

## Corporate governance report

This report describes CDON Group AB's policies for corporate governance. CDON Group is a Swedish public limited liability company. The company's governance is based on the Articles of Association, the Swedish Companies Act, the Annual Accounts Act, the listing rules of NASDAQ OMX Stockholm, the Swedish Code of Corporate Governance and other relevant Swedish and international laws and regulations.

The company follows the Code in most aspects, and only deviates from its recommendations in respect to the composition of the remuneration committee, which is detailed in the Remuneration Committee section.

CDON Group is governed by several bodies. At the Annual General Meeting, the shareholders exercise their voting rights by electing the Board of Directors and external auditors. Some of the Board's duties are assigned to the Chief Executive Officer (CEO) of CDON Group. The CEO is in charge of the day-to-day management of the Group in accordance with guidelines and instructions from the Board.



## Shares and shareholders

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According to the share register held by Euroclear Sweden AB, there were approximately 19,334 shareholders at year-end 2013. Shareholdings by its ten largest shareholders correspond to some 56% of share capital and votes. Swedish institutions and mutual funds own approximately 55 per cent of the share capital; international investors hold about 30 per cent; Swedish private investors own around 15 per cent.

Share capital consists of two share types; ordinary shares and Class C shares. There are no restrictions on the number of votes each shareholder can cast at the AGM. For further information regarding company shares, please see the "Shareholder information" section.

Shareholders are regularly provided information, including interim and full-year financial reports, financial statements and press releases on significant events during the year. All reports, press releases and other information can be found on CDON Group's website [www.cdongroup.se](http://www.cdongroup.se).

## Annual General Meeting

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The Annual General Meeting (AGM) is a limited company's highest decision-making body and a forum for shareholders to exercise their voting rights to influence issues affecting the company and its operations. The Swedish Companies Act and the Articles of Association detail procedures on how notice is given of the AGM and Extraordinary General Meetings, along with who is entitled to participate and vote at the meetings.

The authority and rules of procedure for the AGM are primarily based on the Swedish Companies Act and the Swedish Corporate Governance Code, as well as on the Articles of Association adopted by the AGM. The AGM shall be held within six months of the end of the financial year. The AGM makes decisions on adoption of the income statement and balance sheet, consolidated income statement and statement of financial position, allocation of the company's earnings according to the adopted balance sheet, discharge of liability for the Board and CEO, appointment of Board members and the Chairman of the Board, the company's auditors and certain other matters provided for by law and the Articles of Association.

The AGM for financial year 2013 will be held on 13 May 2014, in Stockholm, Sweden.

## Nomination Committee

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Tasks of the Nomination Committee include:

- Evaluation of the Board's work and composition
- Submission of proposals to the AGM regarding the election of Board members and the Chairman of the Board
- Preparation of proposals for the election of auditors in cooperation with the Audit Committee, as appropriate

- Preparation of proposals for the fees to be paid to Board Directors and to the company's auditors
- Preparation of proposals for the Chairman of the Annual General Meeting
- Preparation of proposals to the AGM regarding the Nomination Committee's composition and work during the following year.

In accordance with the resolution of the 2013 Annual General Meeting, Cristina Stenbeck, as the representative of the largest shareholder Investment AB Kinnevik, has convened a Nomination Committee consisting of members appointed by the largest shareholders in CDON Group. The Nomination Committee comprises Cristina Stenbeck appointed by Investment AB Kinnevik, Annika Andersson appointed by Swedbank Robur fonder and Frank Larsson appointed by Handelsbanken Fonder AB. At their first meeting the Nomination Committee appointed Cristina Stenbeck as Chair of the Committee. The Nomination Committee represents together over 37% of the votes in CDON Group AB. The members of the Nomination Committee do not receive any separate remuneration for their work.

The Nomination Committee will submit a proposal for the composition of the Board and Chairman of the Board to be presented to the 2014 AGM for approval.

