

Corporate governance

This report describes CDON Group AB's policies for corporate governance

The 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 the 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.

The CDON Group is a Swedish public limited liability company. As the Company is listed on the NASDAQ OMX Stockholm exchange, its governance is based on its Articles of Association, the Swedish Companies Act, the listing rules of the NASDAQ OMX Stockholm exchange, the Swedish Code of Corporate Governance (the Code), 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.

Corporate governance

Shares and shareholders According to the share register held by Euroclear Sweden AB, there were 17,222 shareholders at year-end 2011. Shareholdings by its ten largest shareholders



correspond to some 70.6 per cent of share capital and votes. Swedish institutions and mutual funds own approximately 32 per cent of the share capital; international investors hold about 52 per cent; Swedish private investors own around 16 per cent.

Share capital consists of two share types, Ordinary shares and Class C shares. For more information regarding company shares, see the *Share* 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 additional information is available through on the CDON Group's website at www.cdongroup.se.

Annual General Meeting

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 authority and rules of procedure for the AGM are primarily based on the Swedish Companies Act and the 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 the Board, its chairman, the Company's auditors, and certain other matters provided for by law and the Articles of Association.

The AGM for financial year 2011 will be held on 8 May 2012, in Stockholm, Sweden.

Nomination procedure

The Nomination Committee

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 CEO
- 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

Following a resolution of the AGM on 16 May 2011, a Nomination Committee consisting of majority investors was established with Cristina Stenbeck as convenor. The Nomination Committee comprises Cristina Stenbeck on behalf of Investment AB Kinnevik, Ryan Schaper on behalf of Point Lobos Capital, LLC, Jeffrey Pierce on behalf of Luxor Capital Group LP, and Björn Lind on behalf of AMF and AMF Funds. Cristina Stenbeck was appointed chairperson of the nomination committee. The Nomination Committee represents together over 42 per cent 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, Chairman of the Board, auditing firm, and remuneration to the Board and its Chairman for presentation to the 2012 AGM for approval.

The Board of Directors as of 31 December 2011

The Board of CDON Group AB comprises seven board members. The members of the Board are Hans-Holger Albrecht, Mia Brunell Livfors, Mengmeng Du, Lars-Johan Jarnheimer, Lars Nilsson, Henrik Persson, and Florian Seubert. Biographical information on each of the board members is contained in the "Board" section of this annual report.

Responsibilities and duties of the Board

The board has the overall responsibility for the organization and management of the 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 rules 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 issues have been reviewed by such committees or not.

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 1,000,000 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.

Name	Position	Date of birth	Nationality	Appointed	Independent of major shareholders	Independent of the company and its management	Remuneration Committee	Audit Committee
Hans-Holger Albrecht	Chairman	1963	German	2000	No	No	Member	
Mia Brunell-Livfors	Member	1965	Swedish	2010	No	No	Chairman	
Henrik Persson	Member	1974	Swedish	2010	No	Yes		Member
Lars Nilsson	Member	1956	Swedish	2010	No	Yes		Chairman
Lars-Johan Jarnheimer	Member	1960	Swedish	2010	Yes	Yes	Member	
Florian Seubert	Member	1973	German	2010	Yes	Yes		Member
Mengmeng Du	Member	1980	Swedish	2010	Yes	Yes		

The 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.

Rules of procedure for the Board

Remuneration Committee

The Remuneration Committee comprises Mia Brunell Livfors as chairperson, Hans-Holger Albrecht, and Lars-Johan Jarnheimer.

The Board commissions the work of the Remuneration Committee. The responsibilities of the Remuneration Committee include issues related to salaries, pension plans, bonus programmes, and the employment terms for the CEO and executive management within the CDON Group. The committee also advises the Board on long-term incentive schemes.

The 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 this criteria is met or not. Mia Brunell Livfors and Hans-Holger Albrecht are not independent of the company and its management due to their respective roles as member of the Board and CEO of Modern Times Group MTG AB (former owner of CDON Group), which is a significant supplier of marketing to CDON Group and holds a CDON Group convertible bond, and a company in which Investment AB Kinnevik owns more than 10 per cent of shares. As CEO of Investment AB Kinnevik, Mia represents shareholders who together hold more than 10 per cent of shares in CDON Group. The Company therefore deviates from this rule in the Code. The reason for the deviation is that both Mia Brunell Livfors and Hans-Holger Albrecht have 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, Henrik Persson, and Florian Seubert.

