



Pillar III report for Neonet AB in connection with the 2007 Annual Report

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Introduction

Purpose of the document

The purpose of this report is to compile all the information that must be disclosed pursuant to the regulations and general recommendation of Finansinspektionen (Swedish Financial Supervisory Authority /Swedish FSA) governing the disclosure of capital adequacy and risk management information. Unless otherwise stated, the information in this report pertains to the Group.

Companies in the financial corporate group

Neonet's financial corporate group comprises the following companies:

- Neonet AB (publ) (556530-1263) is the Group's Parent Company, which is listed on the OMX Stockholm Exchange. The Parent Company has the following wholly owned operating subsidiaries:
 - Neonet Securities AB (publ) (556530-4804): Swedish broker-dealer offering broker services and products to clients in Europe. This company is under the supervision of the Swedish FSA
 - Neonet Securities Inc (registered in Delaware and active in New Jersey, USA). US broker-dealer offering broker services and products to clients in the US under the Neonet brand. This company is regulated by the Securities and Exchange Commission (SEC) and is a member of NASD/ SIPC.
 - Neonet Technology AB (556550-4858): Swedish IT development company in which Neonet's trading system is developed.

All subsidiaries are fully consolidated.¹

Neonet - introduction

In 2007, Neonet's operations had essentially the same structure and, thus, similar risk components as in the preceding year, although trading volumes rose significantly. Neonet's offering has been extended by adding trading on a number of new exchanges. Although the addition of these new exchanges has not entailed any increase in the risk level, the overall increase in Neonet's trading volumes has affected the degree of risk, especially in the case of credit risk (counterparty risks) and operational risk.

During 2007, a number of clients began to use systems and software services provided by Neonet XG. Neonet is not the counterparty in transactions conducted via Neonet XG and is thus not exposed to credit risk (counterparty risk). Accordingly, this service involves only operational risk, the scope of which is regulated as far as possible through agreements with Neonet XG's clients.

In 2007, new capital adequacy rules came into effect, referred to as the Basel II rules. The new rules were initiated by the financial supervisory authorities in an effort to improve risk sensitivity in the system for regulatory capital (minimum capital levels in relation to risk in operations) and to introduce more stringent requirements concerning the disclosure of risks, risk management and capital. As early as 2006, Neonet conducted a review and assessment of the Group's identified risks. This resulted in new policies and procedures in line with the new regulations implemented in early February 2007.

¹ In accordance with the Swedish Capital Adequacy Act, Chapter 9, Section 10 and FFFS 2007:1 Chapter. 5, Sections 3-4

Risk management guidelines

Like other players on the stock market, Neonet is exposed to various types of risk as a natural part of its business. Effective management of risk is important for all parties associated with Neonet, such as clients, clearing banks, lenders and shareholders.

Neonet’s day-to-day risk management is the responsibility of the company’s Risk Manager and is conducted in line with policies established by the Board. Neonet’s risk management function is independent and reports directly to senior management and the Board. Ultimate responsibility for limiting and monitoring the Group’s risks rests with Neonet’s Board. The Board has drawn up a written policy for general risk management as well as specific areas of risk. The Board has appointed a Risk Evaluation Committee that is responsible for providing the Board with recommendations regarding limits, new clients, and changes in risk policies, etc. The Committee comprises the CEO, CFO, Risk Manager, Treasury Manager, Legal counsel and Head of Compliance.

Definition of risk

Neonet’s risks consist primarily of credit risks, operational risks and market risks. In addition to these, a number of “other” risks are defined.

Credit Risk	Operational Risk	Market Risk	Other Risks
Counterparty risk	System risk	Interest rate risk	Liquidity risk
	Settlement risk	Currency risk	Strategic risk
	Human error		Earnings risk
	Legal and compliance risk		Reputation risk
			Concentration risk

Credit risk

Neonet's counterparty risk is the risk that one of the Group's clients may be unable to fulfill its undertaking to deliver securities or funds. There is no risk involved in the actual settlement of trades because all deliveries are made on the principle of DVP (Delivery Versus Payment) or RVP (Receipt Versus Payment). However, Neonet has daily exposure to what is referred to as potential market risks that arise in the phase between the execution of a trade and settlement (that is, pre-settlement period). This type of risk arises because Neonet acts as the representative of its client.