## Board

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The members of the Board of Directors are elected at the AGM for the period up until the end of the following AGM. The CDON Group's Articles of Association do not include any restrictions regarding the eligibility of Board members. According to the Articles of Association, the Board shall consist of a minimum of three and a maximum of ten members.

### Responsibilities and duties of the Board

The Board has overall responsibility for the organisation and management of CDON Group. The Board has adopted working procedures for its internal activities that include rules pertaining to the number of regular board meetings, which issues will be handled at regular board meetings and the duties of the chairperson. The work of the Board is also governed by laws and regulations, including the Companies Act, Articles of Association and the Swedish Code of Corporate Governance.

In order to carry out its work more effectively, the Board has appointed a Remuneration Committee and an Audit Committee with special tasks. These committees handle business within their respective areas and present recommendations and reports on which the Board may base its decisions and actions. However, all members of the Board have the same responsibility for decisions made and actions taken, irrespective of whether or not issues have been reviewed by such committees.

The Board has also adopted procedures for instructions and mandates to the CEO. These procedures require that investments in non-current assets of more than SEK 2,000,000 must be approved by the Board. The Board must also approve major transactions, including acquisitions

and closures or divestments of businesses. In addition, the Board has also issued written instructions specifying when and how information, which is required in order to enable the Board to evaluate the Group's and its subsidiaries' financial positions, should be reported.

The rules of procedure that are adopted annually by the Board include instructions on which financial reports and which financial information should be submitted to the Board. In addition to the year-end report, interim reports and the annual report, the Board also examines and evaluates extensive financial information relating to both the Group as a whole and various units included in the Group. The Board also examines, primarily through the Audit Committee, the most significant accounting policies applied in the Group with regard to financial reporting, as well as any key changes to these policies. The Audit Committee is also tasked with examining reports on internal controls and the processes for financial reporting, along with internal audit reports compiled by the Group's internal auditing function. The Group's external auditor reports to the Board as required, and at least once a year. At least one of these reporting occasions occurs without the CEO or any other member of executive management being present. The Group's external auditor also participates in the meetings of the Audit Committee. All Audit Committee meetings are minuted and the minutes are made available to all Board members and the auditors.

### Composition of the Board as of 31 December 2013

The Board of CDON Group AB comprises seven Board members. The Board members are Lars-Johan Jarnheimer, Mia Brunell Livfors, Patrick Andersen, David Kelly, Mengmeng Du, Jonas Kjellberg and Lars Nilsson. Biographical information on each of the Board members is contained in the "Board" section of this annual report.

Name	Position	Date of birth	Nationality	Appointed	Independent of major shareholders	Independent of the company and its management	Remuneration Committee	Audit Committee
Lars-Johan Jarnheimer	Chairman of the Board	1960	Swedish	2010	Yes	Yes	Member	
Mia Brunell Livfors	Member	1965	Swedish	2010	No	No	Chairman	
Patrick Andersen	Member	1962	Danish	2013	Yes	Yes		Member
David Kelly	Member	1963	British	2013	Yes	Yes		Member
Mengmeng Du	Member	1980	Swedish	2010	Yes	Yes	Member	
Jonas Kjellberg	Member	1971	Swedish	2013	Yes*	Yes		
Lars Nilsson	Member	1956	Swedish	2010	No	Yes		Chairman

\* - since 1 November 2013. (Jonas Kjellberg was not independent in relation to major shareholders for the period 14 May – 31 October 2013, when he held a leading position at Investment AB Kinnevik (a shareholder who owns more than 10 percent of the shares in CDON Group)).

CDON Group's Board composition during the year has fulfilled the requirements of NASDAQ OMX Stockholm AB and the Code on the independence of board members. This means that the majority of Board members appointed by the AGM are independent in relation to the company

and its management. At least two of these members are also independent in relation to the company's major shareholders.

