

# Corporate Governance

## **The Swedish Code for Corporate Governance (“the Code”)**

The application of the Swedish Code for Corporate Governance (“the Code”) has, as of July 1, 2008, been extended to apply to all companies whose shares are traded on regulated markets, including NASDAQ OMX Stockholm. This means that Neonet has been covered by the Code since July 1, 2008. However, the company has been significantly influenced by the Code for some time. In addition to NASDAQ OMX Stockholm’s exchange regulations (including the Code), governance of Neonet is also based on the company’s Articles of Association and the provisions of the Swedish Companies Act.

### *Comply or Explain*

The Code supplements legal statutes and is part of the business community’s process of self-regulation. The key to the Code is the principle of “comply or explain.” The principle entails that companies do not have to comply with all rules set out in the Code all the time, but can instead choose other solutions that are deemed to better satisfy the circumstances of the particular case, provided that the company openly discloses each such deviation, describes the alternative solution selected and states the reasons for its selection.

### *The company’s Application of the Code*

Neonet applies the Code, but deviates from the rules in respect of the following points and for the following reasons:

#### *Deviation from Code rule:*

2.4 Board members may sit on the Nomination Committee, but must not make up a majority of Nomination Committee members.

#### *Explanation:*

In addition to Peter Lindell, Chairman of the Nomination Committee, the Committee also includes Board members Staffan Persson and Hans Karlsson. The members of the Nomination Committee have been elected by the company’s shareholders in accordance with the procedure agreed at the 2008 Annual General Meeting and disclosed in accordance with the requirements of the Code. For more information, see the “Nomination Committee” section below.

#### *Deviation from Code rule:*

10.1 The Board shall establish an audit committee that must comprise at least three Board members (...). If it is considered to be more appropriate, the entire Board may be appointed to perform the tasks of the audit committee.

#### *Explanation:*

Given its limited size, Neonet’s five-member Board of Directors has chosen to allow the entire Board to perform the tasks of the audit committee. The Board believes that the task of the audit committee is of the highest priority and that the scope of the company’s operations is such that it can be handled by all Board members. For more information, see the “Audit Committee” section below.

## **Annual General Meeting**

The Annual General Meeting is Neonet’s supreme decisionmaking body, in which the shareholders can exercise their right to make decisions regarding the company’s affairs. Matters discussed at the Annual General Meeting include the following: presentation and adoption of the annual report; appropriations of the company’s profit or loss; consideration of discharge of liability for members of the Board and the CEO; election of Board and auditors, where applicable, the setting of directors’ and auditors’ fees; and other important issues. Pursuant to the company’s Articles of Association, the Annual General Meeting must be held in Stockholm within six months of the end of each fiscal year (January 1 – December 31). Notice of the Annual General Meeting or of extraordinary general meetings convened to discuss amendments to the Articles of Association must be made no earlier than six weeks and no later than four weeks before the meeting. Notice of other extraordinary general meetings must be made no earlier than six weeks and no later than two weeks before the meeting. The Annual General Meeting in 2008 was attended by 42 shareholders representing 44.3% of the share capital and votes in the company.

Information concerning the 2009 Annual General Meeting, which will be held on April 27, was presented briefly in the 2008 year-end report and is also presented in the information on page 62 and on the company website: [www.neonet.com](http://www.neonet.com).

The Neonet shareholders with the largest holdings at December 31, 2008 are presented in the table on page 20.

### **Nomination Committee**

In accordance with a decision reached at the Annual General Meeting of Neonet AB (publ) on April 21, 2008, the Chairman of the Board must contact the company's largest shareholders, in descending order, at the end of the third quarter, who are then entitled to each nominate a representative until two representatives have been appointed, along with the Chairman, to comprise the Nomination Committee prior to the 2009 Annual General Meeting. The Nomination Committee shall appoint from among its members a chairman, who must not be the Chairman of the Board.

