Annual Report 2012

CDON Group AB
NASDAQ OMX Stockholm: CDON

Content

High growth and investments for the future

CEO Statement

CDON Group accomplished yet another year of strong growth with a sales increase of 31%. Since the company was listed on the exchange, sales have therefore increased more than 100% over two years – from SEK 2.2 billion to SEK 4.5 billion. Stores in the Group welcomes more visitors, took more orders and delivered more consignments than ever before, and we continue to strengthen our positions on the Nordic e-commerce markets. This is a confirmation that more and more consumers see the benefits of e-commerce, and that they appreciate the experience we offer them through our Internet retail stores.

A year with significant sales expansion

The launch of CDON.com in 1999 paved the way for what is now CDON Group. Over the years, our operations have developed into the market-leading Nordic e-commerce company within all of our four segments: Entertainment, Fashion, Sport & Health and Home & Garden. CDON Group creates strong and well-known brands within online consumer retailing via a high level of service, a broad range of products, fast distribution, and competitive prices. Our skilled and committed employees always put the customer in the centre and our customers continually increase their trust in us. This is noticible at the very least in our sales that grew 31% to SEK 4,462 million for the year, while Nordic e-commerce grew about 14% and the retail sector as a whole grew by only a few percent.

The customer is most important

Demand in all segments continued strongly. Two of our core holdings, CDON.com and Gymgrossisten displayed stable operating earnings, in addition to an impressive sales growth. In 2012, Group stores welcomed 244 million visitors and managed more than seven million orders, up more than one million orders from last year. Satisfied customers are key to our continued success, and in order to continue to provide the highest level of customer satisfaction, we have increased our operational investments as well as in systems and working methods that aim to increase our customer insight. Our customers expect quick deliveries and they have high requirements on well functioning logistics. During the year the Group acquired logistics operations from the company that previously performed logistic services for four of the Group companies, Heppo, Lekmer, Members and Nelly. Controlling such an essential part of the value chain as logistics is important, and the acquisition marks the start of our new company, CDON Group Logistics, which gives us an opportunity to continue to effectively grow our operations while investing in a positive customer experience.

Significant future investments

After a period of extremely high growth, a certain amount of consolidation was implemented in 2012, primarily in the Fashion segment, including investments in logistics operations, an augmented management team, and new inspection routines that were defined and implemented. During the year, our stores have strengthened their market positions. They are growth oriented, and built on profitable business models. These factors create the conditions necessary for our companies to continue their investments on their existing markets, while we continue our efforts of future expansion into new markets.

Market outlook for 2013

The CDON Group operates in a sector with high market growth and the Group's companies will capitalise on this momentum. The Group's strategy is to, in a balanced way, continue to deliver sales growth and increased market shares, primarily through the two core holdings Nelly and Gymgrossisten. In order to support higher sales volumes, we will continue our efforts to further enhance the efficiency of the Group's logistics. The expected outcome of our efforts is to secure the ability to handle higher volumes in the future, a retained high customer satisfaction in combination with future best-in-class cost effectiveness.

To summarise, we note that the future of online trading remains very bright and that e-commerce continues to account for an increasing share of total retail sales. As leaders in e-commerce, this naturally offers significant potential for the future. CDON Group today operates market leading companies, and we are convinced that our future will be marked by strong growth.

With one year of continued strong sales growth behind us, as well as having just completed a period in which we strengthened our foundation, CDON Group stands better equipped than ever to meet our targets, where our overall long-term focus is on creating value for shareholders through increased sales, improved profitability and persistently satisfied customers.

Finally, I would like to invite you to visit our stores.

Paul Fischbein
President and CEO
CDON Group AB

A sustainable business model

Responsibility within CDON Group

CDON Group is a part of society. Our ability to take responsibility for how we conduct our business is fundamental to our ability to build a credible business that creates long-term value. At CDON Group, we see it as our opportunity and obligation to act in our everyday decisions from an economic, social and environmentally sustainable perspective.

We conduct our business responsibly
CDON Group promotes a culture of openness and accountability and we always act with honesty and integrity.

We act responsibly towards society
CDON Group supports selected social initiatives to bring about positive change in the society in which we operate. We consider the climate issue and encourage environmental responsibility in our employees, in the general public and in society as a whole.

We act responsibly towards our colleagues
CDON Group guarantees an equal workplace, invests in the development of employees and ensures that our companies are good and safe places to work.

CDON Group is part of society and we show commitment to our community, together with our employees, by working together with voluntary organisations to raise awareness on issues that are close to our business and that we support.

Some examples of our support during the year: Lekmer.com donated toys to the Salvation Army, the Church of Sweden’s efforts in the Baltic region, and to the Queen Silvia Children´s Hospital in Gothenburg, Sweden. A unique dollhouse was designed and auctioned to the highest bidder at the Stockholm City Auction. It sold for SEK 19,000. The entire amount was donated to SOS Children's Villages. During the year, Lekmer.com also sold various products and donated a part of the revenue for these to charity. The Nelly.com fashion store continued its partnership with Project Playground. In January 2012, a dinner and auction were held in Borås, which resulted in about SEK 700,000 in donates to Project Playground and its efforts in Langa, South Africa. CDON.com started a partnership with Desmo, a charity organisation. Together with its customers, the e-commerce store collected SEK 359,000 for charities in 2012. The largest recipient was the Swedish Childhood Cancer Foundation. CDON.com also ran voluntary initiatives, getting customers involved via their e-commerce stores. CDON.com entered into a partnership with The Notebook, a notebook featuring Swedish artists sold via the store. The profits went entirely to the association Friends. In addition, CDON.com sold a exclusive edition of the book “Jag är Zlatan” in cooperation with BRIS. The profit for this effort also went entirely to charity.

Corporate responsiblity

Corporate responsibility can be defined in many ways; at CDON Group we regard it as both our opportunity and obligation to take responsibility in relation to direct and indirect stakeholders but also future generations. CDON Group has a particular focus on sustainability from an economic, social and environmental perspective. We strive to ensure that relations with our partners are conducted in an appropriate manner and we enter into partnerships with companies that manage their businesses in line with current legislation and ethical principles. Human rights, gender equality and environmental requirements are always satisfied and CDON Group also endeavours to ensure that our suppliers and partners meet these requirements as far as is possible.

Our code of conduct, or “the code”, explains the basic standards that we expect our employees to observe in all situations. The code contains regulations to protect CDON Group's interests and its shareholders, to ensure compliance with laws and to clarify CDON Group's position on moral and ethical issues. The code exists to make sure that we as individuals take responsibility for conducting operations in accordance with CDON Group's values. We always gather information on, and follow relevant laws, ordinances and international conventions.

Our goal at CDON Group is to always be honest and professional in our relationships with suppliers and subcontractors. We always aim to develop business relationships with companies that manage their operations in accordance with ethical principles. CDON Group's supplier policy is an integral part of our code of conduct and applies to all companies, suppliers and manufacturers with whom CDON Group works.

CDON Group's corporate responsibility guidelines and current code of conduct, suppler policy and environmental policy are available on the Group's website http://www.cdongroup.com/en/modern_responsibility/

Sustainable environmental work

The environment is everyone's responsibility – both companies and individuals. Our capability to take responsibility for sustainable development is the key to strengthening general confidence in us. The CDON Group is constantly searching for new ways to further decrease its environmental impact.

Our operations require warehousing, packaging, and transportation. Our customers, owners, and society in general expect us to offer environmentally conscious choices and to operate our business in a manner that is sustainable in the long term.

For quite some time, we have developed our packaging selection to optimise product protection for every delivery, while using the smallest amount of material possible. The result is smaller, lighter packaging material. Most of our packages are sent in boxes manufactured from recycled fibre. Nelly.com wraps its items in environmentally friendly plastic bags, and Tretti.com offers its customers the opportunity to offset their freight together with the organisation Rädda Regnskog.

Most of our shipments are sent with PostNord and Bring. These two suppliers pursue active and leading environmental and climate work within their sector. Products packaged in envelopes are mainly sent as eco-friendly product letters, the most environmentally compatible distribution method, which also avoids air shipping. Posten offsets the carbon use for the distribution. Bring is the first climate-neutral postal company in the world. Carbon used by transport through Bring and its subsidiaries is fully offset.

Responsibility towards colleagues

Within CDON Group, we rely on our skilled and motivated employees to run our business, and we value them highly. It is essential for us that all our employees are treated fairly and that we show them that their efforts are appreciated. CDON Group is an employer that provides equal opportunities and we offer all our employees the same opportunities, regardless of anything that does not affect an individual's ability to do his or her job.

At CDON Group we value diversity and we provide equal treatment; for us it is performance that determines opportunities to develop within our Group. We are constantly striving to improve as an employer and we encourage participation, interest and dedication from our staff.

Financial review

2008–2012

Group (SEK million)	2012	2011	2010	2009	2008
Operating revenue and income					
Net sales	4,462	3,404	2,210	1,746	1,286
Gross income	471	587	420	348	192
Operating income (EBIT)	-174	129	135	125	83
Income after financial items	-201	111	116	113	75
Net income for the period	-152	83	90	80	49
Profitability and related ratios					
Gross margin	10.6%	17.3%	19.0%	20.0%	14.9%
Operating margin	-3.9%	3.8%	6.1%	7.2%	6.4%
Return on capital employed	-23.3%	18.7%	36.1%	37.5%	25.9%
Return on equity	-41.3%	22.0%	60.6%	49.6%	24.9%
Capital structure and related ratios					
Net debt (+)/Net cash (-)	247	-38	-224	-15	-42
Equity/assets ratio	15.8%	25.7%	34.2%	1.1%	25.1%
Operational key ratios					
No. of visits (millions)	244	172	114	88	63
No. of orders (millions)	7.1	6.0	4.7	3.9	3.2
Average shopping basket (SEK)	603	546	442	421	409

For definitions of key ratios, see Definitions.

Board of Directors' Report

CDON Group AB (CDON) is a Group of internet retailers. Its share is traded at the MidCap list of the NASDAQ OMX Stockholm Exchange with the symbol CDON. The company's registered office is at Bergsgatan 20, Box 385, SE-201 23 Malmö, Sweden. The company's registration number is 556035-6940.

Operations

The launch of CDON.com in 1999 became the foundation for the CDON Group today. Since its founding, the CDON Group has grown significantly by broadening its product range and launching new internet stores, as well as by making acquisitions. Today the Group has ten internet stores and is a large player in the Nordic internet retailing market. Its assortment includes a wide selection of products such as media, games, home electronics, clothes, shoes, furniture, interior design, white goods, and nutritional supplements. The product selection mainly includes physical products, but also digital media for download and streaming. The customer database contains more than three and a half million active customers. CDON Group divides its operations into four segments.

Entertainment

Operations in the Entertainment segment are conducted through the CDON.com, BookPlus.fi, and Lekmer.com online stores. Together, the stores in 2012 registered almost 100 million site visits and received more than five million orders.

CDON.com launched in 1999 and today holds a strong position on the entertainment market in the Nordics, both in respect to traditional retailing and e-commerce. CDON.com offers more products than any other Nordic online retailer and has a local presence in Sweden, Norway, Denmark and Finland. The scalable business model of CDON.com has facilitated expansion into new product segments. Today, CDON.com has a wide product selection that offers everything from consumer electronics and mobile phones to books, games, films, sports and leisure products, clothing and shoes, and toys. As part of the segment focus on strengthening sales volumes in future growth areas, a strategic objective was revealed to shift CDON.com from a pure entertainment store into a shopping centre. As a result, Lekmer.com's assortment of toys was integrated in 2011. During 2012, CDON.com has continued to integrate the product assortments from fashion stores Nelly.com and Heppo.com as well as the white goods and household appliances from Tretti.com. CDON.com has also invested in a new product assortiment in Sports & Leisure and started up Smart Deals, limited-time offers for customers on selected products at the best prices on the market. ***BookPlus.fi*** launched in 1995 as Finland's first e-bookstore and is today considered a pioneer in e-commerce. BookPlus.fi was acquired by the CDON Group in December 2007, and the online store was integrated into the Company infrastructure as CDON.com's Finnish book department. Its assortiment ranges from children's literature and popular entertainment to professional books and academic titles. ***Lekmer.com*** launched in Sweden in 2006. Today it is the Nordic's largest online store for toys and other products for children. Lekmer.com was acquired by the CDON Group in March 2010. The company has online stores in Sweden, Norway, Denmark and Finland. Lekmer has the ambition to offer a complete assortment of products for families with children. Straight from the warehouse, the company offers more than 10,000 different articles within toys, baby, children's clothing and interior decorations for children's rooms.

Fashion

Operations in the Fashion segment are conducted through the online stores Nelly.com, Heppo.com and Members.com. Together, the stores in 2012 registered more than 120 million site visits and received more than 1,000,000 orders.

Nelly.com was founded in 2004. After the CDON Group acquired the online retailer in 2007, Nelly.com has expanded rapidly and is now active in Sweden, Norway, Denmark, Finland, Germany, the Netherlands, the UK and as a EU-wide site. The company's ambition is to continue its international expansion. The product selection has broadened from its initial offering of lingerie, swimwear, and women's clothing to include men's clothing, as well as accessories and beauty products. In all, Nelly.com offers more than 800 brands in all price ranges. In 2008, Nelly.com launched its own brands, including "Nelly Trend" and "Nelly Shoes". The product range comprised by Nelly.com's own brands has subsequently expanded to currently include an extensive range of shoes and accessories and a selection of clothing and underwear from around 30 own brands.

Heppo.com is an online retailer of shoes, shoe accessories and accessories. The CDON Group launched it in August 2010 in Sweden; the store is active in Sweden, Norway, Denmark and Finland. Heppo.com exemplifies how CDON takes advantage of existing IT infrastructure, logistic solutions, and internal know-how to found a new company with limited investment needs. The product range includes trendy, functional and classic shoes as well as accessories from more than 400 brands. The main target audience for the online store is men and women from 30 to 50 years of age.

Members.com is a shopping club launched throughout the Nordic region in September 2011 by the CDON Group. Members.com is a new, exclusive e-shopping club that presents new and unique offerings on exclusively selected brand-name goods and services to its registered members. The core of Members.com consists of fashion apparel and accessories. Recently, the range has been expanded to also include interior decoration, design and electronics under Members Home, as well as experiences, travel and hotel offers from around the world in Members Travel.

Sports & Health

Operations in the Sports & Health segment are conducted through the online stores Gymgrossisten.com (Fitnesstukku.fi in Finland, Bodystore.de in Germany and Bodystore.dk in Denmark) as well as Bodystore.com. Together, the stores in 2012 registered almost 13 million site visits and received more than 700,000 orders.

Gymgrossisten.com was founded in 1996 and is today, even taking the entire market into consideration, the leading online retailer of dietary supplements in the Nordics. The CDON Group acquired Gymgrossisten.com and its Finnish equivalent, Fitnesstukku.fi, in 2008. The Company established the brand in Norway in October 2008, in Denmark in February 2011, and in Germany in December 2011. In addition to online sales, Gymgrossisten.com also retails its products through franchise stores in Sweden and Norway. Gymgrossisten.com offers a wide variety of dietary supplements in various forms, such as bars, powders, and beverages. They are mainly used for muscle-building, meal replacement, performance enhancement, weight loss, and to achieve general good health. The products contain vitamins, minerals, carbohydrates, and protein. The internet store offers attractive external brands such as Better Bodies, Abilica, Multipower, and SAN Nutrition, together with its own brand “Star Nutrition”. Gymgrossisten.com also has a growing selection of books, training equipment, and training clothing.

