

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. 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.

Corporate governance

Shares and shareholders The number of shareholders according to the share register held by Euroclear Sweden AB was approximately 17,806 at the end of 2012. Shares held by its ten largest shareholders correspond to some 59% of share capital and votes. Swedish institutions and mutual funds own approximately 50% of the share capital; international investors hold about 36%; Swedish private investors own around 14%.



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 2012 will be held on 14 May 2013, 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 chairman
- 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 administration and order of appointment during the following year

In accordance with the resolution of the 2012 Annual General Meeting, Cristina Stenbeck has convened a Nomination Committee consisting of members representing the largest shareholders in CDON Group. The Nomination Committee is comprised of Cristina Stenbeck on behalf of Investment AB Kinnevik, Ryan Schaper on behalf of Point Lobos Capital LLC, Frank Larsson on behalf of Handelsbanken Fonder AB, and Jan Särilvik on behalf of Nordea Investment Funds. The members of the Committee appointed Cristina Stenbeck as the Committee Chairman at their first meeting. The Nomination Committee represents together over 40% 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 2013 AGM for approval.

The Board of Directors as of 31 December 2012

The Board of CDON Group AB comprises six board members. The members of the Board are Lars-Johan Jarnheimer, Mia Brunell Livfors, Mengmeng Du, 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 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 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 2,000,000 have to 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 |
|-----------------------|-----------------------|---------------|-------------|-----------|-----------------------------------|---|------------------------|-----------------|
| Lars-Johan Jarnheimer | Chairman of the Board | 1960 | Swedish | 2010 | Yes | Yes | Member | |
| Mia Brunell-Livfors | member Board | 1965 | Swedish | 2010 | No | No | Chairman | |
| Henrik Persson | member Board | 1974 | Swedish | 2010 | No | Yes | | Member |
| Lars Nilsson | member Board | 1956 | Swedish | 2010 | No | Yes | | Chairman |
| Mengmeng Du | member Board | 1980 | Swedish | 2010 | Yes | Yes | Member | |
| Florian Seubert | member | 1973 | German | 2010 | Yes | Yes | | Member |

The CDON Group's board composition during the year has fulfilled the requirements of NASDAQ OMX Stockholm 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 chairman, Lars-Johan Jarnheimer and Mengmeng Du.

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 is not independent of the company and its management due to her role as member of the Board of Modern Times Group MTG AB (former owner of CDON Group), which is a supplier of marketing services to CDON Group and holds a CDON Group convertible bond, and a company in which Investment AB Kinnevik owns more than 10% of shares. As CEO of Investment AB Kinnevik, Mia represents shareholders who together hold more than 10% of shares in CDON Group. 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, 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 2013 AGM is in total SEK 2,625,000, of which SEK 650,000 is allocated to the Chairman of the Board, SEK 315,000 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 2012

During 2010, 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 and five additional meetings in 2012.

Presence at board and committee meetings

| Name | Board meetings | Audit Committee | Remuneration Committee |
|---|----------------|-----------------|------------------------|
| Total number of meetings | 10 | 6 | 5 |
| Lars-Johan Jarnheimer | 10 | | 5 |
| Hans-Holger Albrecht (until 7 May 2012) | 2 | | 3 |
| Mia Brunell Livfors | 9 | | 5 |
| Mengmeng Du | 10 | | 2 |
| Lars Nilsson | 9 | 6 | |
| Henrik Persson | 8 | 4 | |
| Florian Seubert | 9 | 5 | |

External auditors

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

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 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 for the years 2010, 2011 and 2012. 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, the CFO and other operative executives.

Remuneration to executive management

Present guidelines for remuneration of senior executives, "Executives" below, were adopted at the AGM on 8 May 2012 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 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.

Other benefits

The 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 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 shall explain the reason for the deviation at the following AGM.

Share-based remuneration to senior executives is described in Note 23 of this annual report.

Share-based long-term incentive plans

CDON Group has two outstanding share based long-term incentive programmes, decided upon at the 2011 and 2012 general meetings. For information about these programmes, see Note 23.

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 stock 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 with various issues such as reviewing the application of the accounting policies.

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 and the Audit Committee according to established routines. 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.