In the event of a client failing to complete a transaction, the Neonet Group could suffer financial damage. In such cases, it may then need to buy or sell securities on the market at a different price than the one applying in the original transaction in order to complete the transaction with the counterparty. The pre-settlement risk in relation to clients is minimized by the fact that all Neonet clients are required to undergo a credit check before being approved for trading. A client classification model developed in-house is used to assess counterparty risk of clients. The model is based on a scoring system that evaluates and rates a number of risk factors (financial factors combined with risks specific to the client category). At the beginning of 2007, the company had not identified any counterparty losses.

Neonet has credit insurance with Atradius Credit Insurance NV, which has a credit rating of A from Standard & Poor's and A2 from Moody's. After an internal credit assessment, Atradius sets a maximum indemnification amount for each client. The insurance is intended to cover any losses that may arise in the event of a Neonet client failing to fulfill its payment or delivery undertakings. The vast majority of Neonet's clients are covered by the insurance, subject to certain conditions, deductibles and limitations per client and per year. The maximum insurance amount and deductible is the same as in 2006.

When Neonet brokers equity trading, a relationship with a counterparty on the exchange on which the trade is executed arises, as does a relationship with the client. These counterparties are members of stock exchanges and, as such, are subject to the supervision and monitoring of a regulatory body (in Sweden, FI – the Swedish FSA). Exchanges and central securities depositories (CSDs) also require their members to comply with regulations and minimum capital adequacy requirements. Counterparty risk in relation to other exchange members is limited in cases where trades are executed on a marketplace in which a clearinghouse assumes the role of central counterparty (CCP). The clearinghouse receives collateral from both buyers and sellers. In addition to the protection provided by clearing, some CSDs have built-in counterparty protection, such as guarantee functions.

Neonet also has counterparty risk vis-à-vis the institutions in which the company conducts its short-term investments. The counterparty risk is managed via the company's investment policy, which regulates how large a share that may be invested in bonds issued by individual issuers and requires that the issuer has an approved rating.

Impairment of receivables takes place if there are objective grounds for assuming that the Group will not receive the amount due in accordance with the original terms of the receivables. A provision is then posted that is equivalent to the difference between the asset's carrying amount and the present value of future cash flows, discounted using the original effective interest rate. Fair value of listed investments is based on current purchase prices. If the market for a specific financial asset is not active, the Group establishes the fair value using valuation techniques.

Aggregate exposure amount

Capital adequacy report, amounts in SEK 000s at Dec. 31, 2007.

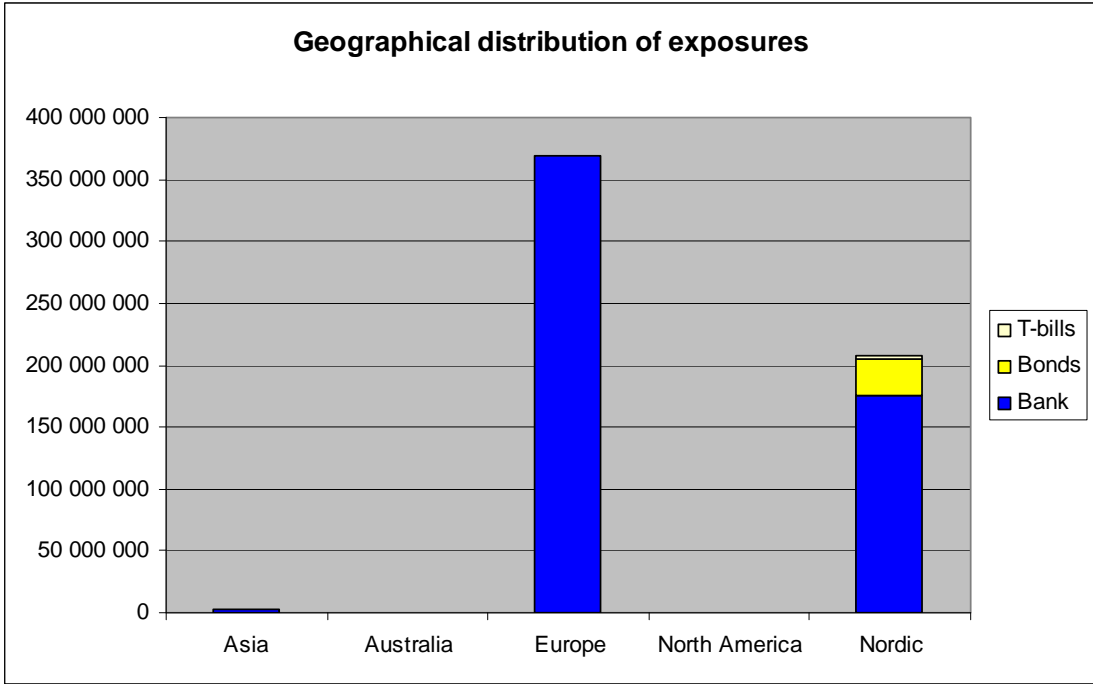
Aggregate exposure	813 722
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Average exposure amount during the period, distributed among all exposure categories (SEK 000s). (Exposure per calendar quarter, pursuant to the capital adequacy report, divided by four)