Bodystore.com is an online store for beauty products, health foods, and general well-being. The online store was included in the acquisition of Gymgrossisten in 2008. Bodystore has established itself as Sweden’s leading online store for health foods and general well-being, with a wide and growing product selection. Its assortment stretches from health and body care products, food, naturopathic medicines, OTC drugs and beauty products to dietary supplements, sportswear and training equipment. The product range includes name as well as in-house brands.

Home & Garden

Operations in the Home & Garden segment take place through the online stores Tretti.com and Rum21.com. Together, the stores in 2012 registered almost 12 million site visits and received just over 250,000 orders.

Tretti.com is one of the largest online retailers in the Nordics of white goods and household appliances. The online store offers more than 9,000 articles from well-known brands such as AEG, Bosch, Electrolux, Gorenje, iRobot, OBH Nordica, Siemens and Whirlpool. In addition to its online store, Tretti.com has a showroom in Stockholm. Tretti.com was established 2004, listed on the exchange in 2005, and launched in Norway and Finland in 2010. In June 2011, the Company was purchased through NASDAQ OMX First North by the CDON Group; the Company was established the same month in Finland.

RUM21.com was launched in 2006 in Borås, Sweden. Today it is the Nordic’s largest online retailer of furniture and interior design products from leading Scandinavian and European manufacturers and brands. In 2012, Rum21.com launched its first in-house brand, Department, a series of high quality furniture at an attractive price. Rum21.com also has a shop in Borås, Sweden. Rum21.com was acquired by the CDON Group in February 2011. Since then it has been established in Norway, Denmark and Finland.

Overview

Group sales increased significantly during the year. The Entertainment segment has continued to show accelerated growth and its sales increased by more than SEK 450 million compared year-on-year. Growth was partly driven by the continued expansion of CDON.com, mainly through the expansion of the consumer electronics segment as well as the integration of the assortment of other Group retailers into CDON.com. Lekmer.com has also shown very significant sales growth during the year, with an emphasis on fourth quarter, by far the largest for Lekmer.com.

The Fashion segment has continued its highly expansive growth in 2012. Despite the warehouse relocation, which affected Nelly.com's growth during large parts of the year, the segment grew by almost 30%, mainly due to continued growth in market share for Nelly.com in the Nordic markets. A shop localized for the UK was opened during 2012. The Heppo.com shoe retailer that launched in Q3 2010 implemented a test launch in the Netherlands in 2012, which was discontinued after an evaluation period.

The Sports & Health segment during the year strengthened its position in all geographic markets. In February 2011, the segment expanded into the Danish and German markets. The new launch is proceeding as planned and the segment increased its net sales by 32% in 2012 compared year-on-year.

The Home & Garden segment was established through the acquisition of Tretti.com in 2011. Tretti.com is a Nordic market leader in online retailing of white goods. The furniture and interior design retailer Rum21.com, which was acquired in early 2011, is also included in the Home & Garden segment. The upward sales trend for Tretti.com during the year was mainly from widening its selection and good sales growth on the Nordic market. A wider product range and marketing activities in all Nordic markets also contributed to increased sales for Rum21.com.

Partnerships between Group subsidiaries for marketing and logistics in all markets have enabled additional growth.

In Q4, CDON Group acquired the logistics operations of Business Linc BL AB in Falkenberg through an asset deal. The acquisition was a strategic move in strengthening the Group’s value chain and delivering a high level of customer satisfaction. The acquired operations are run through the newly founded company CDON Group Logistics AB and provide logistic services for Group companies Lekmer.com, Heppo.com, Members.com and Nelly.com.

When completing the year-end closure within Nelly.com, negative non-recurring items of SEK -112.1 million were identified affecting the result in the fourth quarter. In total the Group reported non-recurring items of SEK -160.5 million for the full year.

The decrease in margin during the year is mainly a result of the ongoing shift in the Entertainment segment away from the sale of media products towards growth categories such as consumer electronic products, and the acquisition of the logistics operations in Falkenberg. The operating result was also affected by the non-recurring items mentioned above.

Consolidated financial position

(SEK million)	2012	2011	*Change (%)*
Net sales	4,461.7	3,403.7	*31.1%*
Gross income	471.2	587.3	*-19.8%*
Gross margin (%)	*10.6%*	*17.3%*	
Operating profit/loss	-173.9	129.2	-
Operating margin (%)	*-3.9%*	*3.8%*	
Net financial items	-27.3	-18.2	
Profit/loss before tax	-201.2	111.0	-
Profit/loss after tax	-151.7	83.0	-
Basic earnings per share (SEK)	-2.25	1.26	-
Diluted earnings per share (SEK)	-2.25	1.26	-
Total assets	1,682.8	1,625.3	*3.5%*

Sales

Group net sales were up 31% year-on-year in 2012 and organically net sales increased 36% year on year, following continued sales growth and market share gains for all business segments in the Group. The Group's internet retailers attracted 244.3 million visitors (171.8) and generated 7.1 million orders (6.0).

Operating expenses

Consolidated expenses for goods sold rose 42% to SEK 3,990.5 million (2,816.4), including non-recurring items amounting to SEK 160.5 million that are predominately due to value adjustments of Nelly's inventory. The corresponding gross margin amounted to 10.6% (17.3). Excluding nonrecurring items, gross margin amounted to 14.2%. The decrease in margin is a result of the ongoing shift in the Entertainment segment away from the sale of media products towards growth categories such as consumer electronic products, and affected by the consolidation of Tretti AB, which has somewhat lower margins the Group average, for the full fiscal year 2012 compared with around half the fiscal year 2011.

Consolidated sales and administrative expenses increased by 39% to SEK 638.0 million (458.8), which was primarily a result of continued increasing sales volume in all segments.

Sales and administrative expenses include Group central costs of SEK 42.2 million (37.8) reflected the Group's central functions and governing bodies, as well as non-recurring cost of SEK 1.3 million associated with the acquisition of the operations of Business Linc BL AB during the fourth quarter 2012.

The operating loss for the year was SEK -3.4 million (149.0) excluding non-recurring items with an operating margin of -0.1% (4.4%) items and an operating profit of SEK -173.9 million (129.2) including non-recurring items with an operating margin of -3.8% (3.8%).

Net financial items

The Group´s net interest and other financial items amounted to SEK -27.2 million (-18.2), which primarily reflected the interest costs related to the convertible bond issued by CDON Group on 2 December 2010, the Group´s revolving credit facility, as well as overdraft facilities.

Tax

Group loss before tax amounted to SEK -201.2 million (111.0).

The Group reported tax revenue of SEK 49.4 million (-28.0). Group consolidated net income therefore totalled SEK -151.7 million (83.0).

At the end of 2012, the Swedish Parliament lowered the corporate tax rate as of 1 January 2013 from 26.3% to 22.0%. The reduction in corporate tax has resulted in tax revenues for the Group of SEK 4.9 million as a result of the revaluation of deferred tax liability on Group surplus value.

Net profit and earnings per share

Consolidated net income decreased from SEK 83.0 million to SEK -151.7 million.

The total number of shares amounted to 66,817,124. The Group reported basic earnings per share of SEK -2.25 (1.26) for the full year, based on weighted average number of shares during the period. The Group reported diluted earnings per share of SEK -2.25 (1.26), based on weighted average number of shares during the period.

Consolidated financial position

Group total assets grew by 3.5% year on year to SEK 1,682.8 (1,625.3) million. Inventory levels increased year-on-year to SEK 609.7 million (459.1). The increase in inventory is primarily due to the ongoing product range expansion in the Entertainment segment as well as growth within all segments in the Group.

Cash flow from operating activities before change in working capital declined to SEK -97.5 million (124.3). The Group reported a SEK -142.1 million (71.6) change in working capital. The Group's rolling twelve month return on capital employed declined year on year to -23.3% (18.7), which mainly reflected the Group decline in earnings.

Group cash flow to investing activity amounted to SEK -50.3 million (-345.8), which primarily reflected the SEK -3.0 million net cash flow impact from the acquisition of the operations of Business Linc BL AB, the SEK -4.9 million net cash flow impact from the contingent consideration and deferred purchase price regarding the acquisition of Rum21 AB, the SEK -1.8 million net cash flow impact from the contingent consideration regarding the acquisition of Lekmer AB, as well as the SEK -5.2 million net cash flow from the compulsory redemption of the remaining shares in Tretti AB.

Consolidated cash flow from financing activities totalled SEK 0.0 million (136.2).

Total interest-bearing liabilities for the Group amounted to SEK 373.0 million (364.8), which mainly reflected the revolving credit facility and the convertible bonds issued to the Modern Times Group.

Group cash and cash equivalents declined by SEK 291.3 million till SEK 126.1 million (417.4). The Group therefore had net loans payable (defined as interest-bearing liabilities less cash and cash equivalents) of SEK 246.8 (-37.6 net cash position) million.

Acquisitions and divestments

The CDON Group acquired the logistics operations of Business Linc BL AB, a third-party logistics company specialised in e-commerce, in October 2012. The company operates 50,000 sq. m. of warehousing space in Falkenberg. The operations were transferred to CDON Group through an asset deal that includes the majority of its assets as well as the liabilities attributable to these assets that arise after the transfer. The employees were offered employment within the CDON Group. Agreements with customers external to the CDON Group were discontinued.

The purchase price was set to SEK 10.0 million, to be paid in 10 monthly installments of SEK 1.0 million each. An additional purchase price not to exceed SEK 5.0 million is contingent on certain conditions, including the transfer to CDON Group of existing rental contracts for the operations with unchanged terms. CDON Group completed the acquisition on 1 October and at 31 December SEK 3 million of the purchase price had been paid.

Operating loss for CDON Group Logistics AB amounted to SEK -18.9 million and is included in reporting of Group central operations.

Segment

Entertainment

(SEK million)	2012	2011	*Change (%)*
Net sales	2,386.0	1,928.9	*23.7%*
Operating profit/loss	102.3	102.3	*0.0%*
Operating margin (%)	*4.3%*	*5.3%*	
No. of visits (millions)	99.2	81.4	*21.9%*
No. of orders (millions)	4.7	4.2	*11.9%*
Average shopping basket (SEK)	480	433	*10.9%*

The Entertainment segment comprises the online stores CDON.com, BookPlus.fi and Lekmer.com. The segment sales were up 24% in 2012. The segment accounted for 53% (57) of total Group sales.

The ongoing shift from media products towards new growth areas such as consumer electronics was accelerated further in 2012 as new vendor collaborations and an expanded product range contributed to continued strong sales development. Consumer electronics solidified its position as the largest product category, while sales of media products declined as a result of the weak market development.

CDON.com continued to strengthen its customer offering by widening its product range. The selection was further expanded in 2012 by adding the assortment from the Tretti.com, Nelly.com and Heppo.com retailers. The selection from Bookplus.fi, which is now fully integrated as the book department of CDON.fi, and Lekmer.com have been previously represented at CDON.com. Thereby CDON.com has further consolidated its position as the leading internet shopping mall in the Nordic region.

The operating profit in the segment was unchanged for the full year, while the operating margin declined as a result of the ongoing shift from media products to consumer electronics.

Fashion

(SEK million)	2012	2011	*Change (%)*
Net sales	942.9	728.2	*29.5%*
Operating profit/loss	-267.6	19.8	-
Operating margin (%)	*-28.4%*	*2.7%*	
No. of visits (millions)	120.3	75.0	*60.4%*
No. of orders (millions)	1.5	1.1	*36.4%*
Average shopping basket (SEK)	626	641	*-2.3%*

The Fashion segment comprises the online stores Nelly.com, Heppo.com and Members.com. The segment sales were up 30% during the year. The segment accounted for 21% (21) of total Group sales.

Segment growth mainly results from an increase in market shares for Nelly.com in the Nordic region. Nelly.com relocated its inventory during Q2 when Nelly.com's product flow was transferred from Borås to a new third-party logistics partner in Falkenberg. The warehouse relocation had unexpected consequences on the productivity level of the store. As a result, the Group acquired the logistics operations in Q4. Despite the impact of the inventory relocation on Nelly.com's growth throughout the majority of the year, the retailer reported sales growth of 28% for the full-year compared year on year and further solidified its leading market position. During the year, Nelly.com was launched locally in the UK and Heppo.com was launched as a test in the Netherlands. After the evaluation period, Heppo.nl was closed in December.

The operating profit in the segment was negatively affected for the year by non-recurring items of SEK 160.5 million in Nelly.com. Non-recurring items are mainly related to the warehouse relocation completed during the year as well as write-down of overstock and adjustment of balance sheet items and inventory discrepancies, of which about SEK 40 million are attributable to 2011 or before.

Sports & Health

(SEK million)	2012	2011	*Change (%)*
Net sales	496.4	377.1	*31.6%*
Operating profit/loss	47.3	39.7	*19.1%*
Operating margin (%)	*9.5%*	*10.5%*	
No. of visits (millions)	13.0	9.5	*36.9%*
No. of orders (millions)	0.7	0.5	*24.0%*
Average shopping basket (SEK)	729	692	*5.3%*

The Sports & Health segment comprises the online stores Gymgrossisten.com (Fitnesstukku.fi in Finland, Bodystore.dk in Denmark and Bodystore.de in Germany), which primarily sells dietary supplements, as well as the Swedish site Bodystore.com, an online health food retailer. Sales in this segment grew 32% in 2012 and accounted for 11% (11) of total Group sales.

The strong growth is a result of an expanded product selection and continued positive sales growth in all markets. Stores in the new markets of Denmark and Germany are continue to grow according to plan.

The current expansion to the own product range has resulted in a growing assortment and a larger percentage of own brand sales in all markets, which has lifted the gross margin.

Operating profit for the segment rose 19% for the full year compared year on year. The operating margin slowed somewhat as a result of continued investments in the new markets as well as investments in the regulatory operations that ensure that the stores meet new regulatory requirements placed on sales of food and dietary supplements in each market.

Home & Garden

(SEK million)	2012	2011	*Change (%)*
Net sales	631.6	369.5	*70.9%*
Operating profit/loss	-13.7	5.3	-
Operating margin (%)	*-2.2%*	*1.4%*	
No. of visits (millions)	11.9	5.9	*101.7%*
No. of orders (millions)	0.3	0.1	*90.4%*
Average shopping basket (SEK)	2,383	2,696	*-11.6%*

The Home & Garden segment comprises the acquired online stores Tretti.com and Rum21.com. The segment accounted for 14% (11%) of total Group sales. Tretti.com was consolidated for the full fiscal year 2012 compared with around half the fiscal year 2011.

Tretti.com showed a positive upward sales trend during the year, mainly from widening its selection and good sales growth on the Nordic market. Rum21.com has also broadened its product range and reported high growth in all Nordic markets.

Starting 1 January 2013, the majority of Tretti.com's organisation has been relocated to Malmö from Stockholm in order to realise Group synergies with CDON.com, as the companies' business models are increasingly similar. The change creates opportunities for strengthening the stores' competitiveness, growth prospects and profitability. Rum21.com continued to add new suppliers of quality furniture and fittings.

The segment's operating losses were primarily due to market investments in the positioning of Rum21.com in the Nordic market and costs associated with Tretti.com's relocation to Malmö.

Central operations

CDON Group acquired the logistics operations of Business Linc BL AB located in Falkenberg, Sweden on 1 October 2012. Acquisition of the logistics operations is a step toward strengthening the Group's value chain and delivering a high level of customer satisfaction. Business Linc BL AB was the logistics partner for four of the Group's stores. Following the acquisition, CDON Group now operates the logistics of eight of the Group's ten stores in-house.

Immediately after the acquisition, focus was put on ensuring higher levels of service and a positive customer experience. After the fourth quarter, a comprehensive improvement program has been launched, and is expected to positively influence quality and costs in 2013.

