductions are expected to have full effect in the first quarter of 2018 when the company's cost level has significantly decreased.

The company's income before appropriations and tax amounted to -11 393 (-12 872) Tkr.

Investments

Investments during the period was amounted to 918 (375) Tkr.

Liquidity and financial position

Shareholders' equity at June 30, 2017 amounted to 40 593 (28 046)Tkr.

At June 30 Neonet Securities AB had a capital base of SEK 40 529 (27 958) Tkr and a total exposure amount of 181 289 (171 297) Tkr, which is equal to a capital ratio of 22,4 (16,3)% according to the reporting requirements from EBA (European Banking authority).

Neonet complies with current capital adequacy requirements. For additional information about Neonet Securities AB's capital adequacy, see www.neonet.com.

Current net cash and cash equivalents at June 30, 2017, amounted to 69 921 (40 734) Tkr, and consisted of bank deposits adjusted for receivables and liabilities in the settlement process.

Gross cash in the balance sheet totaled 60 575 Tkr, of which 2 529 Tkr related to blocked accounts on behalf of clients, compared to 66 484 Tkr and 34 640 Tkr, respectively, at June 30, 2016.

At end of the period Neonet Securities AB had interest-bearing liabilities to the parent company KCG Holding Inc of 16 110 (0) Tkr. Aside from these, the company had temporary settlement loans, which are taken up in the event of delays in payment or delivery on the part of the clients. These loans run only from the contractual settlement date until the underlying transaction has been settled, normally less than three days.

Income Statement, (Tkr)	2017-06-01	2016-01-01
	2017-06-30	2016-06-30
Transaction revenue	46 881	47 667
Transaction expenses	-21 598	-19 287
Interest income	0	0
Interest expenses	-779	-585
Net gains/losses on financial transactions	-15	67
Other operating revenue	12 513	16 029
Total operating revenue, net	37 003	43 891
General administrative expenses		
- Other operating expenses	-22 174	-29 122
- Personnel expenses	-25 860	-27 193
Depreciation and amortization	-362	-448
Total operating expenses	-48 396	-56 763
Operating income	-11 393	-12 872
Income tax expense		
Income/loss for the year	-11 393	-12 872

Balance sheet (Tkr)	2017-06-30	2016-06-30
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ASSETS

Pledgeable treasury bills	25 000	15 000
Lending to credit institutions	60 575	66 484
Lending to the public	0	23
Intangible assets	64	88
Property, plant and equipment	1 449	816
Other assets	65 262	102 860
Prepaid expenses and accrued income	3 178	6 432
Total assets	155 528	191 703

LIABILITIES, PROVISIONS AND EQUITY

Liabilities to credit institutions	63 708	87 567
Deposits and borrowings from the public	18 504	218
Other liabilities	14 494	62 337
Accrued expenses and deferred income	18 227	13 535
Total liabilities	114 935	163 657

Equity

Restricted equity

Share capital (480 000 shares à nom. 100 SEK)	48 000	48 000
Statutory reserve	939	939

Non-restricted equity

Retained earnings	-126 803	-99 756
Conditional shareholder contribution	76 734	76 734
Unconditional shareholders contribution	53 116	15 000
Income/loss for the year	-11 393	-12 871

Total equity	40 593	28 046
Total liabilities, provisions and equity	155 528	191 703

Memorandum items (Tkr)	2017-06-30	2016-06-30
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Other pledged assets

Blocked funds included in pledgeable treasury bills and lending to credit institutions	2 529	34 640
Blocked funds included in Other Assets	63 708	87 567

Contingent liabilities

Conditional shareholder contributions	76 734	76 734
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Cash flow statement, (Tkr)	2017-06-30	2016-06-30
Operating activities		
Interest received and transaction revenue	46 881	47 667
Interest paid	-779	-585
Outgoing payments to suppliers and employees	-71 382	-77 038
Incoming payments from clients	14 264	17 466
Tax paid	-598	-355
Cash flow from operating activities before changes in operating assets and liabilities	-11 615	-12 845
Changes in other operating assets	-47	4 936
Changes in other operating liabilities	17 204	586
Cash flow from changes in operating assets and liabilities	5 542	-7 323
Changes in operating assets attributable to settlement ¹⁾	-33 804	-22 407
Changes in operating liabilities attributable to settlement ¹⁾	42 341	48 699
Cash flow from operating activities, attributable to settlement of equity transactions on behalf of clients	8 538	26 292
Investing activities		
Acquisition of Intangible Assets	0	-94
Acquisition of Tangible Assets	-918	-281
Cash flow from investing activities	-918	-375
Financing activities		
Unconditional shareholder contributions	0	0
Cash flow from financing activities	0	0
Cash flow for the year	13 161	18 594
Cash and cash equivalents at beginning of year 2)	47 428	47 823
Foreign exchange gains/losses in cash and cash equivalents	-15	67
Cash and cash equivalents at end of year 2)	60 575	66 484

- 1) Cash flow attributable to settlement of securities transactions varies significantly from day to day depending on the trading volumes and time variations in processing at the counterparty level. Settlement normally takes place two to three days after the trade date.
- 2) The concept of cash equivalents in the cash flow statement refers only to cash and lending to credit institutions, i.e. bank deposits.

Statement of changes in equity (Tkr)	2017-01-01 2017-06-30	2016-01-01 2016-06-30
Opening equity	51 986	40 917
Income/loss for the year	-11 393	-12 871
Closing equity	40 593	28 046

The number of shares amounts to 480,000, with a quota value of 100 each.

Accounting regulations

This interim report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and the Swedish Financial Supervisory Authority's regulations and general advice for annual accounts in credit institutions and securities companies FFFS 2008:25.

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

Stockholm 2017-08-21

Johan Erikson
CEO