Exposure to sovereign states and central banks	82 152
Institutional exposure	549 061
Corporate exposure	60 282
Other items	53 120

Information on the distribution and maturity of exposure

Neonet’s primary exposure is to institutions and is distributed as shown in the diagram below. The remaining maturity for all exposures is less than six months.



Information on counterparty risk

Internal capital for all counterparty risk is zero when all transactions are completed via DVP or RVP.

At December 31, 2007, the fair value of currency forwards totaled SEK 134 m.

Market risk (interest risk and foreign exchange risk)

Market risk refers to the risk of losses in the form of reduced market value as a result of price changes in respect of interest rates, currencies or equities.

Neonet does not conduct proprietary trading or trading in its own trading portfolio, either in the form of direct trading or as part of efforts to finalize client transactions against the company's proprietary shareholdings. Consequently, Neonet does not have its own trading portfolio and does not need to measure and manage the risk of losses as a result of changes in holdings of this type.

In line with the company's investment policy, Neonet invests a large portion of its liquid assets in Swedish bonds and treasury bills. Neonet's market risk associated with this investment is limited because the bond portfolio is permitted to have an average duration of no more than 1.5 years. In addition to this restriction on duration, there are also restrictions on how high a proportion may be invested in bonds issued by a single issuer and that the issuer must have an approved rating in accordance with the investment policy. The risk is measured, monitored and reported on a daily basis.

Current liabilities in Neonet's balance sheets are subject to a variable interest rate. Short-term risk exposure is limited, since most of these liabilities are very short term, normally just one or a few days. The fair value of financial assets and liabilities corresponds to the carrying amount. On the balance sheet date, December 31, 2007, interest-bearing receivables amounted to SEK 744.3 m (SEK 269.8 m) and interest-bearing current liabilities to SEK 295.0 m (SEK 171.0 m), with an average interest rate of 3.74% and 4.45%, respectively. An unexpected parallel shift of 200 basis points would have entailed an impact on earnings of SEK +/- 1.4 m.

Neonet is exposed to foreign exchange risk as a result of sales and expenses in foreign currencies. The company regularly uses forward contracts to reduce the foreign exchange risk in major holdings denominated in EUR, GBP, USD and CHF. At the closing date, December 31, 2007, currency forward contracts amounted to a nominal EUR 11.5 m, GBP 0.6 m, USD 0.4 m and CHF 2.7 m. Neonet's balance-sheet item in EUR totaled EUR 14 m. An unexpected change of 10% in SEK vis-à-vis EUR would impact earnings by SEK +/-2.4 m.

Operational risks, quality assurance and regulatory compliance

The term 'operational risk' covers a broad category of risks that may result in financial damage for Neonet. Operational risk arises in all operations in the organization, as well as in operations outsourced to subcontractors and in all collaborative ventures with external parties. The following are some typical examples of operational risk:

- System risk: The risk that one of Neonet's systems or its electronic communications with clients ceases to function as intended.
- Settlement risk: The risk of a failed or incorrect settlement of equity transactions executed on behalf of a client.
- Human error: The risk of errors caused by the human factor.
- Legal and compliance risks: Legal risks can arise in connection with agreements between Neonet and clearing banks, Neonet's clients and suppliers of miscellaneous services, and between Neonet and its employees.

Successful management of operational risk requires effective internal control and quality assurance, which is best achieved by means of efficient management and competent personnel. Neonet manages operational risks by continuously improving its internal procedures and day-to-day controls. For example, Neonet uses an independent external auditor to help identify any weaknesses in the company's internal procedures. In respect of the trading system and its communication with the exchange systems and, where applicable, clients' order management systems, Neonet aims to achieve the highest possible security levels and applies standards in the form of tried-and-tested data communications solutions, software and generally accepted communications protocols. With a view to limiting the effect of future losses, Neonet has an established crisis management plan and has taken out comprehensive insurance cover for major events.