Operating loss for CDON Group Logistics AB amounted to SEK -18.9 million and is included in reporting of Group central operations.

Outlook

The Nordic e-commerce market is in an early phase of development and accounts for approximately 6% of the total Nordic retail sector[1].

Compared to more developed e-commerce markets such as the US and the UK, e-commerce penetration in the Nordic countries is still at low levels. According to the Center for Retail Research, the penetration of e-commerce in 2011 will reach 9% in the US and about 12% in the UK.

The total Nordic distance-selling market is estimated at approximately SEK 100 billion[2] in growth in the Swedish market was 14% in 2012[3].

[1] HUI and Forrester Research
[2] PostNord and CDON Group
[3] HUI

Euromonitor estimates that Nordic e-commerce will continue to report double-digit growth (a compound annual growth rate, CAGR, of 11%) until 2014. Finland is forecast to record the highest percentage of growth, mainly because e-commerce is not as highly developed there as in the other Nordic countries. In 2012, the Nordics have grown more rapidly than more developed areas such as the US and the UK, and as a result has grown closer to these markets [4].

Taking this research into consideration, the CDON Group operates in a sector with high market growth and the Group's companies are well positioned to capitalise on this momentum. The Group's strategy is to, in a balanced way, continue to deliver sales growth and increased market shares. This growth is mainly expected to be generated from our three main assets: CDON.com, Nelly.com and Gymgrossisten.com. In order to facilitate these higher sales volumes, another key strategic focus is to further enhance the efficiency of the Group's logistics. One step in this new strategic direction was the acquisition of the warehouse operations in Falkenberg, Sweden. The expected outcome of these efficiency efforts is to secure a retained high customer satisfaction in combination with future best-in-class cost effectiveness.

Overview of risk factors

A number of factors affect or may in the future affect the operations of CDON Group, both those directly related to the CDON Group and those that relate indirectly. Some of the risk factors considered significant to the CDON Group's future development are summarised below, in no relative order.

Industry and market risks

- Market trend for e-commerce
- Seasonal variations
- Risks related to fashion trends

Operational risks

- Disturbances or inadequacies in CDON Group's IT and control systems
- Distribution
- Expansion into new markets and new segments
- Structural measures and acquisitions
- Returns and free shipping
- Intangible non-current assets

[4] Centre for Retail Research

Financial risks

- Currency risks
- Financing and interest rate risks

Legal risks

- Legislation, regulations, and compliance

Industry and market risks

Market trend for e-commerce

The market for e-commerce is undergoing change. In Sweden, the average annual growth of the e-commerce market was 24% between 2004 and 2012. In 2012 the e-commerce market in Sweden constituted 6.0% of total retail sales, compared with 1.2% in 2003, according to the Swedish Retail Institute (HUI). There are no assurances that the e-commerce market will continue to show the same positive trend, or that the products the CDON Group sells benefit from positive market developments.

Seasonal variations

In the Entertainment segment, which is heavily dependent on Christmas shopping, CDON Group is exposed to large seasonal variations and a large portion of sales occurs during Q4. The Fashion segment also exhibits seasonal variations, where the second and fourth quarters are the strongest as summer and winter clothing exhibit the largest sales.

Risks related to fashion trends

In the Fashion segment, CDON Group is also exposed to fluctuations in trends and fashion, as well as consumer preferences regarding design, quality, and price. If CDON Group misjudges consumer preferences and does not succeed in selling its products, this may lead to excess inventory of certain products and price cuts.

Operational risks

Disturbances or inadequacies in CDON Group’s IT and control systems

CDON Group’s operations are highly dependent on reliable IT and control systems that are well suited to CDON Group’s operations. The CDON Group has made significant investments in sophisticated IT and control systems, including an integrated logistic system that automatically manages and forwards orders to its distribution centres. Maintenance, upgrades, and support of these systems are ongoing.

Distribution

CDON Group depends on a number of warehouses that are associated with the Company’s online stores. If a warehouse for some reason were to be destroyed or close or if its equipment should be seriously damaged, the Company might not be able to deliver the products to its customers.

Under such circumstances, and to the extent the CDON Group cannot quickly and cost-effectively find an alternate warehouse or repair the warehouse in question or its equipment, this may have a considerable negative effect on the Company's operations. CDON Group has insurance policies for property and production stoppages for amounts that the Company has found adequate, but there is no guarantee that such amounts can be recovered in full or that the amounts recovered are sufficient to cover potential losses.

Expansion into new markets and new segments

CDON Group follows a growth strategy. Even if the Group conducts a thorough business analysis prior to each investment, potential expansion into new geographic or industrial markets may entail unforeseen costs such as lower-than-expected sales for CDON Group.

Structural measures and acquisitions

The CDON Group has made a number of acquisitions since 2007. Growth via acquisitions poses a risk because of the difficulty of integrating new businesses and employees. The CDON Group could have significant acquisition and administration costs, as well as costs for restructuring and other costs related to acquisitions.

Returns and free shipping

CDON Group's online retailers currently offer free product exchanges, a practice seen as a competitive factor in product segments in which customers have a strong need to see the physical product. Several e-commerce retailers today applied a differentiated shipping charge based on the current market, such as free shipping for purchases over a certain value. CDON Group sees no need to change these terms currently. A future change in industry practice could adversely affect the CDON Group's operations.

Intangible assets

The CDON Group's intangible assets at 31 December 2012 were valued at SEK 618 million; these comprised goodwill of SEK 462 million, brands of SEK 109 million, capitalised expenditures of SEK 33 million, and other intangible assets of SEK 15 million. Indications of changes in the value of the assets is tested continuously, and CDON Group has made the assessment that no impairment currently exists.

Financial risks

Currency risks

The CDON Group's reporting currency is the Swedish krona. Since a significant portion of CDON Group's sales, some 44% for full-year 2012, are completed outside Sweden, the company is exposed to certain risks related to transactions in various currencies (transaction exposure). The CDON Group is also exposed to currency risk arising from the translation of the balance sheets and income statements of foreign subsidiaries (translation exposure). The most important currencies that CDON Group is exposed to are NOK, DKK together with EUR for sales, and NOK, DKK, EUR, USD, and GBP for purchases. The CDON Group does not hedge this exposure.

Financing and interest rates

The CDON Group finances its operations in part by borrowing, which mainly consists of a nominal SEK 250 million convertible bond (for more information on the convertible bond, see Note 27), and a revolving SEK 150 million credit facility. The conditions of the loan for the revolving credit facility are under negotiation as of the closing date. Part of CDON Group's cash flow is used for interest payments, but the fixed interest rate of 2.85% on the convertible partly limits the company's interest rate risk. The revolving credit facility is subject to a variable interest rate.

For further information on the financial risks, see Note 20.

Legal risks

Legislation, regulations, and compliance

CDON Group is affected by legislation and regulations govern some of the goods that CDON Group sells. For example, products within the Sports & Health segment must follow national food regulations. These products must therefore be approved by regulatory authorities in some of the countries where the CDON Group operates, which may entail approval or registration. Legal violations or breaching regulations, such as food and drink legislation, could lead to injunctions against the CDON Group. Moreover, the cost of regulatory compliance can be substantial.

Environment

The environment is everyone's responsibility – both companies and individuals. CDON Group's capability to take responsibility for sustainable development is the key to strengthening general confidence in us. The CDON Group is constantly searching for new ways to further decrease its environmental impact.

Our operations require warehousing, packaging, and transportation. Our customers, owners, and society in general expect us to offer environmentally conscious choices and to operate our business in a manner that is sustainable in the long term.

For quite some time, we have developed our packaging selection to optimise product protection for every delivery, while using the smallest amount of material possible. The result is smaller, lighter packaging material. Most of our packages are sent in boxes manufactured from recycled fibre.

Our shipments are mainly sent with PostNord and Bring. PostNord is the leading supplier of logistics services to, from, and within the Nordics. PostNord is actively involved in environmental and climate efforts. Products packaged in envelopes are mainly sent as eco-friendly product letters, the most environmentally compatible distribution method, which avoids air shipping. PostNord offsets the carbon use for the distribution. Bring is the first climate-neutral postal company in the world. Carbon used by transport through Bring and its subsidiaries is fully offset.

The Group does not have any operations that require permits or applications under the Environmental Code.

Employees

CDON Group recognises that its employees are crucial to its operations. Attracting and retaining staff and developing employee skills are necessary to the success of the CDON Group, as well as to meet established targets for growth and business development.

The Group had 872 full-time employees at the end of 2012, compared with 465 at the beginning of 2012. The increase is primarily a result of the acquisition of the logistics operations in Falkenberg. Information on the average number of employees and salary expenses for the year is available in Notes 22 and 23.

Proposal for the guidelines for remuneration to senior executives

The Board of Directors proposes to the 2013 annual general meeting to decide on the following guidelines for determining remuneration to senior executives in the Group ("Executives") as well as board members to the extent in which they are remunerated outside their directorship.

Remuneration guidelines

The objective of the guidelines is to ensure that the CDON Group can attract, motivate, and retain Executives, within the context of the CDON Group's peer group, which consists of Nordic online and off-line 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 paid in cash, as well as the possibility of participation in long-term equity-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 salary and remuneration in addition to fixed salaries. 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

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 allowance could be granted for a defined 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 twelve months, but 18 months in some exceptions, during which time salary payment will continue.

Compensation to board members

Board members appointed at general meetings may in certain cases be able to receive remuneration for services performed 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 of Directors 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.

The current guidelines for remuneration to senior executives in CDON Group are described in the Corporate Governance section.

For more information on remuneration of the CEO and executive management, please see Note 23.

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, please see Note 23.

The total cost for the incentive program proposed by the 2013 AGM is estimated to about SEK 6.6 million excluding social charges in accordance with IFRS 2. The cost will be distributed over the years 2013-2016. The estimated expenses for social charges will also be expensed as personnel costs through regular provisions. Costs for social charges are expected to amount to about SEK 2.6 million.

The maximum costs for the incentive programs is expected to total about SEK 12.1 million, and the maximum cost for social charges about SEK 42.0 million.

Parent company

CDON Group AB is the Group's parent company and is responsible for Group-wide management, administration, and finance functions. The CDON Group's financial policy includes providing a central cash pool or financing through internal loans to support the operating companies. The parent company holds shares in the subsidiaries, as specified in Note 11.

The parent company has the same risks and uncertainty factors as the Group, since the parent company's operations are dependent on the Group.

The parent company reported sales of SEK 54.0 million (42.4) for the full year. Administrative expense totalled SEK -76.9 million (-61.9) for the full year, and reflects costs of a recurring nature, primarily related to operating the CDON Group AB as a publicly listed company, consisting of expenses for central functions, board fees, auditing services, etc.

Other net financial items amounted to SEK -13.6 million (-12.6) for the full year. The parent company received group contributions from subsidiaries amounting to SEK 148.2 million and gave group contributions to subsidiaries amounting to SEK -120.4 million during the year.
Loss before tax amounted to SEK -8.7 million (75.8) for the full year.

Cash and cash equivalents in the parent company amounted to SEK 87.7 million (356.3) at year-end.

The parent company made investments of SEK 134.6 million (403.6) in non-current assets during the year, of which

- SEK 133.0 million in shareholder contribution to NLY Scandinavia AB,
- SEK 0.4 million for compulsory redemption of the outstanding shares in Tretti AB,
- SEK 1.2 million revaluation of earn-out for Lekmer AB
- SEK 0.1 million for establishing CDON Group Logistics AB

Proposed allocation of profits

These amounts are at the disposal of the shareholders as of 31 December 2012 (SEK):

Share premium reserve	141,033,274.00
Retained earnings	132,262,036.59
Loss for the year	-6,413,613.27
Total	**266,881,697.32**

The Board proposes that retained earnings, share premium reserve and profit for the year for a total of SEK 266,881,697.32 be carried forward, of which SEK 141,033,274.00 to the share premium reserve.

Regarding the Company's financial position and operational results, see the financial statements and accompanying notes and comments that follow.

The share

The share is traded on the NASDAQ OMX Stockholm MidCap list under the CDON ticker symbol. CDON's market capitalisation at the close of trading on the NASDAQ OMX Stockholm exchange on the last business day of 2012 was SEK 2.7 billion.

Shareholders at 28 December 2012

	Capital (%)	Votes (%)	No. of shares
Investment AB Kinnevik	24.9%	25.1%	16,639,607
Point Lobos Capital LLC	10.0%	10.1%	6,677,172
Handelsbanken Funds	6.0%	6.0%	3,990,385
Capital Group Funds	4.0%	4.0%	2,662,809
Luxor Capital Group LP	3.9%	3.9%	2,572,910
Fourth AP Fund	3.4%	3.4%	2,252,095
Swedbank Robur Funds	1.9%	1.9%	1,291,714
AMF Pension & Funds	1.7%	1.7%	1,148,400
Nordea Funds	1.6%	1.6%	1,060,289
Öresund Investment AB	1.3%	1.3%	889,910
Fidelity Funds	1.2%	1.2%	790,060
Avanza Pension Försäkring AB	1.2%	1.2%	782,415
Enter Fonder	1.1%	1.1%	732,400
Thornburg Investment	0.6%	0.6%	399,023
E. Öhman J:or Fonder	0.6%	0.6%	396,492
Total for the 15 largest owners –by holdings	**63.4%**	**63.7%**	**42,285,681**
Other shareholders	36.6%	36.3%	24,531,443
Total shares issued*	**100.0%**	**100.0%**	**66,817,124**

* Includes 475,000 C shares held by the CDON Group.

Source: SIS Ägarservice

Share capital

At 31 December 2012, outstanding shares amounted to 66,817,124, of which 66,342,124 were ordinary shares and 475,000 were Class C shares. Class C shares have a quotient value of SEK 2 and are fully owned by CDON Group AB. CDON Group AB purchased class C shares for a total of SEK 950,000. The Group's share capital amounted to SEK 133.6 million at year-end. For changes in the share capital between 2011 and 2012, please see the Consolidated Statement of Changes in Equity.

The conversion price for the Group's SEK 250.0 million five-year convertible bond was set as of 19 January 2011 at SEK 38.00. The bond may therefore be converted into a maximum of 6,578,947 CDON Group AB shares from 15 June 2012 through 1 December 2015, which would represent a 9.0% dilution effect based on the number of shares outstanding as at 31 December 2012. The conversion price for the convertible will be recalculated if a shareholder other than Investment AB Kinnevik should hold 50% or more of the Company's shares.

At 31 December 2012, 301,675 outstanding rights and options were attributable to the Company's share-based incentive programmes. For more information on the incentive programmes, see Note 23.

The Company is not aware of any agreements between shareholders that would limit rights to transfer shares.

Dividend

The parent company paid no dividend in 2012.

Share price development

The share price at the beginning of the year was SEK 37.80. On the last trading day of the year, the share price was SEK 40.00.