#### **Remuneration Committee**

The Remuneration Committee comprises Mia Brunell Livfors as Chair, Lars-Johan Jarnheimer and Mengmeng Du.

The main tasks of the Remuneration Committee are to: (i) prepare decisions for the Board on matters regarding remuneration principles, remuneration and other employment terms for the CEO and senior executives; (ii) monitor and evaluate ongoing programmes and programmes concluded during the year for variable remuneration (e.g. long-term share-based incentive programmes) for the CEO, senior executives and other key individuals within CDON Group; and (iii) monitor and evaluate the application of the guidelines for remuneration to senior executives that the AGM, in accordance with the law, will decide upon, along with applicable remuneration structures and remuneration levels in the company.

The Swedish Corporate Governance Code states that the members of the committee are to be independent of the company and its executive management, with the exception of the Chairman of the Board who may chair the committee regardless of whether or not this criterion is met. Mia Brunell Livfors is not independent in relation to the company and its management due to her role as member of the Board of Modern Times Group MTG AB (former owner of CDON), which holds a CDON convertible bond, and a company in which Investment AB Kinnevik owns more than 10% of shares. As CEO of Investment AB Kinnevik, Mia Brunell Livfors represents shareholders who together hold more than 10% of the shares in CDON. The company therefore deviates from this rule in the Code. The reason for the deviation is that Mia Brunell Livfors has significant experience in establishing and defining remuneration principles in listed companies, thereby providing the committee with the appropriate expertise.

#### **Audit Committee**

The Audit Committee comprises Lars Nilsson as Chairman, Patrick Andersen and David Kelly.

The Audit Committee's responsibilities are to (i) monitor the company's financial reporting; (ii) in respect of the financial reporting, monitor the efficiency of the company's internal controls, internal audits and risk management; (iii) stay informed on the audit of the annual report and consolidated accounts; (iv) review and monitor the impartiality and independence of the auditor, and therewith, paying special attention to whether the auditor provides the company with services other than auditing services; and (v) assist with preparation of proposals to the AGM's resolution on election of an auditor. The Audit Committee focuses on evaluating quality and accuracy in financial reporting, changes in accounting policies when applicable, internal controls, risk assessment, qualifications and independence of the auditors, adherence to prevailing rules and regulations, and, where applicable, transactions with related parties.

### Remuneration to Board members

The fixed remuneration for the Board for the period until the close of the 2014 AGM is in total SEK 3,071,000, of which SEK 670,000 is allocated to the Chairman of the Board, SEK 325,000 to each Board member, and a total of SEK 451,000 as remuneration for work in board committees. The remuneration of the Board members will be proposed by the Nomination Committee, which represents the company's largest shareholders, and approved by the AGM. The Nomination Committee proposal is based on benchmarking of peer group company compensation and company size.

### Board work in 2013

During 2013, the Board regularly reviewed the financial position of CDON Group AB and the Group's financial position. The Board also regularly dealt with matters involving acquisitions, the establishment of new operations, divestments and investment matters. The Board also evaluated the Group's strategies and future development plans. The Board held five regular meetings in 2013 and ten extraordinary meetings (four of which were held per capsulam).

### Presence at Board and committee meetings

Name	Board meetings	Audit Committee	Remuneration Committee
Number of meetings up to and including 13-05-2013	8	2	2
Number of meetings from 13-05-2013	7	7	2
<b>Total number of meetings in 2013</b>	<b>15</b>	<b>9</b>	<b>4</b>
Lars-Johan Jarnheimer	15		4
Mia Brunell Livfors	15		4
Patrick Andersen (from 14-05-2013)	7	7	
David Kelly (from 14-05-2013)	7	7	
Mengmeng Du	15		4
Jonas Kjellberg (from 14-05-2013)	7		
Lars Nilsson	14	9	
Henrik Persson (up to and including 13-05-2013)	8	1	
Florian Seubert (up to and including 13-05-2013)	7	2	

### External auditors

CDON Group AB's auditor was elected by the 2012 AGM for a period of four years. KPMG was elected as CDON Group AB's main auditor and has been the external auditor since 1997. Cronie Wallquist, certified public accountant, is responsible for the audit of the company on behalf of KPMG as of September 2013.