At the end of the third quarter, the two largest shareholders were Staffan Persson (along with his company and family) and Lombard International Assurance S.A. Both have appointed their own representatives, as detailed below, who will, along with the Chairman of the Board, form Neonet's Nomination Committee prior to the 2009 Annual General Meeting:

- Peter Lindell, appointed by Staffan Persson
- Hans Karlsson, appointed by Lombard International Assurance S.A.
- Staffan Persson, Chairman of the Board of Directors of Neonet AB (publ)

The Nomination Committee subsequently appointed Peter Lindell as its Chairman. The composition of the Nomination Committee was published in the company's interim report for the third quarter and on the company's website for the six months preceding the 2009 Annual General Meeting.

The Nomination Committee shall prepare the resolutions to be taken by the Meeting, including election and remuneration issues, proposals concerning the election of a Meeting Chairman, proposals concerning the number of Board members, proposals concerning the remuneration the Board and auditors and any remuneration for the Board's committee work, proposals concerning the election of Board members and proposals concerning the election of auditors (where appropriate). The Nomination Committee intends to present the above proposals in good time before the Annual General Meeting to be held on April 27, 2009. Shareholders who wish to submit proposals to Neonet's Nomination Committee can do so by e-mailing: [nomination.committee@neonet.com](mailto:nomination.committee@neonet.com) or by writing to: Neonet AB, FAO: Valberedningen, Box 7545, SE-103 93 Stockholm.

### **The Board of Directors and the Board's work**

#### *General Information*

The Board has overall responsibility for operations pursued in the company and the Group, and reaches decisions in respect of the company's organization, management, strategy, framework and objectives. The Board establishes guideline for the company's operations. The Board is also responsible for following up and evaluating company operations based on strategies, objectives and guidelines established by the Board.

The Chairman of the Board organizes and manages the work of the Board and convenes Board meetings, decides on the agenda and prepares matters for Board meetings in consultation with the President and CEO.

Board members are appointed by the shareholders at the Annual General Meeting for a period in office of one year, expiring at the end of the following Annual General Meeting.

In accordance with the provisions of the Code, the Chairman of the Board was also elected at the 2008 Annual General Meeting.

Five members were elected at the 2008 Annual General Meeting. The composition of the Board and details concerning Board members are presented on page 59. See Note 6 for information about directors' fees. All Board members are regarded as independent in relation to the company and corporate management. With the exception of Chairman of the Board, Staffan Persson, who is not regarded as independent in relation to Zimbrine Holding BV (one of the company's shareholders), all Board members are regarded as independent in relation to the major shareholders in the company.

The President and CEO is not a member of the Board, but he participates in all meetings, apart from business that he is disqualified from such as meetings when the work of the President and CEO is to be evaluated. Other officials also participate in Board meetings as and when required in order to provide the Board with information or upon request of the Board or President and CEO. During the year, the Board has held sixteen minuted meetings; one held immediately after elections and four meetings held by correspondence. Board meetings follow a pre-approved agenda. The agenda and supporting materials are distributed to Board members before each meeting. Decisions are reached following an open and constructive discussion led by the Chairman. In order for the Board to be quorate, more than 50% of the members must be present. During the year, the recorded minutes were not disputed at any meeting. Important issues addressed during the year include:

- Organization and strategic focus for Group operations, including IT strategy and structure
- Budget and budget follow-up, capital structure and financial goals
- New graphic profile
- New laws and regulations, including MiFID, Reg NMS, the Code, etc.
- Continual follow-up of the development of the business in respect of customer inflow and profitability per customer, personnel, results, strategy and risks
- Cost control
- Policies and instructions
- Remuneration to the President and CEO and other senior executives
- Short and long-term incentive programs
- Interim reports and the annual report
- Follow-up of internal and external audits, as well as Group compliance activities, including site visits undertaken by the Swedish Financial Supervisory Authority
- Evaluation of Management and CEO performance
- Conversations with other parties concerning possible forms of collaboration
- Group risks and risk management
- Internal control

#### *Attendance at Board Meetings*

Board meetings were held on February 5 and 8, March 16, April 4 and 21 (plus the statutory meeting), May 18, June 25, July 18, September 8, October 17 and December 9, 2008. In addition, meetings were held by correspondence on January 30, March 7, June 30 and October 28, 2008. All members were present at all meetings, except for the meeting held on September 8, 2008 when Hans Karlsson was not present.