Corporate governance

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

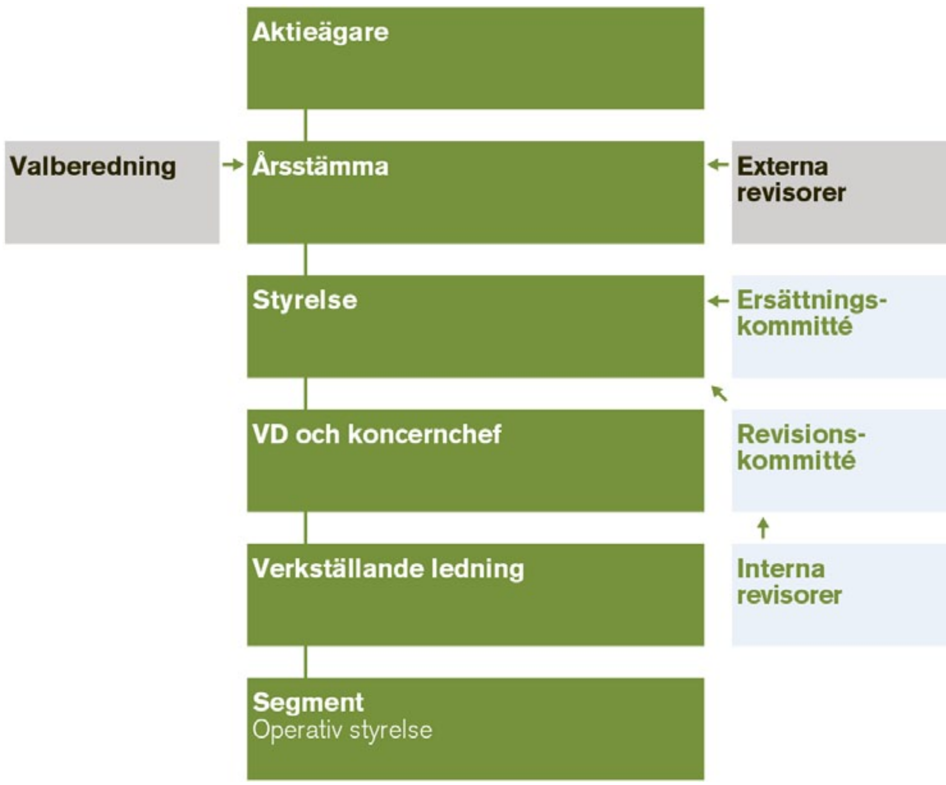
The CDON Group is governed by several bodies. At the Annual General Meeting, the shareholders exercise their voting rights by electing the Board of Directors and external auditors. Some of the Board's duties are assigned to the Chief Executive Officer (CEO) of the CDON Group. The CEO is in charge of 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 Särlvik 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	Inde-pendent of major share-holders	Independent of the company and its management	Remune-ration Committee	Audit Committee
Lars-Johan Jarnheimer	Chairman of the Board	1960	Swedish	2010	Yes	Yes	Member	
Mia Brunell-Livfors	Board member	1965	Swedish	2010	No	No	Chairman	
Henrik Persson	Board member	1974	Swedish	2010	No	Yes		Member
Lars Nilsson	Board member	1956	Swedish	2010	No	Yes		Chairman
Mengmeng Du	Board member	1980	Swedish	2010	Yes	Yes	Member	
Florian Seubert	Board 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 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.

Board of Directors

Lars-Johan Jarnheimer

Chairman of the Board
Swedish, born 1960

Lars-Johan has been a member of the Board of CDON Group since August 2010. He is currently Chairman of the Board of Directors of Eniro AB and a member of the Boards of INGKA Holding B.V. (the parent company of the IKEA Group of Companies), Egmont International Holding A/S, Baby Björn AB, Arvid Nordquist Handels AB and Chairman of the charity BRIS (Children's Rights in Society). Lars-Johan served as Chief Executive Officer of Tele2 AB from 1999 to 2008, and previously held various positions at IKEA, Hennes & Mauritz and Comviq AB. Lars-Johan was a Non-Executive Director of Modern Times Group MTG AB 1997-2008 and of Millicom International Cellular S.A. 2001-2007. Lars-Johan graduated with a Master's Degree in Economics and Business Administration from Växjö and Lund universities in Sweden.

Member of the Remuneration Committee.
Independent of the Company and management and independent of major shareholders.
Direct or related person ownership in CDON Group: 10,000 shares

Mia Brunell Livfors

Board member
Swedish, born 1965

Mia has been a member of the Board of CDON Group since August 2010. She has served as President and Chief Executive Officer of Investment AB Kinnevik since 2006, prior to which Mia served as Chief Financial Officer of MTG between 2001 and 2006 and in various financial management positions between 1992 and 2001. Mia has been Chair of the Board of Directors of Metro International S.A. since 2008, Non-Executive Director since 2006, and is also a Non-Executive Director of Tele2 AB since 2006, Millicom International Cellular S.A. and Modern Times Group MTG AB since 2007, H & M Hennes & Mauritz AB since 2008, and BillerudKorsnäs AB since 2012 (Non-Executive Director of Korsnäs AB 2006-2012). Mia studied Business Administration at Stockholm University.

Chair of the Remuneration Committee.
Not independent of the Company and management and not independent of major shareholders.
Direct or related person ownership in CDON Group: 5,505 shares

Mengmeng Du

Board member
Swedish, born 1980

Mengmeng has been a member of the Board of CDON Group since September 2010. Since August 2011, she has been working as Director International Growth at Spotify. From August 2010 to July 2011 Mengmeng worked as Project Manager at Alumni, an executive search and leadership services consultancy. She was Vice President Product Development of Stardoll, the world's largest online fashion and games community for girls, from 2009, prior to which she was Project Manager and Director of product development at the company. Before joining Stardoll in 2008, Mengmeng was a management consultant with Bain & Company in Sweden from 2005. She holds a Master of Science in Economics and Business Administration from Stockholm School of Economics and a Master of Science in Computer Science and Engineering from the Royal Institute of Technology in Stockholm.

Member of the Remuneration Committee.
Independent of the Company and management and independent of major shareholders.
Direct or related person ownership in CDON Group: 300 shares

Lars Nilsson

Board member
Swedish, born 1956

Lars has been a member of the Board of CDON Group since September 2010. He has been Chief Financial Officer at Tele2 since 2007, and Deputy CEO since 2010. Lars was previously Executive Vice President and Chief Financial Officer of Axfood AB, one of the largest food retailers in Scandinavia; CFO of Fritidsresegruppen; President and CEO of Aros Fondkommission, and CFO of ABB Financial Services. Lars holds a Master's Degree in Economics and Business Administration from Linköping University in Sweden.

Chairman of the Audit Committee.
Independent of the Company and management but not independent of major shareholders.
Direct or related person ownership in CDON Group: 12,000 shares

Henrik Persson

Board member

Swedish, born 1974

Persson has been a member of the Board of CDON Group since August 2010. He has been Head of New Investments at Investment AB Kinnevik since 2007 and worked as information director between 2004-2007. Persson has been a board member in Black Earth Farming Ltd since 2006, in Avito Holding AB and Bayport Management Ltd since 2009 and Milvik AB since 2011. Henrik studied economics and business administration at Lund University.

Member of the Audit Committee.
Independent of the Company and management but not independent of major shareholders.
Direct or related person ownership in CDON Group: 10,000 shares by endowment policy

Florian Seubert

Board member

German, born 1973

Florian has been a member of the Board of CDON Group since September 2010. He is co-founder of leading European online pet supplies retailer zooplus, and has been a member of the company's Management Board and Chief Financial Officer since 2000. Zooplus has been listed on the Frankfurt Stock Exchange since 2008. Florian is also the founder and a Director of various subsidiaries and affiliates around the world, and was previously an Associate with JPMorgan Securities. Florian holds a Master of Arts Degree in Politics, Philosophy and Economics from the University of Oxford.

Member of the Audit Committee.
Independent of the Company and management and independent of major shareholders.
Direct or related person ownership in CDON Group: 0 shares

Executive Management

Paul Fischbein

President and CEO

Born 1973

Paul Fischbein took over as CEO of CDON Group in November 2011. Paul's most recent position was as CEO of e-commerce company Tretti AB, which he founded in 2004 and which was acquired by CDON Group during the first half of 2011. Prior to this Paul worked as an entrepreneur within internet services and recruitment. Paul holds a Master's Degree in Economics and Business Administration from Lund University and has also studied at the London School of Economics and Political Science.

Shareholding in CDON Group: 40,000 shares

Nicolas Adlercreutz

CFO

Born 1970

Nicolas Adlercreutz assumed the role of CFO of CDON Group in February 2013. Adlercreutz worked most recently at PA Resources AB (publ) as CFO. Previously he has held several roles at Svenska Cellulosa Aktiebolaget SCA (publ), including Vice President Group Control. Adlercreutz holds a Master’s Degree in Economics and Business Administration.

Shareholding in CDON Group: 0 shares

Elisabeth Andersson

Head of Administration
Born 1971

Elisabeth Andersson was hired as COO of newly acquired LinusLotta.com in 2008. In 2009, she became Head of Logistics and Customer Services at CDON.COM and as of 2010 she is also the Head of Administration for CDON Group, which includes Human Resources. Elisabeth brings more than 10 years of experience in logistics, both from the Electrolux Group and Tradimus (now Aditro). Between 2005 and 2008, Elisabeth headed Tradimus Logistics' Malmö office. She has a Master of Science in Engineering from Lund University.

Shareholding in CDON Group: 4,000 shares

Fredrik Bengtsson

Head of Communications and IR
Born 1974

Fredrik Bengtsson joined CDON.COM as Marketing Director in 2004. He was appointed Head of Business Development at MTG Internet Retailing, now CDON Group, in 2007 and has been Head of Communications and IR for the Group since 2010. Prior to joining CDON, Fredrik was Director of Private Lending at Ikano Bank, and was Project Manager and part owner in the advertising agency Eminent Communications before that. Fredrik has studied Business Administration and Media at Lund University and holds a Bachelor's Degree in Informatics from the University of Gothenburg School of Business, Economics and Law.

Shareholding in CDON Group: 2,800 shares

Birgitta Elfversson

Head of Logistics
Born 1978

Birgitta Elfversson was hired in 2013 as Head of Logistics for CDON Group and MD of CDON Group Logistics. Previously, Elfversson was VP Retail of Domestic Group and management consultant at McKinsey & Co. Elfversson holds a Masters of Engineering in Engineering Physics from the KTH Royal Institute of Technology in Stockholm.

Shareholding in CDON Group: 0 shares

Christian Eriksson

MD CDON AB (CDON.com, Bookplus.fi), Tretti AB (Tretti.com) and Heppo AB (Heppo.com)
Born 1974

Christian Eriksson joined as Business Controller of MTG Internet Retailing, now CDON Group, in 2008. In 2010 he was appointed COO of CDON.com, and in 2011 he became MD of the company. In January 2013, Eriksson was also appointed MD of Tretti.com and Heppo.com. Prior to joining CDON, Christian worked as Controller at Bonnier-owned Homeenter AB and before that he was a corporate analyst at SBAB. He holds a Bachelor's Degree in Informatics from Lund University and has also studied Business Administration, specialising in financing.

Shareholding in CDON Group: 3,000 shares

Christofer Gordon

CTO
Born 1973

Christofer Gordon was employed as Head of IT and Development at CDON.COM in 2006, when it was still part of MTG. Since MTG Internet Retailing (now CDON Group) was created in 2007, he has held the position of Chief Technical Officer in the Group and this position has been widened to include acquired companies. Before joining CDON, Christopher worked for software company Mactive, where he started his career as a Systems Developer and finished as Director of Development. Christofer studied Design of Information Systems at Lund University.

Shareholding in CDON Group: 3,100 shares

Therese Hillman

MD Gymgrossisten Sweden AB (Gymgrossisten.com and Bodystore.com), Business Area Manager Sports & Health
Born 1980

Therese Hillman was hired as Business Developer for Gymgrossisten in 2007, and became the company's head of finance the same year. She was appointed COO of the company in 2009, and in 2011 she was made CEO. Prior to joining CDON, Therese worked at Handelsbanken Capital Markets. She holds a Master's Degree in Economics and Business Administration from the Stockholm School of Economics, and she has also studied in the United States including MBA courses at the Darden School of Business at the University of Virginia.

Shareholding in CDON Group: 2,800 shares

Patrik Illerstig

Head of Business Development
Born 1982

Patrik Illerstig was appointed Head of Business Development 2012. Illerstig has most recently been employed as CEO and founder at Rocket Internet Scandinavia and formerly worked at McKinsey & Company. He holds a Master's Degree in Economics and Business Administration from the Stockholm School of Economics, and has also studied MBA courses at Instituto Tecnológico Autónomo de México.

Shareholding in CDON Group: 2,000 shares

Magnus Månsson

MD NLY Scandinavia AB (Nelly.com and Members.com), Business Area Manager Fashion
Born 1967

Magnus Månsson was hired as MD of Nelly.com and Members.com in 2012. Månsson was most recently employed by the New Wave Group where he worked as MD for the New Wave Sport business area, as well as for Craft, a clothing company. Månsson has years of experience in the sports and fashion sector, including at Nike and Puma.

Shareholding in CDON Group: 0 shares

Fredrik Palm

MD of Lekmer AB (Lekmer.com) and Rum21 AB (Rum21.com)
Born 1974

Fredrik Palm was hired in 2011 as the managing director for Lekmer.com and became managing director of Tretti.com and Rum21.com in 2012. Palm was also managing director of Tretti.com in 2012.Palm was most recently CEO of Hexagon Machine Control Agriculture. He was the CEO and founder of Adoperator, which is now listed at Aktietorget. Palm holds a Master's Degree in Economics from the University of Gothenburg School of Business, Economics and Law, with a specialisation in management of growth companies.

Shareholding in CDON Group: 6,025 shares

Consolidated income statement

(SEK million)	Note	2012	2011
Net sales	4	4,461.7	3,403.7
Cost of sales	29	-3,990.5	-2,816.4
Gross profit		**471.2**	**587.3**
Sales & administrative expenses		-638.0	-458.8
Other operating income	6	1.6	3.4
Other operating expenses	6	-8.8	-2.7
Operating profit	4, 5, 9, 10, 11, 12, 21, 23, 24, 26, 29	**-173.9**	**129.2**
Profit/loss from shares of subsidiaries	7	-	-
Finance income	7	0.9	3.0
Finance expense	7, 27	-28.2	-21.2
Profit before tax		**-201.2**	**111.0**
Tax	8	49.4	-28.0
Profit for the year		**-151.7**	**83.0**
Attributable to:			
Parent company shareholders		-149.6	83.3
Non-controlling interest		-2.2	-0.3
Profit/loss for the year		**-151.7**	**83.0**
Basic earnings per share, SEK	15	-2.25	1.26
Diluted earnings per share, SEK	15	-2.25	1.26

Consolidated statement of comprehensive income

(SEK million)	Note	2012	2011
Profit/loss for the year		-151.7	83.0
Other comprehensive income			
Translation differences for foreign operations for the year		-1.2	-0.2
Other comprehensive income for the year	8, 16	**-1.2**	**-0.2**
Comprehensive income for the year		**-152.9**	**82.8**
Comprehensive income for the year attributable to:			
Parent company shareholders		-150.7	83.1
Non-controlling interest		-2.2	-0.3
Comprehensive income for the year		**-152.9**	**82.8**

Consolidated statement of financial position

(SEK million)	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Intangible non-current assets	9		
Ongoing project		4.4	9.6
Development expenses		33.3	12.3
Domains		5.6	1.0
Trademarks		108.7	108.7
Customer relationships		4.6	6.3
Goodwill		461.8	447.0
Total intangible non-current assets		**618.3**	**584.9**
Property, plant, and equipment	10		
Equipment		14.3	10.8
Total property, plant, and equipment		**14.3**	**10.8**
Financial non-current assets			
Other financial non-current assets		1.6	1.6
Total financial non-current assets		**1.6**	**1.6**
Deferred tax asset	8	44.4	6.0
Total non-current assets		**678.5**	**603.3**
Current assets			
Inventory	29		
Finished goods and merchandise		597.2	428.8
Advances to suppliers		12.4	30.2
Total inventory		**609.7**	**459.1**
Current receivables			
Accounts receivable	13	183.7	81.9
Other current receivables, non interest-bearing		52.4	44.3
Prepaid expenses and accrued income		32.4	19.4
Total current receivables		**268.5**	**145.6**
Cash and cash equivalents	20		
Cash and bank		126.1	417.4
Total cash and cash equivalents		**126.1**	**417.4**
Total current assets		**1,004.3**	**1,022.1**
Total assets		**1,682.8**	**1,625.3**

(SEK million)	Note	31 December 2012	31 December 2011
EQUITY AND LIABILITIES			
Equity attributable to parent company shareholders	16		
Share capital		133.6	133.1
Other capital contributions		141.8	140.7
Reserves		-2.3	-1.1
Retained earnings including net income for the year		-6.1	143.2
Total equity attributable to parent company shareholders		**267.1**	**415.9**
Non-controlling interest			
Non-controlling interest		-0.7	1.4
Total equity		**266.4**	**417.3**
Non-current liabilities	20		
Interest-bearing			
Convertible bonds	27	223.0	214.8
Credit facilities	30	-	150.0
Total non-current interest-bearing liabilities		**223.0**	**364.8**
Non-interest bearing			
Deferred tax liability	8	30.9	40.8
Other provisions	17	6.0	4.9
Total non-current non-interest bearing liabilities		**36.9**	**45.6**
Total non-current liabilities		**259.8**	**410.4**
Current liabilities	20		
Interest-bearing			
Credit facilities	30	150.0	-
Current liabilities		15.0	15.0
Total current interest-bearing liabilities		**165.0**	**15.0**
Non-interest bearing			
Accounts payable		564.2	463.0
Current tax liabilities		25.6	47.9
Other liabilities		109.3	95.6
Accrued expenses and prepaid income		292.5	176.2
Total current non-interest-bearing liabilities		**991.6**	**782.6**
Total current liabilities		**1,156.6**	**797.6**
Total liabilities		**1,416.4**	**1,208.0**
Total equity and liabilities		**1,682.8**	**1,625.3**

For information on pledged assets and contingent liabilities, see Note 19.