The auditor's report their findings to the shareholders by means of the auditors' report, which is presented to the AGM. In addition, the auditor's report detailed findings to the Audit Committee

twice a year and to the full Board once a year, and annually provide written assurance of their impartiality and independence to the Audit Committee.

KPMG provided certain additional services in 2012 and 2013. These services comprised consultation on accounting and tax issues and other audit-related assignments.

Audit assignments have involved examination of the annual report and financial accounting, administration by the Board and CEO, other tasks related to the duties of a company auditor, and consultation or other services which may result from observations noted during such examination or implementation of such other tasks.

For more detailed information on auditing fees for 2013, see Note 25 in this annual report.

## **CEO and executive management**

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Executive management of CDON Group includes the Chief Executive Officer, the Chief Financial Officer, managers/managing directors of CDON Group's operating subsidiaries and other key executives. Biographical information on the Group's executive managers is contained in the "Executive Management" section of this annual report.

### **CEO and executive management**

The Chief Executive Officer (CEO) is responsible for the ongoing management of the company in accordance with the guidelines and instructions established by the Board.

The CEO and executive management team, supported by various employee functions, are responsible for adhering to the Group's overall strategy, financial and business controls, financing, capital structure, risk management and acquisitions. Among other tasks, this includes preparation of financial reports, communication with the stock market and other issues. Guidelines and policies issued include financial control, communication, brands, business ethics and personnel policies.

As of the second half of 2013, regular board meetings are held in CDON Group's operating subsidiaries (previously there was an operating board for each business area). The subsidiaries' boards consist of CDON Group's CEO and CFO, the respective subsidiary's managing director and in some cases, a representative of minority shareholders. The CDON Group's CEO is Chairman of the subsidiaries' boards and leads the meetings. Subsidiaries' executive management teams may also participate in the meetings of the subsidiaries' boards. The boards of the operating subsidiaries have adopted working procedures for their activities that include rules pertaining to the number of regular board meetings, which issues will be handled at regular board meetings etc. Furthermore, guidelines have been adopted that shall be followed by the subsidiaries' managing directors.

### **Applicable guidelines for remuneration to senior executives**

Current guidelines for determining remuneration to senior executives in the Group ("Executives") as well as Board members to the extent to which they are remunerated outside their directorship, were adopted at the AGM on 14 May 2013 as follows.

#### **Remuneration guidelines**

The objective of the guidelines is to ensure that CDON Group can attract, motivate and retain Executives within the context of CDON Group's peer group, which consists of Nordic online and offline retailing companies. Remuneration shall be based on conditions that are market competitive and at the same time aligned with shareholders' interests. Remuneration to Executives shall consist of a fixed and variable salary paid in cash, as well as the possibility of participation in long-term, share-based incentive programmes, customary benefits and pension schemes. These components shall create a well-balanced remuneration reflecting individual performance and responsibility, both short-term and long-term, as well as CDON Group's overall performance.

#### **Fixed salary**

The Executives' fixed salary shall be competitive and based on the individual Executive's responsibilities and performance.

#### **Variable remuneration**

The Executives may receive variable remuneration in addition to fixed remuneration. The variable salary will generally not exceed a maximum of 75% of the fixed annual salary. Variable remuneration will be based on the performance of Executives in relation to established goals and targets.

#### **Other benefits**

CDON Group provides other benefits to Executives in accordance with local practice. Other benefits can include, for example, a company car and company health care. Occasionally, housing allowances may be granted for a limited period.