#### *Governance and Reporting Principles*

The work of the Board is governed by procedures that contain rules and guidelines that set out the distribution of work between the Board and the CEO, as well as instructions concerning the form and content of Board meetings. This basic documentation is revised every year. The Board's governance procedures regulate the work of the Board and address the following areas:

- Meetings: statutory Board meeting, annual meeting frequency, conditions for unscheduled meetings, procedures for setting dates and issuing notice
- Agenda: Confirmation and distribution
- Matters to be addressed at scheduled and statutory Board meetings
- Procedures for ongoing reports and other information provided to the Board and auditors
- Distribution of work between Board and CEO
- Quoracy and attendance
- Minute taking procedure
- Disqualification issues and other issues
- Committee work: procedures for the institution of the various assignments and the right for remuneration and/or audit committees to make decisions (see below)
- Procedure for Board and CEO evaluation (see below)
- Internal audits

In addition, the CEO also complies with instructions regulating obligations and authorities governing Neonet's operating activities. The instruction for the CEO is revised and agreed annually, with the current instruction agreed by the Board at the statutory Board meeting held on April 21, 2008. The CEO produces the necessary information and decision-making documentation prior to Board meetings, gives presentations and justifies proposed decisions. The CEO also provides

Board meetings with a monthly written report. The report contains information about the Group's operations and trading status, results for the preceding month with comments on budget deviations, as well as the HR situation. The CEO manages the day-to-day work of the Group and corporate management. The composition of the management team is shown on page 58.

#### *Evaluation of Management and CEO Performance*

The Chairman of the Board initiates an evaluation of the performance of the Board and CEO based on a questionnaire and series of one-to-one appraisal meetings at least once annually. The evaluation is compiled, reported and discussed with the entire Board. No member of the corporate management team is present during the evaluation process. Relevant parts of the evaluation results are reported to the Nomination Committee.

#### **Remuneration Committee**

The Board has established its own Remuneration Committee. The Committee shall comprise two Board members appointed by Neonet's Board of Directors. The Committee shall appoint a Chairman selected from its members. During 2008, the Committee comprised Board members Nils-Robert Persson (Chairman) and Staffan Persson. Their task is to prepare issues concerning the remuneration paid to the CEO and other senior executives. The work is regulated by the Board's governance procedures and covers the preparation of issues in respect of remuneration policy, paysetting principles and other terms of employment, as well as redundancy/severance payments made to senior executives. The Committee also prepares issues in respect of incentive programs for management and other employees. The Remuneration Committee assists the Board in relevant issues and reports its proposed measures and decisions to the Board. For the work of the Remuneration Committee, the Board has adopted a specific instruction that describes the composition of the Committee, its meeting procedures, minuting, reporting and duties.

During 2008, the Remuneration Committee provided the Board with recommendations concerning principles for the remuneration of senior executives and other employees. The proposals presented included recommendations for variable remuneration, as well as salaries and other remuneration payable to senior executives. The Remuneration Committee also proposed criteria for assessing bonus payments. The Committee's proposals were discussed by the Board and decisions were made on the basis of the Committee's recommendations. Remuneration of the CEO and other senior executives for the 2008 fiscal year was decided by the Board. The Remuneration Committee met three times during 2008. The CEO and the CFO were present at two of these meetings. Minutes were taken in accordance with the provisions of the Code. Reports and proposals were submitted to the Board on a continuous basis. Committee members were paid a fee of SEK 50,000 per person annually. For more information about remuneration paid to corporate management and other senior executives, see Note 6.