Consolidated statement of changes in equity

	Equity attributable to parent company shareholders						
(SEK million) Note 8, 16	Share capital	Other capital contributions	Translation reserve	earnings including net income for the year	Total	Non-controlling interest	**Total equity**
Opening balance, 1 January 2011	**132.7**	**140.7**	**-0.8**	**73.1**	**345.7**	**0.9**	**346.5**
Comprehensive income for the year							
Profit/loss for the year				83.3	83.3	-0.3	83.0
Other comprehensive income for the year			-0.2		-0.2		-0.2
Comprehensive income for the year	**-**	**-**	**-0.2**	**83.3**	**83.1**	**-0.3**	**82.8**
New share issue	0.4				0.4		0.4
Acquisition of own shares				-0.4	-0.4		-0.4
Non-controlling interest upon acquisition of a partially owned subsidiary						1.5	1.5
Acquisition of shares from non-controlling interest when controlling interest already exists				-13.1	-13.1	-0.7	-13.8
Share savings plan				0.3	0.3		0.3
Closing balance, 31 December 2011	**133.1**	**140.7**	**-1.1**	**143.2**	**415.9**	**1.4**	**417.3**
Opening balance, 1 January 2012	**133.1**	**140.7**	**-1.1**	**143.2**	**415.9**	**1.4**	**417.3**
Comprehensive income for the year							
Profit/loss for the year				-149.6	-149.6	-2.2	-151.7
Other comprehensive income for the year			-1.2		-1.2		-1.2
Comprehensive income for the year	**-**	**-**	**-1.2**	**-149.6**	**-150.7**	**-2.2**	**-152.9**
New share issue	0.6				0.6		0.6
Acquisition of own shares				-0.6	-0.6		-0.6
Share savings plan				0.9	0.9		0.9
Effects from changes in tax rate		1.2			1.2		1.2
Closing balance, 31 December 2012	**133.6**	**141.8**	**-2.3**	**-6.1**	**267.1**	**-0.7**	**266.4**

Consolidated statement of cash flows

(SEK million)	Note	2012	2011
Operating activities			
Profit/loss before tax		-201.2	111.0
Adjustments for items not included in cash flow	25	125.4	35.7
Income tax paid		-21.7	-22.5
Cash flow from operating activities		**-97.5**	**124.3**
Cash flow from changes in working capital			
Increase (–)/decrease (+) in inventories		-238.3	-134.7
Increase (–)/decrease (+) in other current receivables		-128.1	-55.6
Increase (+)/decrease (-) of accounts payable		101.4	177.1
Increase (+)/decrease (-) of other non-current liabilities		122.9	84.7
Total change in working capital		**-142.1**	**71.6**
Net cash flow from operations		**-239.5**	**195.9**
Investing activities			
Investments in activities	5	-14.9	-323.9
Investments in other non-current assets		-35.4	-21.9
Cash flow to investing activities		**-50.3**	**-345.8**
Financing activities			
Acquisition of shares from non-controlling interest	5	-	-13.8
Utilised credit facilities	30	-	184.5
Amortisation of credit facilities	30	-	-34.5
Cash flow from/to financing activities		**0.0**	**136.2**
Change in cash and cash equivalents		**-289.9**	**-13.8**
Cash and cash equivalents, year's start		**417.4**	**431.3**
Exchange rate difference for cash and cash equivalents		-1.4	-0.1
Cash and cash equivalents, year's end		**126.1**	**417.4**

Income statement – parent company

(SEK million)	Note	2012	2011
Net sales		54.0	42.4
Gross profit		**54.0**	**42.4**
Administrative expenses		-76.9	-61.9
Other operating expenses		0.0	-
Operating loss	21, 23, 24, 26	**-22.8**	**-19.6**
Loss from shares of subsidiaries		-0.1	-
Interest revenue and similar items		12.8	8.1
Interest expenses and similar items		-26.4	-20.8
Profit/loss after financial items	7,27	**-36.5**	**-32.2**
Change in excess depreciation		0.0	0.0
Group contributions received		148.2	124.0
Group contributions paid		-120.4	-16.0
Profit/loss before tax		**-8.7**	**75.8**
Tax	8	2.3	-20.1
Profit/loss for the year		**-6.4**	**55.7**

Statement of comprehensive income – parent company

(SEK million)	2012	2011
Profit/loss for the year	-6.4	55.7
Other comprehensive income	-	-
Other comprehensive income for the year	**-**	**-**
Comprehensive income for the year	**-6.4**	**55.7**

Balance sheet – parent company

(SEK million)	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant, and equipment			
Equipment	10	0.0	0.0
Total property, plant, and equipment		**0.0**	**0.0**
Financial non-current assets			
Participation in subsidiaries	11	818.2	683.9
Total financial non-current assets		**818.2**	**683.9**
Total non-current assets		**818.3**	**683.9**
Current assets			
Current receivables			
Current interest-bearing liabilities, Group		370.0	17.7
Receivables in Group companies		153.8	128.8
Other receivables		0.3	0.0
Prepaid expenses and accrued income	14	2.0	2.6
Total current receivables		**526.1**	**149.2**
Cash and bank	20	87.7	356.3
Total cash and cash equivalents		**87.7**	**356.3**
Total current assets		**613.8**	**505.5**
Total assets		**1,432.0**	**1,189.4**

(SEK million)	Note	31 December 2012	31 December 2011
EQUITY AND LIABILITIES			
Equity	16		
Restricted equity			
Share capital		133.6	133.1
Statutory reserve		0.8	0.8
Total restricted equity		**134.4**	**133.9**
Non-restricted equity			
Share premium reserve		141.0	139.9
Profit brought forward		132.3	76.3
Profit/loss for the year		-6.4	55.7
Total non-restricted equity		**266.9**	**271.8**
Total equity		**401.3**	**405.7**
Provisions			
Deferred tax liability	8	6.0	9.3
Other provisions	17	1.0	4.9
Total provisions		**6.9**	**14.1**
Non-current liabilities			
Convertible bonds	27	223.0	214.8
Credit facilities	30	-	150.0
Total non-current liabilities		**223.0**	**364.8**
Current liabilities			
Credit facilities	30	150.0	-
Accounts payable		4.3	2.2
Other interest-bearing liabilities, subsidiaries		360.3	344.7
Liabilities to subsidiaries		248.3	5.2
Current tax liabilities		20.9	26.0
Other liabilities		6.3	14.8
Accrued expenses and prepaid income	18	10.8	11.9
Total current liabilities		**800.8**	**404.8**
Total liabilities		**1,030.7**	**783.7**
Total equity and liabilities		**1,432.0**	**1,189.4**
Pledged assets and contingent liabilities – parent company			
Pledged assets		None	None
Contingent liabilities	19	144.9	91.6

Statement of changes in equity – parent company

(SEK million)	Note 16	Restricted equity: Share capital	Restricted equity: Statutory reserve	Non-restricted equity: Share premium reserve	Non-restricted equity: Profit brought forward	Non-restricted equity: Profit/loss for the year	**Total equity**
Opening balance, 1 January 2011		**132.7**	**0.8**	**139.9**	**14.4**	**62.0**	**349.8**
Comprehensive income for the year							
Profit/loss for the year						55.7	55.7
Other comprehensive income for the year							
Comprehensive income for the year		**-**	**-**	**-**	**-**	**55.7**	**55.7**
Appropriation of profits					62.0	-62.0	-
New share issue		0.4					0.4
Acquisition of own shares					-0.4		-0.4
Share savings plan					0.3		0.3
Closing balance, 31 December 2011		**133.1**	**0.8**	**139.9**	**76.3**	**55.7**	**405.7**
Opening balance, 1 January 2012		**133.1**	**0.8**	**139.9**	**76.3**	**55.7**	**405.7**
Comprehensive income for the year							
Profit/loss for the year						-6.4	-6.4
Other comprehensive income for the year							
Comprehensive income for the year		**-**	**-**	**-**	**-**	**-6.4**	**-6.4**
Appropriation of profits					55.7	-55.7	-
New share issue		0.6					0.6
Acquisition of own shares					-0.6		-0.6
Share savings plan					0.9		0.9
Effects from changes in tax rate				1.2			1.2
Closing balance, 31 December 2012		**133.6**	**0.8**	**141.0**	**132.3**	**-6.4**	**401.3**

Cash flow statement – parent company

(SEK million)		2012	2011
Cash flow from operations			
Profit/loss before tax		-8.7	75.8
Income tax paid		-5.0	-18.6
Adjustments for items not included in cash flow			
Interest that does not affect cash flow		8.1	7.6
Group contributions received		-148.2	-124.0
Group contributions paid		120.4	16.0
Other items that do not affect cash flow		1.3	0.4
Total adjustments for items not included in cash flow		**-18.4**	**-100.0**
Cash flow from operating activities before change in working capital		**-32.1**	**-42.8**
Cash flow from changes in working capital			
Increase (-)/decrease (+) of accounts receivable		0.0	0.2
Increase (–)/decrease (+) in other current receivables		10.9	9.4
Increase (+)/decrease (-) of accounts payable		2.1	1.6
Increase (+)/decrease (-) of other non-current liabilities		-355.2	82.8
Total cash flow from changes in working capital		**-342.3**	**94.0**
Cash flow from operating activities		**-374.4**	**51.2**
Investing activities			
Investment in shares in subsidiaries	5	-12.2	-384.8
Cash flow from investing activities		**-12.2**	**-384.8**
Financing activities			
Utilised credit facilities	30	-	184.5
Amortisation of credit facilities	30	-	-34.5
Group contribution, paid		-6.0	-
Group contributions, received		124.0	132.4
Cash flow from financing activities		**118.0**	**282.4**
Cash flow for the year		**-268.6**	**-51.2**
Cash and cash equivalents, year’s start		356.3	407.4
Cash and cash equivalents, year’s end		**87.7**	**356.3**

Notes

Note 1 General information

CDON Group AB has its registered office in Malmö, Sweden. The Company's address is Bergsgatan 20, Box 385, SE-201 23 Malmö, Sweden. The consolidated income statements and balance sheets as of 31 December 2012 include the parent company and its subsidiaries. The CDON Group is listed on the NASDAQ OMX Stockholm exchange with the symbol ticker "CDON".

This annual report was approved by the board and CEO for publication on 23 April 2013.

Note 2 Accounting policies and valuation principles

2.1 Compliance with standards and laws

The consolidated accounts were prepared per International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as well as interpretive statements from the International Financial Reporting Interpretations Committee (IFRIC) as approved for application within the EU. The Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Regulations for Groups has also been applied when preparing the consolidated accounts.

The parent company applies the same accounting policies as the Group, except where otherwise stated below in the parent company accounting policies section.

The parent company's functional currency is the Swedish krona, which is also the reporting currency for the parent company and the Group. The financial statements are therefore presented in the Swedish krona. All amounts are rounded off to the nearest million, unless otherwise specified.

The accounting policies specified below, with their detailed exceptions, were applied consistently to all periods presented in the consolidated financial statements.

2.1.1 Changes to accounting policies due to new or amended IFRS standards

Amendments to IFRS effective as of 1 January 2012 had no material impact on the consolidated accounts.

2.1.2 New IFRS standards not yet implemented

Several new or amended standards and interpretations to IFRS will not go into effect until coming financial years and were not adopted early in preparing these financial statements. New standards or amendments effective for future financial years will not be adopted early. None of these amendments for future adoption are expected to have any material impact on consolidated accounts.

2.1.3 Valuation methods used in preparing the financial statements

Assets and liabilities are recognised at historical cost, except for financial assets and financial liabilities that are recognized at accumulated cost.

2.2 Classification

Non-current assets and non-current liabilities are essentially expected to be recovered or paid 12 months or more after the reporting date. Current assets and current liabilities essentially comprise amounts expected to be recovered or paid within 12 months of the reporting date.

2.3 Operating segment reporting

An operating segment is a Group entity that engages in activities that may earn revenue and incur expenses, and for which separate financial information is available. Operating segment earnings are reviewed by the Company's executive management to assess performance and allocate resources to the segment. See Note 4 for more information on the division and presentation of operating segments.

2.4 Consolidation principles and business combinations

Subsidiaries

Subsidiaries are companies over which CDON Group AB has a controlling interest. Controlling interest means, directly or indirectly, the right to formulate a company's financial and operational strategies with the aim of receiving economic benefits. When judging whether there is a controlling interest, potential voting shares that can be used or converted immediately are taken into account.

Acquisitions on or after 1 January 2010

Subsidiaries are recognised using acquisition accounting. With this method, acquisition of a subsidiary is regarded as a transaction whereby the Group indirectly acquires the subsidiary's assets and assumes its liabilities. The acquisition analysis establishes the fair value of acquired identifiable assets and assumed liabilities on the acquisition date, as well as any non-controlling interest. Transaction expenses, except for transaction fees attributable to issued equity or debt instruments, are recognised directly in profit/loss for the year.

In business combinations in which the transferred payment, any non-controlling interest, and fair value of previously held interest (for incremental acquisitions) exceeds the fair value of acquired assets and assumed liabilities that are recognised separately, the difference is recognised as goodwill. When the difference is negative, it is recognised directly in profit/loss for the year.

Compensation transferred in connection with the acquisition does not include payments for the settlement of past business relationships. This type of settlement is recognised in profit/loss.

Contingent considerations are recognised at fair value on the date of acquisition. In cases where contingent considerations are presented as equity instruments, no revaluation is done and adjustments are made in equity. Other contingent considerations are revalued at each reporting date and the change is recognised in profit/loss for the year.

Minority interest arises in cases where the acquisition does not include 100% of the subsidiary. There are two options for recognising minority interest: (1) recognise the minority interest's share of proportional net assets, or (2) recognise minority interest at fair value, which means that minority interest is part of goodwill. Choosing between the two options for recognising minority interest can be done individually for each acquisition.