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 2012 AGM is in total SEK 2,800,000, of which SEK 600,000 is allocated to the Chairman of the Board, SEK 300,000 to each board member, and a total of SEK 400,000 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 2011

During the year, 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, and investment matters. The Board also evaluated the Group's strategy and future development plans. The Board held five regular meetings in 2011.

Presence at board and committee meetings

	Board meetings	Audit Committee	Remuneration Committee
No. of meetings in 2011	12	4	3
Hans-Holger Albrecht	11		3
Mia Brunell-Livfors	12		3
Henrik Persson	12	2	
Anders Nilsson (until 15 May 2011)	4	2	
Lars Nilsson	12	4	
Lars-Johan Jarnheimer	11		3
Florian Seubert	12	4	
Mengmeng Du	12		

External auditors

CDON Group AB's auditor was elected by the 2009 AGM for a period of three years. KPMG was elected as the CDON Group's main auditor and has been the external auditor since 1997. George Pettersson, certified public accountant, is responsible for the audit of the Company on behalf of KPMG as of 2010. An auditor will be elected at the 2012 AGM.

The auditor reports its findings to the shareholders by means of the auditors' report, which is presented to the AGM. In addition, the auditor reports detailed findings at each of the ordinary meetings of the Audit Committee 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 2009, 2010 and 2011. 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 2010, see Note 24 in this annual report.

CEO and executive management

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

Chief Executive Officer

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.

There is an operational board for each of the segments. The CEO chairs the operational board meetings, which are attended by the executive management of the relevant business segments and the CFO.

Remuneration to executive management

Guidelines for remuneration of senior executives, “the Executives”, were established at the general meeting on 16 May 2011 as follows:

Remuneration guidelines

The objective of the guidelines is to ensure that the CDON Group can attract, motivate, and retain senior executives within the context of the CDON Group’s peer group, which consists of Nordic online and offline retailing companies. The remuneration shall be based on conditions that are market competitive and at the same time aligned with shareholders’ interests. Remuneration to the Executives shall consist of a fixed and variable salary, as well as the possibility of participation in long-term share-based incentive programmes and pension plans. 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 salary

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

Incentive programme

The 2011 Annual General Meeting determined to implement an incentive programme (the “Plan”) that includes approximately 10 senior executives and other key employees within the CDON Group. There is no previous equity-based incentive programme in the Group.

In order to participate in the Plan, the participants are required to own shares in CDON. These shares can either be shares already held or shares purchased on the market in connection with the notification to participate in the Plan. The participants will then be granted retention rights and performance rights free from consideration according to the terms adopted by the general meeting. Subject to fulfilment of certain retention and performance-based conditions during the period 1 April 2011–31 March 2014 (the “Measurement Period”), the participant maintaining the employment within the CDON Group at the release of the interim report for the period January–March 2014 and subject to the participant maintaining the invested shares during the vesting period ending at the release of the interim report for the period January–March 2014, each right entitles the participant to receive one ordinary share in the Company, free from consideration.

Other benefits

The CDON Group provides other benefits to the 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

The 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 12 months, during which time salary payment will continue. The Company does not generally allow any additional contractual severance payments.

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 shall explain the reason for the deviation at the following Annual General Meeting.

Remuneration to the senior executives is described in Note 23 of this annual report.

Internal control of financial reporting

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, 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.

The 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 items 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 purchase, logistics, and inventory processes, technical development and performance of the web platform, as well as general IT-security. Assessing and controlling risks also involves the operational boards in each business area, where meetings are held at least four times a year. The CEO, business area managers, and the CFO participate in the meetings. Minutes are kept for these meetings. The operational boards are further described under the heading "Executive Management".

Information and communication

Important guidelines, manuals, and the like that are significant to the 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. The CDON Group has an established annual procedure for executive management to give their opinions on the quality of the financial reporting, disclosures, procedures, and compliance with internal and external guidelines and regulations.

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 report to the Audit Committee at each ordinary meeting of the committee.