#### **Pension**

Executives are entitled to pension commitments based on those that are customary in the country in which they are employed. Pension commitments will be secured through premiums paid to insurance companies. Under normal circumstances, the retirement age is 65 years.

#### **Notice of termination and severance pay**

The maximum notice period in any Executive's contract is generally 12 months, and in exceptional cases 18 months, during which time salary payment will continue.

### **Remuneration to Board members**

Board members elected by the AGM may in certain cases be paid for services within their respective areas of expertise, outside of their board duties. Compensation for these services shall be paid at market terms and be approved by the Board of Directors.

### **Deviations from the guidelines**

In special circumstances, the Board may deviate from the above guidelines, for example additional variable remuneration for exceptional performance. In such a case, the Board of Directors will explain the reason for the deviation at the following AGM.

The guidelines were followed in 2013. Information on remuneration to senior executives is described in Note 24 of this annual report.

### **Share-based long-term incentive programmes**

CDON Group has three outstanding share-based long-term incentive programmes decided on at the AGMs in 2011, 2012 and 2013. See Note 24 for further information about these programmes.

### **Internal control of financial reporting**

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The processes for internal control, risk assessment, control activities and monitoring regarding financial reporting are designed to ensure reliable overall and external financial reporting in accordance with International Financial Reporting Standards (IFRS), applicable laws, regulations and other requirements for listed companies on the NASDAQ OMX Stockholm exchange. This process involves the Board, executive management and other personnel.

#### **Control environment**

In addition to the Board's rules of procedure and instructions to the CEO and board committees, there is a clear division of roles and responsibilities for effective management of operational risks. The Board also has a number of established basic guidelines, which are important for its work with internal control activities. This includes control and follow-up of results as compared to plans and prior years. The Audit Committee assists the Board in overseeing various issues such as internal audit and accounting policies applied by the Group.

Responsibility for maintaining an effective control environment and internal control over financial reporting is delegated to the CEO. Other managers at various levels in the company have respective responsibilities. The executive management regularly reports to the Board according to established routines and in addition to the Audit Committee's reports. Defined responsibilities, instructions, guidelines, manuals and policies, together with laws and regulations, form the control environment. All employees are accountable for compliance with these guidelines.

#### **Risk assessment and control activities**

The company has prepared a model for assessing risks in all areas, in which a number of parameters are identified and measured. These risks are reviewed regularly by the Board and the Audit Committee, and include both the risk of losing assets as well as irregularities and fraud.

Designing control activities is of particular importance to enable the company to prevent and identify shortcomings. The important areas are purchasing, logistics, and inventory processes, technical development and performance of the web platform, as well as general IT security. Assessing and controlling risks involves the boards in each operating subsidiary, where meetings are held at least four times a year. CDON Group's CEO, CFO and the managers of each subsidiary participate in these minuted meetings. Further information about the subsidiary boards can be found under the heading "CEO and executive management".

#### **Information and communication**

Important guidelines, manuals and the like that are significant to financial reporting are regularly updated and distributed to the employees concerned. There are formal as well as informal information channels to the executive management and Board for information from employees that is considered significant. Guidelines for external communication ensure that the Company applies the highest standards for providing accurate information to the financial market.

#### **Follow-up**

The Board continuously evaluates the information submitted by company management and the Audit Committee. The Board receives regular updates of the Group's development between the meetings. The Group's financial position, strategies and investments are discussed at every Board meeting. The Audit Committee reviews the quarterly reports prior to publication. The Audit Committee is also responsible for following up internal control activities. This work includes ensuring that measures are taken to deal with any discrepancies and proposed measures emerging from the internal and external audits.

The company has an independent internal audit function responsible for the evaluation of risk management and internal control activities. Internal auditing is performed by a third party, whose work includes scrutinising the application of established routines and guidelines. The internal audit function plans its work in cooperation with the Audit Committee and reports the results of its reviews to the Audit Committee. The external auditors participate in the regular meetings of the Audit Committee.