The acquisition of Lekmer AB on 31 March 2010, where non-controlling interest amounted to 9.9%, was recognised at fair value.

The acquisition of Rum21 AB on 31 January 2011, where non-controlling interest amounted to 9.9%, was recognised at fair value.

For incremental acquisitions, goodwill is determined on the date control is taken. Previous holdings are assessed at fair value and changes in value are recognised in profit/loss for the year.

Disposals leading to loss of controlling interest but where holdings are retained are assessed at fair value, and the change in value is recognised in profit/loss for the year.

Acquisitions completed before 31 December 2009

For acquisitions made before 31 December 2009 in which the acquisition price exceeds the fair value of acquired assets and assumed liabilities as well as contingent liabilities that are recognised separately, the difference is recognised as goodwill. When the difference is negative, it is recognised directly in profit/loss for the year.

Transaction expenses, except for transaction fees attributable to issued equity or debt instruments, are included in the acquisition price.

Acquisition of non-controlling interest

Acquisition from non-controlling interest is recognised as a transaction in equity, that is, between the parent company's owners (in retained profits) and the non-controlling interest. Therefore, no goodwill arises in these transactions. The change in non-controlling interest is based on its proportional share of net assets.

Transactions eliminated in consolidation

Intra-group receivables and liabilities, income or expenses, and unrealised gains or losses that arise from intra-group transactions between Group companies are entirely eliminated in preparation of the consolidated accounts.

2.5 Foreign currency

2.5.1 Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the exchange rate that applied on the transaction date. The functional currency is the currency used in the primary economic environments in which the companies operate. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rate on the reporting date. Exchange differences arising from the translations are recognised in profit/loss for the year.

2.5.2 Financial statements of foreign operations

Assets and liabilities in foreign operations, including goodwill and other Group surpluses and deficits, are translated from the functional currency of the foreign operation to the Group's reporting currency, the Swedish krona, at the exchange rate applicable on the reporting date. Income and expenses in foreign operations are translated to the Swedish krona at an average rate that is an approximation of the exchange rates on the respective transaction date. Translation differences that arise from currency translation of foreign operations are otherwise recognised in comprehensive income and are accumulated in a separate component of equity called the translation reserve. In the event that the foreign operation is wholly owned, the translation difference is allocated to non-controlling interest based on its proportional participating interest. When divesting foreign operations, they are realised in the operation for accumulated translation differences, where they are reclassified from translation reserve in equity to profit/loss for the year. In cases where disposal occurs but controlling interest is retained, the proportional share of cumulative translation differences are transferred from other comprehensive income to non-controlling interest.

2.6 Revenue

2.6.1 Sale of goods and rendering of services

Revenue from the sale of goods is recognised in accordance with the terms of sale, that is, when the goods are submitted to the transport agent, net of returns. Since the majority of sales are made to consumers who, depending on the country, most often have a legal right to cancellation for long-distance trading, the deduction for returns is a relatively significant item. Group revenue reflects seasonal variations. Fourth-quarter revenue significantly exceeds the other quarters due to Christmas shopping.

Revenue from the sale of services is recognised when services are delivered.

2.6.2 Bartering

Bartering refers to the exchange of gift certificates for other goods or services. Bartering is recognised at the fair value of the goods or services. The fair value is determined from existing contracts for the same type of services with other customers. Revenue from bartering is recognised when the gift certificate is redeemed; the expense is booked when the goods or services are used.

2.7 Leasing

2.7.1 Operating leases

Expenses pertaining to operating leases are recognised in profit/loss for the year on a straight-line basis over the lease term. Incentives received in conjunction with signing a lease agreement are recognised in profit/loss for the year as a reduction of the leasing payments on a straight-line basis over the lease term. Variable charges are expensed in the periods in which they arise.

2.8 Financial income and expenses

Financial income comprises interest income on invested funds.

Financial expenses comprise interest expenses on loans. Borrowing costs are recognised in earnings using the effective interest method.

Exchange gains and exchange losses are recognised at net.

Effective interest is the interest that discounts estimated future payments and disbursements during a financial instrument's expected term at the financial asset's or liability's recognised net value. The calculation includes all fees paid or received by the parties to the contract that are part of the effective interest, transaction costs, and all other surplus and deficit values.

2.9 Taxes

Income taxes comprise current and deferred tax. Income taxes are recognised in profit/loss for the year, except when the underlying transaction is recognized in other comprehensive income or equity, in which case the related tax effect is recognised in other comprehensive income or equity.

Current tax is tax that is payable or receivable for the current year, according to the tax rates enacted or for all practical purposes enacted on the reporting date. Current tax also includes adjustment of current tax attributable to previous periods.

Deferred tax is calculated using the balance sheet method, based on temporary differences between the carrying amounts and tax bases of assets and liabilities. Temporary differences are not considered in consolidated goodwill or for differences that arose in initial recognition of assets and liabilities that are not business combinations, which at the time of the transaction affect neither recognised nor taxable earnings. Also not considered are temporary differences that are attributable to interests in subsidiaries that are not expected to be reversed within the foreseeable future. Measurement of deferred tax is based on how underlying assets or liabilities are expected to be realised or settled. Deferred tax is calculated using the tax rates and rules enacted or for all practical purposes enacted on the reporting date.

Deferred tax assets regarding deductible temporary differences and loss carry-forwards are only recognised where it is deemed probable that they can be used. The value of deferred tax assets is reduced when their use is no longer deemed probable.

Any additional income tax that arises in conjunction with dividends is recognised when the dividend is recognised as a liability.

2.10 Financial instruments

Financial instruments recognised on the statement of financial position include cash and cash equivalents, loan receivables, and accounts receivable among the assets and accounts payable and loans payable among the liabilities.

2.10.1 Recognition on and derecognition from the statement of financial position

A financial asset or financial liability is recognised on the statement of financial position when the company becomes a party to the contractual provisions of the instrument. A receivable is entered when the company has rendered a service or supplied a product and there is a contractual obligation for the Counterparty to pay, even if an invoice has not yet been sent. Accounts receivable are entered on the statement of financial position when an invoice is sent. Liabilities are entered when the counterparty has rendered a service or supplied a product and there is a contractual obligation to pay, even if an invoice has not yet been received. Accounts payable are recognised when an invoice is received.

Financial assets are removed from the statement of financial position when the entitlements of agreements are realised, fall due, or the Company loses control of them. The same applies to part of a financial asset. Financial liabilities are removed from the statement of financial position when contractual obligations are fulfilled or are otherwise extinguished. The same applies to part of a financial liability.

Financial assets and financial liabilities are offset and recognised at the net amount on the statement of financial position only when there is a legal offset right for the amounts and the intention is to (1) settle the items at a net amount, or (2) realise the asset and settle the liability simultaneously.

Acquisitions and disposals of financial assets are recognised on the settlement date, which is the date the asset is delivered to or from the Company.

2.10.2 Classification and measurement

Financial instruments that are not derivatives are initially recognised at cost corresponding to the fair value of the instrument, plus transaction costs for all financial instruments apart from those in the category of financial assets at fair value through profit or loss; these are recognised at fair value excluding transaction costs. A financial instrument is presented at initial recognition based in part on the purpose for which it is acquired. The classification determines how the financial instrument is valued after initial recognition, as described below.

Cash and cash equivalents consist of cash.

2.10.3 Loans receivable and accounts receivable

Loans receivable and accounts receivable are non-derivative financial assets that have fixed or determinable payments and are not quoted on an active market. These assets are valued at amortised cost, which is determined on the basis of the effective rate as calculated at the time of acquisition. Accounts receivables are recognised at the amounts expected to be received, that is, less bad debts.

2.10.4 Other financial liabilities

This category contains loans and other financial liabilities, such as accounts payable. Liabilities are valued at amortised cost.

Consolidated financial assets and liabilities are allocated to the categories described in Note 20 *Financial Instruments and Risk Management*. Recognition of financial income and expenses is also described in item 2.8 above.

2.11 Convertible bonds

Convertible bonds can be converted to shares if the counterpart exercises the option to convert the receivable into shares, recognised as a compound financial instrument divided into a debt portion and an equity portion. The fair value of liabilities on the date of issue is calculated on the basis of future cash flows, which are discounted using the current market rate for similar liabilities, with no rights of conversion. The value of equity instruments is calculated as the difference between the issue proceeds when the convertible promissory note was issued and the fair value of the financial liability on the date of issue. Any deferred tax liability on the date of issue is deducted from the carrying value of the equity instrument. Transaction costs associated with the issue of a compound financial instrument are distributed between the debt portion and the equity portion in proportion to the distribution of the issue proceeds. Interest expense is recognized in profit/loss for the year and is calculated using the effective interest method.

2.12 Property, plant, and equipment

Property, plant, and equipment are recognised in the consolidated accounts at cost, less accumulated depreciation and any impairment losses. Cost includes the purchase price and expenses directly attributable to ensuring the asset is in place and in the right condition to be used as intended. Borrowing costs that are directly attributable to the purchase, construction, or production of assets that require a substantial amount of time to ready for their intended use or sale are included in the cost.

The carrying amount of an item of property, plant, or equipment is derecognised from the statement of financial position upon disposal or sale or when no future financial benefits are expected from the asset's use, disposal, or sale. Gains or losses that arise from an asset's sale or disposal comprise the difference between the selling price and the carrying amount, less direct selling expenses. Gain and loss are recognised as other operating income/expense.

2.12.1 Depreciation principles for property, plant, and equipment

Depreciation occurs on a straight-line basis over the estimated useful life of the asset. The impairment methods used, residual values, and useful lives are reassessed at each year-end.

Estimated useful lives:

Equipment	3-10 years

2.13 Intangible assets

2.13.1 Intangible assets with indefinite useful lives

2.13.1.1 Goodwill

Goodwill is valued at cost, less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested at least once a year for impairment (see accounting policy 2.15).

2.13.1.2 Trademarks

Trademarks are carried at cost, less any accumulated impairment losses. Trademarks are allocated to cash-generating units and are tested at least once a year for impairment (see accounting policy 2.15).

2.13.2 Intangible assets with defined useful lives

2.13.2.1 Development expenses

Development expenditures for creating new or improved products or processes are recognised as assets in the statement of financial position if the product or process is technically and commercially viable and the Group has sufficient resources to complete the development. The carrying amount includes direct costs and, where applicable, expenditure for salaries and share of indirect expenses. Other expenses are recognised in the income statement as expenses when they arise. In the statement of financial position, capitalised development expenses are carried at cost, less accumulated amortisation and any impairment losses. Capitalised expenditures refer mainly to software and software platforms.

2.13.2.2 Domains

Domains are recognised at cost less accumulated amortisation (see below) and impairment loss (see accounting policy 2.15).

2.13.2.3 Customer relationships

Customer relationships are recognised at cost less accumulated amortisation (see below) and impairment loss (see accounting policy 2.15).

2.13.3 Amortisation method for intangible assets

Amortisations are recognised in profit/loss for the year on a straight-line basis over the estimated useful life of the intangible asset, provided such useful life is indefinite. Useful lives are reassessed at least once a year. Goodwill and trademarks with indefinite useful lives are tested for impairment annually and when there are indications that the asset has lost value. Intangible assets with determinable useful lives are amortised from the date on which they become available for use. Estimated useful lives:

Development expenses	5 years
Domains	5 years
Customer relationships	4-5 years

2.14 Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and sale. The cost of inventory is based on weighted averages and includes expenditures incurred in the acquisition of goods and bringing the goods to their form and location. Provisions for obsolescence are included in cost of goods sold.

2.15 Impairment losses

The Group’s recognised assets are assessed on every reporting date to determine whether indications of impairment exist. IAS 36 is applied to impairment of assets other than financial assets, which are recognised as per IAS 39.

2.15.1 Impairment of tangible and intangible assets

The recoverable amount of the asset is calculated if there is indication of impairment (see below). The recoverable amount is also calculated annually for goodwill, trademarks, and intangible assets that are not yet ready for use. If substantially independent cash flows to an individual asset cannot be established, and if the asset’s fair value less selling expenses cannot be used, then assets are grouped in impairment testing at the lowest level at which substantially independent cash flows can be identified – this grouping is called a cash-generating unit (CGU).

An impairment charge is recognised when the carrying amount of an asset or CGU (group of units) exceeds the recoverable amount. Impairment loss is recognised in profit/loss for the year as an expense. When impairment has been identified for a CGU (group of units), the impairment loss is first allocated to goodwill. Thereafter, impairment losses are distributed proportionately among other assets included in the unit (group of units).

The recoverable amount is the higher of the fair value less selling expenses and value in use. When calculating the value in use, future cash flows are discounted using a discount rate that accounts for risk-free interest and the risk associated with the specific asset.

2.15.2 Impairment of financial assets

On each reporting date, the Company determines if there is any objective evidence that a need exists to recognise an impairment loss on any financial asset or group of assets. Objective evidence comprises observable past events that adversely affect the possibility of recovering the cost.

Accounts receivable impairment is determined based on historical experience of bad debts on similar receivables. Accounts receivable with impairment is recognised at value of expected future cash flow. Under normal circumstances, accounts receivable are impaired by 100% after 90 days.

2.15.3 Reversal of impairment losses

Impairment losses on assets included in the scope of IAS 36 are reversed if there is (1) an indication that impairment has ceased and (2) a change in the assumptions that formed the basis of calculating the recoverable amount. Impairment losses on goodwill are never reversed. A reversal only occurs to the extent that the asset's carrying amount (after reversal) does not exceed the carrying amount that would have been recognised (less depreciation or amortisation, where applicable), had no impairment loss been recognised.

Impairment losses on loans and accounts receivables carried at amortised cost are reversed if the previous reasons for impairment no longer exist and full payment from the customer is expected to be obtained.

2.16 Capital payments to shareholders

2.16.1 Dividends

Dividends are recognised as a liability after approval at the Annual General Meeting.

2.16.2 Acquisition of own shares

Acquisition of own shares is recognised as a deductible item from equity. Payment from divestment of this type of equity instrument is recognised as an increase in equity. Any costs for transportation are recognised directly as equity.

2.17 Earnings per share

The calculation of earnings per share is based on the consolidated profit/loss for the year attributable to the parent company's shareholders and the weighted average number of shares outstanding during the year. In calculating diluted earnings per share, earnings and the average number of shares are adjusted to account for effects of diluted potential ordinary shares. For the reported period, the parent company has two classes of instruments that may generate potential dilution in the future, a convertible bond and custodial C shares attributable to the Group incentive programme. These have not been included in the calculation of earnings per share since they contribute no dilution effect to either 2012 or 2011.

2.18 Employee benefits

2.18.1 Short-term employee benefits

Short-term employee benefits are calculated without discounting and are recognised as a cost when the related services are rendered.

A provision is reported for the expected cost of bonus payments when the Group has an applicable legal or informal obligation to make such payments due to services being rendered by employees, and the commitment can be reliably calculated.

2.18.2 Defined contribution pension plans

Defined contribution pension plans are presented as plans for which the Company's obligation is limited to the charges the Company undertook to pay. In such cases the size of the employee's pension depends on (1) the contributions that the Company pays to the plan or to an insurance company and (2) the contributions' return on capital. The employee thus bears the actuarial risk (that the remuneration will be lower than expected) and the investment risk (that the invested assets will not suffice to pay out the expected remuneration). The Company's obligations for contributions to defined contribution plans are recognised as an expense in profit/loss for the year at the rate earned by the employee performing services for the Company over a period.