Neonet's two compliance officers in the two securities brokerage companies manage the regulatory compliance function. The compliance officers ensure that operations are conducted in accordance with applicable laws and regulations, and help to ensure quality, integrity and ethical practices in the business. Neonet's compliance officers are independent and report directly to senior management and the Board. Responsibility for disseminating knowledge of laws and regulations within Neonet rests with the legal/compliance function. Neonet's legal risks are handled by a full-time company lawyer.

Other risks

Liquidity risk

Neonet's business model entails undertakings in the settlement of share transactions. Liquidity risk is the risk of Neonet being forced to fulfill its undertakings at a higher cost or, in the worst-case scenario, not being able to fulfill its undertakings at all. Neonet also requires a high level of access to working capital in order to provide various forms of collateral in the form of pledged bank balances for CCPs and clearing banks. In such cases, the liquidity risk is attributable to unforeseen, sharp rises in collateral requirements.

Neonet endeavors always to find optimal solutions for the entire settlement process on the particular stock market, including methods for ensuring that the collateral requirements described above are met. The Group works with a number of banks, selected on the basis of certain criteria, which include service level, data integration possibilities, securities loan facilities and, not least, the solutions that are offered for financing collateral requirements.

The Neonet Group's current liquid assets comprise the sum of bank balances, short-term investments, unutilized overdraft facilities, the difference between contract settlement receivables and liabilities, and receivables mainly from clearing houses and similar institutions, less liabilities for temporary settlement loans. A daily liquidity report is drawn up describing Neonet's liquidity situation. Neonet has an action plan for the procedure to be followed in the event of a liquidity crisis. Neonet's Treasury Manager is responsible for managing the liquidity risk.

Information regarding the maturities of liabilities, SEK 000s:

	2007	2006
Payable within one month	961 297	344 486
Payable in one to three months *	142	-

* Among Neonet's financial liabilities, only currency forwards have a longer maturity than one month. No financial liabilities have a maturity exceeding three months.

Strategic risks

Strategic risk involves the ability of the company's Board and executive management to develop, organize and control operations. To retain its attractiveness, the company must adapt to new technology trends, manage to maintain its position vis-à-vis competitors and otherwise adapt to market conditions.

Neonet's strategic risk is substantial and it is crucial that the Board and executive management have the ability to ensure that Neonet retains its attractiveness among clients. Neonet's Board and executive management are highly familiar with and have considerable insight into Neonet's core business.

The management of strategic risks is a major challenge for a small company. Neonet manages such risks by maintaining a long-term perspective as the basis for its decision-making, rather than using a short-term, or medium-term approach. Stretching out the time horizon helps to avoid making decisions that may be profitable in the short term but potentially entail problems in the longer term.

Earnings risk

Earnings risk is the risk that the company will diverge from the "normal" earnings level. This risk is closely related to liquidity risk, strategic risk and reputation risk.

In the case of Neonet, this involves the effect that changes in fees and expenses could have on the company's overall profitability. Since a large share of Neonet's revenues derives from order placing, Neonet is sensitive to changes in fees and expenses in this area.

Neonet manages earnings risk by forecasting internal and external variables that indicate how various outcomes impact earnings. By this means, Neonet increases the awareness and knowledge of its Board and executive management to the potential weaknesses in the company relating to changes in

the financial playing field. Neonet also has a clear strategy of attempting to diversify operations in order to curtail and control earnings risk.

Reputation risk

Reputation risk is the current and future risk arising from the negative perception or image of the company among clients, counterparties, shareholders, investors and public authorities.

Reputation risk is one of the primary risks for Neonet. This is because the company has a limited number of business operations, which, in turn, means that the impact of this risk could damage the entire company, as opposed to the case of a company based on several operations.

Neonet bases its operations on cost-effective, professional and confidence-instilling services vis-à-vis players in the financial sector. Neonet manages reputation risk by always seeking to be as proactive as possible. In selecting external suppliers of systems and services, not only short-term cost savings are taken into consideration but also how the supplier can be expected to affect Neonet's image and brand.

Concentration risk

This risk is closely related to credit risk. Concentration risk involves the risk of concentrated exposure to one or several affiliated clients. Affiliation in this case may mean that clients have the same owner, are active in the same market segment or in the same geographic area.