#### **Audit Committee and communication with Auditors**

In its rules of procedure, Neonet has established that the Audit Committee's assignment includes preparation of corporate management's work on assuring the quality of the company's financial reporting, addressing issues concerning the selection of auditors and the payment of their fees, company reporting and internal controls, external audits and company financial information. The Board regards the Committee's duties as being of the highest priority. Given the limited size of the Board, it has been decided that the entire Board will perform the tasks of the Audit Committee. However, the rules of procedure state that the appropriateness of the institution of an audit committee must be reviewed annually.

The Board monitors the independence and objectivity of the external auditors in relation to the company by keeping itself informed of their relationship to the company and corporate management. Accordingly, the Board has to participate in and provide guidelines for the procurement of non-auditrelated consultancy services that are provided by the company to which the auditors are connected. The Board must then monitor the provision of these services with the aim of ensuring the independence and objectivity of the external auditors. The Board discusses the items in Neonet's annual report and interim reports that have been the subject of important assessments and evaluations together with corporate management and the external auditors.

During 2008, Neonet's auditors made one personal report to the Board, detailing their observations from the inspection and their assessment of the Group's internal controls. No members of the corporate management team were present at this meeting. In addition to this, continuous contact has been maintained with the company's auditors.

### **Internal Control**

Neonet's Board is responsible for curtailing and following up risks facing the Group. Neonet's day-to-day risk management, including risk reporting and risk assessment, is headed by the company's risk manager in accordance with the policy agreed by the Board. Neonet's risk management function is independent and reports directly to corporate management and the Board. The Board has produced a written policy for both overall risk management and specific areas. The Board has also appointed a Risk Committee and charged it with the task of providing recommendations to the Board concerning such issues as limits, customers and changes to risk policy. The Committee is made up of the Group Manager, Risk Manager, Treasury Manager, Corporate Lawyer and Compliance Officer. The Risk Manager is responsible for presenting a summary of the most important events and changes in the risk area in an annual risk report issued to the Board.

The best way to achieve good internal controls and quality assurance is through effective leadership, competent staff and clear procedure descriptions. The Board employs the services of an internal auditor from outside the company whose task it is to ensure that any deficiencies in internal procedures are identified. The Board then commissions the Risk Manager and Compliance Officer to compile an action plan and to head work to correct any identified non-conformities. The function for ensuring regulatory compliance is overseen by Neonet's two compliance officers in the two securities broker companies. They ensure that the business is operated in accordance with applicable laws and ordinances and work to ensure that high standards of quality, integrity and ethics are upheld. Neonet's compliance officers are independent and report directly to corporate management and the Board. The Board also inspects Neonet's internal controls in respect of accounting, asset management and other financial conditions affecting the company.

Refer to Note 1, for more detailed information on Neonet's OPERATIONAL RISKS AND QUALITY ASSURANCE WORK.

### **Auditor**

Öhrlings PricewaterhouseCoopers AB is the accounting firm appointed by the Annual General Meeting of Neonet AB and Bodil Björk has been the Authorized Public Accountant and the auditor-in-charge at Neonet since 2008. PricewaterhouseCoopers AB was appointed for a period of four years at the Annual General Meeting in 2007. Öhrlings PricewaterhouseCoopers is also the auditor for the operating subsidiaries in Sweden, while Rothstein Kass & Company is the auditor of Neonet's US subsidiaries. In addition to audit engagements relating to auditing of quarterly and annual reports, bookkeeping, and the Board and CEO's administration, Öhrlings PricewaterhouseCoopers also performed other assignments. These comprised an independent examination of the business of the subsidiary Neonet Securities AB.

See Note 5 for information on auditors' fees.

This corporate Governance Report has not been examined by the company's auditors.