2.18.3 Benefits compensation

An expense for remuneration paid on termination of employment is only recognised if the Company is demonstrably committed – without realistic option of withdrawal – to a detailed formal plan to terminate an employment contract before the normal end date. If benefits are offered to encourage voluntary redundancy, an expense is recognised if it is probable that the offer will be accepted and that the number of employees who will accept the offer can be reliably estimated.

2.18.4 Share-based compensation

The Group has an incentive programme directed to certain employees that consists of shareholder rights and employee options. The fair value of the programme is measured as of the grant date. The fair value includes social security contributions and is distributed over the vesting period, based on the Group's estimate of the number of shares and employee options that will eventually be redeemed. The fair value expense is reported in the income statement as employee costs and including the corresponding equity increase. The fair value as revalued each interim period is used to calculate social security contributions. This cost is adjusted for future periods to eventually reflect the number of shares and employee options that will eventually be redeemed. For more information, see Note 23.

2.19 Provisions

A provision differs from other liabilities because of prevailing uncertainty about payment date or the amount required to settle the provision. A provision is recognised on the statement of financial position when there is an existing legal or informal obligation due to a past event, and it is probable that an outflow of economic resources will be required to settle the obligation, and the amount can be reliably estimated.

The amount allocated to a provision is the best estimate of what is required to settle the existing obligation on the reporting date. When the payment date has a material impact, provisions are calculated by discounting the expected future cash flow at an interest rate before tax that reflects (1) current market estimates of the time value of money and (2) where applicable, the risks associated with the liability.

2.20 Contingent liabilities

A contingent liability is recognised when there is a possible obligation from past events, and the occurrence of the obligation is only confirmed by one or more uncertain future events, or when there is an obligation that is not recognised as a liability or provision since it is not probable that an outflow of resources will be required.

2.21 Parent company accounting policies

The parent company prepared its annual accounts as per the Swedish Annual Accounts Act (1995:1554) and Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board. The Swedish Financial Reporting Board's statement on listed companies is also applied. RFR 2 means that, in the annual report for the legal entity, the parent company must apply all EU-approved IFRS and interpretations as far as possible within the framework of the Annual Accounts Act and the Act on Safeguarding of Pension Commitments, and with regard to the connection between accounting and taxation. The recommendation states which exceptions from and additions to IFRS must be applied.

2.21.1 Differences between accounting policies of the Group and parent company

The differences between Group and parent company accounting policies are stated below. The parent company's accounting policies described below were applied consistently to all periods reported in the parent company's financial statements.

2.21.1.1 Changes to accounting policies

Unless otherwise indicated below, changes to the parent company's accounting policies in 2012 were the same as stated above for the Group.

Beginning in 2012, Group contributions are recognised in accordance with RFR 2 as balance sheet appropriations. For more information, see the section "Group contributions and shareholder contributions". Previously, Group contributions received were recognised as per the same principles as dividends from subsidiaries and Group contributions made were recognised as financial expenses.

2.21.1.2 Classification and presentation

The parent company uses the names Balance Sheet and Cash Flow Statement for the reports that in the Group are called Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows. The parent company's income statement and balance sheet are prepared in accordance with the Swedish Annual Accounts Act's schedule, while the statement of comprehensive income, statement of changes in equity, and cash flow statement are based on IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows. The differences in parent company reporting versus Group reporting as seen in the parent company income statement and balance sheet mainly comprise reporting of financial income and expenses, equity, and the occurrence of provisions as a separate heading in the balance sheet.

2.21.1.3 Subsidiaries

Participations in subsidiaries are recognised in the parent company using the cost method. This means that transaction costs are included in the carrying amount for holdings in subsidiaries. In the consolidated accounts, transaction costs related to subsidiaries are recognised directly in earnings when they arise.

Contingent considerations are valued based on the probability that the purchase price will be payable. Any changes to the provision increases/decreases the cost. In the consolidated accounts, contingent considerations are recognised at fair value with changes in value via earnings.

2.21.1.4 Group contributions and shareholder contributions for legal entities

The parent company reports Group contributions received and paid as balance sheet appropriations in accordance with RFR 2. Shareholder contributions are recognised directly in the equity of the recipient and are capitalised in shares and participating interests of the issuer, to the extent impairment is not required.

Note 3 Estimates and assessments

Preparation of the financial statements using IFRS requires that the Board and company management make assessments, estimates, and assumptions that affect application of the accounting policies and the recognised amounts of assets, liabilities, income, and expenses. These estimates and assumptions are based on historic experience and several other factors that are judged to be reasonable taking current conditions into consideration. Resulting estimates and assumptions are used to determine the estimated value of assets and liabilities that are not otherwise clear from other sources. The actual outcome may differ from these estimates and assessments.

The estimates and assumptions are reviewed regularly. Changes to estimates are recognised in the period when the change is made – if the change only affected that period. If the change affects current and future periods, it is recognised in the period when the change is made and in future periods. The development, selection of, and disclosures regarding the Group's significant accounting policies and estimates, and the application of these policies and estimates, are reviewed by the CDON Group's Audit Committee.

Key sources of uncertainties in estimates

Note 9 contains information about the assumptions and risk factors regarding impairment testing of goodwill and other intangible assets with indefinite useful lives. Note 17 includes a description of provisions made.

Goodwill and other intangible non-current assets

Goodwill and other intangible assets with indefinite useful lives are tested annually for impairment or when evidence demonstrates a need for impairment. The impairment test requires that management determines the fair value of cash-generating units on the basis of projected cash flows and internal business plans and forecasts. For additional information, see Note 9 Intangible assets.

Obsolescence assessment of inventories

Inventories are reviewed monthly to determine possible impairment. An impairment loss is reported in cost of goods sold at the amount which, after careful evaluation, the inventory is considered obsolete. If true obsolescence differs from estimates or if management makes future adjustments to the assumptions, changes in valuation can affect the period's earnings and financial position.

Provisions and contingent liabilities

Liabilities are recognised when there is a present obligation as a result of a past event, when it is probable that an outflow of economic benefits will occur and a reliable assessment of the amount can be made. In these cases, a calculation of the provision is made and recognised in the statement of financial position. A contingent liability is recognised in the notes when a possible obligation is incurred, but whose existence can only be confirmed by one or more uncertain future events beyond the Group's control, or when it is not possible to calculate the amount. Realisation of contingent liabilities that are not recognised or not included in the annual report can have a material effect on the Group's financial position.

The Group regularly reviews significant outstanding disputes to determine the need for provisions. Among the factors considered in such an assessment are the type of litigation or summons, the amount of any damages, the development of the case, perceptions of legal and other advisers, experience from similar cases, and decisions of Group management regarding the Group's actions concerning these disputes. Estimates do not necessarily reflect the outcome of pending litigation, and differences between outcome and estimate may significantly affect the Company's financial position and have an unfavourable impact on operating income and liquidity. For additional information, see Note 17 Provisions.

Note 4 Segment reporting

Group operations are divided into four segments. Each segment manager regularly reports to Group management, the Group's highest operative decisionmaker. The Group's internal reporting is designed so executive management can follow each segment's sales growth and operating performance.

• The Entertainment segment comprises CDON.com, BookPlus.fi, and Lekmer.com, internet-based retailers of films, games, music, books, home electronics, and toys.

• The Sports & Health segment retails health products and is comprised of Gymgrossisten.com, Bodystore.com and Fitnesstukku.fi.

• The Fashion segment is a retailer of clothes and shoes for men, women and children, and comprises Nelly.com, Heppo.com and Members.com.

• The Home & Garden segment retails white goods, household appliances, furniture and interior design, and consists of Tretti.com and Rum21.com.

Subsidiaries are attributable entirely to their respective segment.

Group-wide
In 2012, the parent company has provided Group segments with specific services. These sales were conducted at cost price. In addition, CDON Group Logistics AB has provided some Group segments with logistics services. Pricing of these services were based on market-based conditions.

2012 (SEK million)	Entertainment	Fashion	Sports & Health	Home & Garden	Group	Eliminations	Group
External sales	2,385.6	942.9	496.4	629.4	7.5		4,461.7
Internal sales	0.5		0.0	2.1	93.6	-96.2	-
Operating profit/loss	102.3	-267.6	47.3	-13.7	-42.2		-173.9
Finance income							0.9
Finance expense							-28.3
Profit/loss before tax							**-201.2**

2011 (SEK million)	Entertainment	Fashion	Sports & Health	Home & Garden	Group	Eliminations	Group
External sales	1,928.9	730.6	377.1	367.1			3,403.8
Internal sales	0.0				42.3	-42.4	-
Operating profit/loss	102.3	19.9	39.7	5.2	-37.8		129.2
Finance income							3.0
Finance expense							-21.2
Profit/loss before tax							**111.0**

No individual customer account is responsible for more than 10% of Group revenue.

The Group's segments operate mainly in the Nordics. Revenues and non-current assets are shown below by geographical area. Sales are shown by country of sale.

	Net sales		Non-current assets	
(SEK million)	2012	2011	2012	2011
Sweden	2,518.9	1,917.2	658.1	581.7
Norway	919.1	706.1	-	-
Finland	604.5	480.6	20.4	21.1
Denmark	297.9	243.3	-	0.5
Other Europe	121.3	56.5	-	-
Total	**4,461.7**	**3,403.7**	**678.5**	**603.3**

Sales per type of income (SEK million)	2012	2011
Products	4,358.7	3,316.6
Services	103.0	87.1
Total revenue	**4,461.7**	**3,403.7**

Note 5 Business combinations

Acquisitions 2012

In 2012, the Group acquired operations in Business Linc BL AB. The CDON Group completed the acquisition on 1 October 2012. The operations were integrated into the new company CDON Group Logistics AB. CDON Group Logistics AB reports as Group-wide.

Additional purchase price was paid for Lekmer AB in 2012, as per the acquisition agreement. This acquisition is reported in the Entertainment segment.

Additional purchase price and a deferred purchase price was paid for Rum21 AB in 2012, as per the acquisition agreement. This acquisition is reported in the Home & Garden segment.

In 2012, the arbitration procedure relating to compulsory redemption of outstanding shares in Tretti AB was completed. In a final arbitration award which was issued on 19 January 2012, the arbitral tribunal set out the redemption price at SEK 67.25 per share.

Summary of acquisitions

	2012		
Group (SEK million)	Net cash flow	Net identifiable assets and liabilities	Goodwill
CDON Group Logistics AB	-0.1	0.1	-
Acquisition of operations from Business Linc BL AB	-3.0	-0.7	15.7
Additional purchase price from previous years, Rum21 AB	-1.0	-	-
Deferred purchase price Rum21 AB	-3.9	-	-
Additional purchase price from previous years, Lekmer AB	-1.8	-	-
Compulsory redemption of outstanding shares in Tretti AB	-5.2	-	-
Total	**-14.9**	**-0.6**	**15.7**

Acquisition of operations from Business Linc BL AB

On 28 September 2012, the CDON Group announced that it had signed a deal to acquire Business Linc BL AB's operations. Business Linc is a third-party logistics company with expertise in e-commerce. The company operates 50,000 sq. m. of warehousing space in Falkenberg. The operations were transfered to the CDON Group through an assets deal, through which the new operations were integrated into a new company, CDON Group Logistics AB. All personnel, around 340, were offered employment in the CDON Group. Customers external to the CDON Group were discontinued. Acquisition of the logistics operations is a step toward strengthening the Group's value chain and delivering a high level of customer satisfaction. The profit/loss for CDON Group Logistics AB has been fully consolidated within the Group-wide segment from 1 October 2012. During the three months until 31 December 2012, the subsidiary contributed SEK 7.5 million to consolidated revenue and SEK -19.4 million to consolidated earnings after tax.

Accrued goodwill in 2012 consists of strategic advantages and synergies. The goodwill item is expected to be fully deductible.

Acquired net assets (SEK million):	Carrying amount
Property, plant, and equipment	5.7
Accounts payable and other operating liabilities	-6.4
Net identifiable assets and liabilities	**-0.7**
Goodwill on acquisition	15.7
Purchase price	**15.0**
Deferred purchase price	-7.0
Provisions for contingent consideration	-5.0
Net cash flow	**3.0**

Transaction expenses

Transaction expenses for the acquisition of the operations in Business Linc BL AB amount to SEK 1.3 million and are recognised in the item "Sales & administrative expenses" in the income statement for the Group.

Contingent consideration

The acquisition agreement specifies payment of an additional purchase price, contingent on certain conditions, including the transfer to CDON Group of existing facility rental contracts for the operations with unchanged terms.

The arbitration procedure relating to compulsory redemption of outstanding shares in Tretti AB

CDON Group announced on 25 January 2012 that the arbitration procedure relating to compulsory redemption of outstanding shares in Tretti AB had been completed. The arbitral tribunal issued a separate award on 15 December 2011, in which the tribunal ruled that CDON Group had the right and obligation to redeem the outstanding shares. CDON Group owned 100% of the shares in Tretti at the end of 2011. In a final arbitration award which was issued on 19 January 2012, the arbitral tribunal set out the redemption price at SEK 67.25 per share.

Transaction expenses

Transaction expenses for the arbitration procedure relating to compulsory redemption of outstanding shares in Tretti AB amount to SEK 0.4 million and are recognised in the item "Sales & administrative expenses" in the income statement for the Group.

Acquisitions 2011

During the year, the Group acquired a total of 90.1% of capital and votes in Rum21 AB and 100% of capital and votes in Tretti AB. Rum21 AB and Tretti AB are reported in the Home & Garden segment.

During the year, the Group acquired an additional 2.23% of the shares in NLY Scandinavia AB. Consequently CDON Group AB's ownership in NLY Scandinavia AB amounts to 97.77% of the share capital. This acquisition is reported in the Fashion segment.

Additional purchase price was paid for Lekmer AB in 2011, as per the acquisition agreement. This acquisition is reported in the Entertainment segment.

Summary of acquisitions

	2011		
Group (SEK million)	Net cash flow	Net identifiable assets and liabilities	Goodwill
Rum21 AB	-5.3	7.2	8.5
Tretti AB	-317.5	96.2	249.6
NLY Scandinavia AB	-13.8	-	-
Additional purchase price from previous years, Lekmer AB	-1.1	-	-
Total	**-337.7**	**103.4**	**258.1**

Acquisition of Rum21 AB

CDON Group acquired 90.1% of RUM21 AB, a family-owned online retailer of designer brand furniture and interior design products on 31 January 2011. Rum21 AB provides the Group with access to an industry segment that is well suited for e-commerce and has considerable growth potential. Rum21 AB's profit/loss has been fully consolidated within the Home & Garden segment from 1 April 2011. Rum21 AB has also subsequently been rolled out on a pan-Nordic basis. During the eleven months until 31 December 2011, the subsidiary contributed SEK 26.9 million to consolidated revenue and SEK -3.9 million to Group loss after tax. If the acquisition had occurred on 1 January 2011, Group management estimates that consolidated revenue would have totalled SEK 3,405.0 million, and profit for the year would have been SEK 111.2 million.

Accrued goodwill in 2011 consists of strategic advantages, market positions, and synergies. No part of recognised goodwill is expected to be deductible.

Acquired net assets (SEK million):	Carrying amount
Property, plant, and equipment	0.0
Intangible non-current assets	7.2
Inventory	1.9
Accounts receivable and other receivables	0.8
Cash and cash equivalents	1.4
Deferred tax liability	-1.9
Accounts payable and other operating liabilities	-2.2
Net identifiable assets and liabilities	**7.2**
Non-controlling interest	-1.5
Goodwill on acquisition	8.5
Purchase price	**14.1**
Deferred purchase price	-5.0
Provisions for contingent consideration	-2.5
Cash and cash equivalents in acquired companies	-1.4
Net cash flow	**5.3**

Transaction expenses

Transaction expenses for the acquisition of Rum21 AB amount to SEK 0.5 million and are recognised in the item "Sales & administrative expenses" in the income statement for the Group.