Neonet manages concentration risk in two ways:

Neonet's management of concentration risk for large clients primarily involves delivering an effective, high-value service to clients and thus making it less cost-effective for clients to move from Neonet and to act as a direct member. Neonet also seeks to broaden its offering of services to clients and increase its attractiveness by, for example, integrating Neonet's services with client systems or offering clients IT solutions.

Historically, Neonet primarily has primarily offered services in the Swedish stock market. The current situation is that Neonet's clients are active in a large number of markets, thereby reducing the geographical concentration risk. Neonet's aims to continue to increase the number of geographic markets and the number of financial services and instruments provided in these markets. Similarly, the distribution in terms of where clients are located has increased.

Capital adequacy analysis

New capital adequacy regulations (Basel II) came into effect on February 1, 2007. The company complies with the Swedish Capital Adequacy and Large Exposures Act. According to the new regulations, the capital base is compared with a computed capital requirement. The capital base consists of shareholders' equity less intangible assets. At December 31, 2007, the Neonet Group's capital base totaled SEK 170 m and the capital requirement was SEK 69 m, leading to a capital adequacy ratio of 2.46. (The newly introduced method means that comparisons with the past years are not relevant. According to the former capital adequacy regulations, the capital adequacy ratio was 89% as at December 31, 2006.) Thus, Neonet meets the requirements imposed by the new capital adequacy regulations. The capital base must correspond to at least the sum of the capital requirements for credit risks, market risk and operational risks. Neonet's strategy for capital management is to maintain a capital level that comfortably exceeds the minimum level.

The start-up capital for Neonet Securities AB is SEK 6.8 m. The company applies the same strategy as the Parent Company for satisfying the capital requirement. In the case of the US subsidiary, Neonet Securities Inc, the capital adequacy regulations set by the SEC apply.

Neonet's operations involve daily risks that are measured, monitored and, whenever required, rectified to safeguard the company's capital and reputation. The manner in which Neonet identifies, monitors and manages these risks represents a core feature of operations.

In connection with the annual business planning process, executive management and the Board set a four-year business forecast. The forecast represents the basis for computing the need for future capital, capital requirements and the capital base. Volume is the parameter in Neonet's operation that affects risks to the largest degree. The calculation of the capital requirement for each risk is thus based on the forecast volume trend. Should the current or future forecast risks entail that the capital base requirement exceed the level set by the Board, the Board and executive management are to be informed in line with internal rules. This applies to both the Group and Neonet Securities AB. In the event that the capital base requirement approaches the safety level determined by the Board, management shall in due order conduct a number of pre-determined actions to ensure that the capital requirement is maintained going forward.

Selection of method, Basel II

In the case of the financial group, Neonet has elected to use the standard method for credit risks and market risks (market valuation method) in assessing how much capital is required in relation to the risk assessment. For operational risks, Neonet has selected the base method.

Information on capital base and capital adequacy

(SEK 000s.)

CAPITAL BASE **Dec. 31, 2007**

The capital base includes the Board's proposals regarding appropriations and treatment of unappropriated earnings.

Shareholders' equity	281 338
Intangible assets	-47 706
Group goodwill	-77 682
Primary capital	155 950

Capital base

Amount for primary capital	155 950
Amount for supplementary capital	14 315
Amounted for extended capital base	-
Deductible items and limit values	-

Total capital base	170 265
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Capital requirement

Capital requirement for credit risks according to the standard method	30 277
Capital requirement for risks in the trading portfolio	-
Capital requirement for operational risks	26 617
Capital requirement exchange rate risks	6 842
Capital requirement for settlement risks	5 377

Total minimum capital requirement	69 113
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<i>Capital ratio</i>	2,46
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Capital adequacy by class of credit exposure

All companies in the financial companies group apply the standardised method in computing capital adequacy for credit risk.

Exposure to sovereign states and central banks (RV 0)	101 175
Institutional exposure	629 014
Risk-weighted amount	303 773
Capital requirement	24 302
Corporate exposure	20 842
Risk-weighted amount	11 998
Capital requirement	960
Other items	62 691
Risk-weighted amount	62 691
Capital requirement	5 015
Total capital requirement, credit risks	30 277

Capital adequacy for operational risk

At December 31, 2007 capital adequacy for operational risk was SEK 26,617,000.

Capital adequacy for currency risk

At December 31, 2007 capital adequacy for currency risk was SEK 6,862,000.