Non-controlling interest

Fair value for non-controlling interest has been calculated based on purchase price paid for the acquired shares of the company.

Contingent consideration

The contingent consideration arrangement requires a conditional purchase consideration to be paid to the former owners of Rum21 AB, based on the company's future gross profit. The conditional purchase consideration is an unlimited amount.

As of 31 December, the contingent consideration decreased by SEK 0,1 million as the probability-adjusted gross profit after a new calculation is expected to be lower than original estimates.

Acquisition of Tretti AB

Tretti AB is an online retailer of white goods and household appliances. CDON Group announced a recommended cash offer to the shareholders of Tretti AB on 28 April 2011. The offer valued Tretti AB at SEK 346 million, or SEK 67.25 per share. CDON Group initiated a mandatory tender offer for the remaining shares in Tretti AB, which means that the CDON Group AB owns 100% of shares in the company as of 31 December. Tretti AB has also been delisted from NASDAQ OMX First North, and the last trading day in the company's shares was 15 July 2011. Tretti AB's earnings have been fully consolidated into the Home & Garden segment since 1 June 2011. On 13 June 2011 CDON Group expanded Tretti to Finland through the launch of e-commerce store Tretti.fi. Tretti is now present in all Nordic markets. During the seven months up to 31 December 2011, the subsidiary contributed SEK 342.6 million to consolidated sales and SEK 3.3 million to consolidated earnings after tax. If the acquisition had occurred on 1 January 2011, management estimates that consolidated sales would have totalled SEK 3,599.2 million, and profit for the year would have been SEK 112.2 million.

Accrued goodwill in 2011 consists of strategic advantages, market positions, and synergies. No part of recognised goodwill is expected to be deductible.

Acquired net assets (SEK million):	Carrying amount
Property, plant, and equipment	3.1
Intangible non-current assets	57.3
Financial non-current assets	1.8
Inventory	71.3
Accounts receivable and other receivables	16.1
Cash and cash equivalents	23.2
Deferred tax liability	-14.1
Accounts payable and other operating liabilities	-62.6
Net identifiable assets and liabilities	**96.2**
Goodwill on acquisition	249.6
Purchase price	**345.8**
Deferred purchase price	-5.1
Cash and cash equivalents in acquired companies	-23.2
Net cash flow	**317.5**

Transaction expenses

Transaction costs for the acquisition of Tretti AB total SEK 4.7 million and are recognised on the "Selling and administrative expenses" line on the consolidated income statement.

Note 6 Other income and expenses

Group

(SEK million):	2012	2011
Other operating income		
Gain from sale of non-current assets	0.8	-
Exchange gains on operating receivables/liabilities	0.6	1.7
Revaluation regarding contingent consideration for Rum21 AB	0.1	-
Other operating income	0.1	1.7
Total	**1.6**	**3.4**
Other operating expenses		
Loss from sale of shares in subsidiaries	0.0	-
Loss from sale of non-current assets	-5.1	-
Exchange losses on operating receivables/liabilities	-2.5	-
Revaluation regarding contingent consideration for Lekmer AB	-1.2	-2.7
Total	**-8.8**	**-2.7**

Note 7 Financial items

Group

(SEK million)	2012	2011
Interest income, other	0.9	2.7
Net translation differences	-	0.1
Other	0.0	0.2
Finance income	**0.9**	**3.0**
Interest expenses:		
- Convertible bonds (Note 27)	-15.3	-14.7
- Interest expenses, other	-10.7	-5.1
Net translation differences	-0.4	-
Other	-1.8	-1.4
Finance expense	**-28.2**	**-21.2**
Net financial items	**-27.3**	**-18.2**
Parent company		
Loss from sale of shares in subsidiaries	-0.1	-
Loss from shares in subsidiaries	**-0.1**	**-**
Interest income:		
- Subsidiaries, CDON Group	8.0	4.7
- Interest income, other	0.6	2.3
Net translation differences	4.1	1.1
Other	0.0	0.0
Finance income	**12.8**	**8.1**
Interest expenses:		
- Subsidiaries, CDON Group	-2.2	-2.1
- Convertible bonds (Note 27)	-15.3	-14.7
- Interest expenses, other	-7.3	-3.4
Other	-1.6	-0.6
Finance expense	**-26.4**	**-20.8**
Net financial items	**-13.7**	**-12.6**

Note 8 Tax

Group

Distribution of tax expenses (SEK million)	2012	2011
Current tax expense		
Tax expense for the year	-1.1	-35.3
Adjustment of tax attributable to prior years	3.4	-0.8
Total	**2.4**	**-36.0**
Deferred tax		
Deferred tax on temporary differences	3.9	2.2
Deferred tax revenue in the year’s capitalised taxable value in loss carry-forwards	44.3	5.8
Deferred tax in loss carry-forwards used during the year	-5.6	-
Revalued loss carry-forwards	-0.5	-
Effects from changes in tax rate	4.9	-
Total	**47.1**	**8.0**
Total recognised tax expense in the Group	**49.4**	**-28.0**

Reconciliation of tax expense (SEK million)	2012	%	2011	%
Profit/loss before tax	-201.2		111.0	
Tax as per applicable tax rate for parent company	52.9	-26.3	-29.2	-26.3
Effect of other tax rates for foreign subsidiaries	0.0	0.0	0.0	0.0
Non-taxable income	1.2	-0.6	0.8	0.7
Non-deductible expenses	-3.9	2.0	-2.6	-2.3
Utilization of previously uncapitalised deficit deduction	0.0	0.0	3.6	3.3
Losses on which deferred tax was not recognised	-0.3	0.1	-	-
Revalued loss carry-forwards	-0.5	0.2	-	-
Other permanent effects	0.3	-0.1	-	-
Effects from changes in tax rate	-3.8	1.9	-	-
Tax attributable to prior years	3.4	-1.7	-0.8	-0.7
Effective tax/tax rate	**49.4**	**-24.6**	**-28.0**	**-25.2**

(SEK million)	31 December 2012	31 December 2011
Deferred tax asset		
Loss carry-forwards	44.4	6.0
Total	**44.4**	**6.0**
Deferred tax liability		
Equipment, tools, and installations	-	1.1
Intellectual property rights	24.9	30.4
Convertible bonds	6.0	9.3
Total	**30.9**	**40.8**
Net deferred tax	**13.5**	**-34.7**

The change in net temporary differences is recognised below:

(SEK million)	2012 Opening balance 1 January	Deferred tax revenue	Deferred tax expense	Acquisition of subsidiaries	Recognised in equity	Other	Closing balance, 31 December
Temporary differences:							
Loss carry-forwards	6.0	44.4	-6.0				44.4
Equipment, tools, and installations	-1.1	1.1					-
Intellectual property rights	-30.4	5.4					-24.9
Non-current liabilities	-9.3	2.1			1.2		-6.0
Total	**-34.7**	**53.1**	**-6.0**	**-**	**1.2**	**-**	**13.5**

(SEK million)	2011 Opening balance 1 January	Deferred tax revenue	Deferred tax expense	Acquisition of subsidiaries	Recognised in equity	Other	Closing balance, 31 December
Temporary differences:							
Loss carry-forwards	-	5.8		0.2			6.0
Equipment, tools, and installations	-0.3	-0.8					-1.1
Intellectual property rights	-15.2	1.0		-16.0		-0.2	-30.4
Non-current liabilities	-11.3	2.0					-9.3
Total	**-26.7**	**8.0**	**-**	**-15.7**	**-**	**-0.2**	**-34.7**

At 31 December 2012, recognised loss carry-forwards without expiration dates in the Group were SEK 201.6 million (13,9). The 2012 annual accounts include the tax value of a deferred income tax asset in all countries where it is considered probable that the loss carry-forward will be able to be used against taxable surplus.

Loss carry-forwards for which no deferred tax asset is recognised, per expiration date (SEK million)	31 December 2012	31 December 2011
No expiry date	0.7	-
Total	**0.7**	**-**

Parent company

Distribution of tax expenses (SEK million)	2012	2011
Current tax on year's profit/loss	-	-22.1
Adjustment of tax attributable to prior years	0.2	-
Total tax expense	**0.2**	**-22.1**
Deferred tax		
Deferred tax on temporary differences	2.1	2.0
Total	**2.1**	**2.0**
Total recognised tax expense in the parent company	**2.3**	**-20.1**

Reconciliation of tax expense (SEK million)	2012	%	2011	%
Profit/loss before tax	-8.7		75.8	
Tax as per applicable tax rate for parent company	2.3	-26.3	-19.9	-26.3
Non-deductible expenses	-2.3	26.3	-2.2	-2.9
Tax effect of convertible loan	2.1	-24.6	2.0	2.6
Tax attributable to prior years	0.2	-1.8	-	-
Other	0.0	0.0	0.0	0.0
Effective tax/tax rate	**2.3**	**-26.4**	**-20.1**	**-26.6**

The change in net temporary differences is recognised below:

	2012			
(SEK million)	Opening balance 1 January	Deferred tax revenue	Recognised in equity	Closing balance, 31 December
Temporary differences:				
Non-current liabilities	-9.3	2.1	1.2	-6.0
Total	**-9.3**	**2.1**	**1.2**	**-6.0**

	2011			
(SEK million)	Opening balance 1 January	Deferred tax revenue	Recognised in equity	Closing balance, 31 December
Temporary differences:				
Non-current liabilities	-11.3	2.0	-	-9.3
Total	**-11.3**	**2.0**	**0.0**	**-9.3**

Non-current liabilities refer to the tax effect at the present value of the convertible loan.

Note 9 Intangible assets

GROUP

Internally developed intangible assets

Ongoing projects (SEK million)	2012	2011
Opening accumulated cost	**9.6**	**-**
Investments	8.2	9.6
Reclassifications	-9.7	-
Divestments	-3.8	-
Closing accumulated acquisition value	**4.4**	**9.6**
Carrying amounts	**4.4**	**9.6**

This item relates to expenditures on projects that have not been put into use, principally related to Group web platforms.

Both internal and external expenditures were capitalised. No loan expenses were capitalised.

Development expenses (SEK million)	2012	2011
Opening accumulated cost	**25.9**	**11.9**
Investments through acquisition	-	8.8
Investments	20.3	5.3
Reclassifications	9.6	-
Divestments	-0.7	-
Closing accumulated acquisition value	**55.2**	**25.9**
Opening accumulated depreciation	**-13.6**	**-4.9**
Investments through acquisition	-	-5.0
Year's depreciation	-8.7	-3.7
Divestments	0.4	-
Closing accumulated depreciation	**-21.9**	**-13.6**
Carrying amounts	**33.3**	**12.3**

This item relates to expenses for the Group's web platform.

Depreciation costs of SEK 8.7 million (3.7) are included in selling and administrative expenses.

Both internal and external expenditures were capitalised. No loan expenses were capitalised.

Domains (SEK million)	2012	2011
Opening accumulated cost	**1.7**	**1.2**
Investments	5.5	0.6
Reclassifications	0.1	-
Divestments	-0.4	-
Closing accumulated acquisition value	**7.0**	**1.7**
Opening accumulated depreciation	**-0.7**	**-0.5**
Year's depreciation	-0.7	-0.3
Divestments	0.0	-
Closing accumulated depreciation	**-1.4**	**-0.7**
Carrying amounts	**5.6**	**1.0**

This item relates to expenses for registering and maintaining the company's internet domains.

Depreciation costs of SEK 0.7 million (0.3) are included in selling and administrative expenses.

Only external expenses were capitalised. No loan expenses were capitalised.

Acquisition of intangible assets

Trademarks (SEK million)	2012	2011
Opening accumulated cost	**108.7**	**54.0**
Investments	-	54.6
Closing accumulated acquisition value	**108.7**	**108.7**
Carrying amounts	**108.7**	**108.7**

This item relates to the Gymgrossisten, Lekmer, Rum21, and Tretti trademarks.

Customer relationships (SEK million)	2012	2011
Opening accumulated cost	**18.7**	**12.7**
Investments	-	6.1
Closing accumulated acquisition value	**18.7**	**18.7**
Opening accumulated depreciation	**-12.5**	**-8.6**
Year's depreciation	-1.7	-3.9
Closing accumulated depreciation	**-14.1**	**-12.5**
Carrying amounts	**4.6**	**6.3**

This item relates to the identified customer relationships from acquisition of Gymgrossisten Sweden AB, Lekmer AB, Rum21 AB, and Tretti AB.

Depreciation costs of SEK 1.7 million (3.9) are included in selling and administrative expenses.

Goodwill (SEK million)	2012	2011
Opening accumulated cost	**447.0**	**189.0**
Investments	15.7	258.1
Translation differences	-0.8	-0.1
Closing accumulated acquisition value	**461.8**	**447.0**
Carrying amounts	**461.8**	**447.0**

This item relates to goodwill arising from acquisition of Gymgrossisten Sweden AB, Lekmer AB, NLY Scandinavia AB, Linus & Lotta Postorder AB, Rum21 AB, Tretti AB and the operations of Business Linc BL AB.

Impairment testing for cash-generating units containing goodwill

The following cash-generating units, which coincide with the Group's reporting segments, recognise significant goodwill values in relation to the Group's total recognised goodwill value:

(SEK million)	2012	2011
Sports & Health	139.9	139.9
Entertainment	24.1	24.9
Fashion	24.1	24.1
Home & Garden	258.1	258.1
Group central operations	15.7	-
Total	**461.8**	**447.0**

Impairment testing

Impairment testing for goodwill for cash-generating units in the segment is based on recoverable value (value in use), calculated using a discounted cash flow model. The model includes terminal value, market growth rate, and working capital requirements. These cash flow projections calculated over a five year period are based on actual operating results, forecasts and financial projections, historical trends, general market conditions, industry trends, and other available information.

Cash flow projections are based on a sustainable growth rate that is individually calculated based on the each unit's outlook. Individual assumptions are also made on expenses and capital turnover development. The cash flow is discounted for each unit using an appropriate discount rate, taking into consideration the cost of capital and risk, and with individual consideration taken only in special circumstances. The cash flow calculated for each segment after the first five years was based on an annual growth rate of 2.5% (2.5). The calculated cash flow was calculated at present value at a discount rate of 9.5% (9.5) before tax.

Sensitivity

The impairment tests do not indicate an impairment requirement. The impairment tests generally have such a margin that any adverse changes in individual parameters would likely not cause the value in use to fall below the carrying amount. However, the cash flow projections are uncertain and may also be influenced by factors beyond the company's control. Even if the estimated growth rate applied after the forecasted five-year period had been 1.5% instead of the management estimate of 2.5%, there would be no need to recognise an impairment loss for goodwill. Even if the estimated discount rate before tax applied to the discounted cash flows had been 10.5% instead of the management estimate of 9.5%, there would be no need to recognise an impairment loss on goodwill. Nor does the company deem that likely changes in other important assumptions would cause the recoverable amount to fall below the carrying amount.

Impairment testing for cash-generating units containing trademarks

The following cash-generating units, which coincide with the Group's reporting segments, recognise significant values for trademarks in relation to the Group's total recognised value for trademarks:

(SEK million)	2012	2011
Sports & Health	48.9	48.9
Entertainment	5.1	5.1
Home & Garden	54.6	54.6
Total	**108.7**	**108.7**

Impairment testing

Impairment testing for trademarks for cash-generating units in the segment is based on recoverable value (value in use), calculated using a discounted cash flow model. The model includes terminal value, market growth rate, and working capital requirements. These cash flow projections calculated over a five year period are based on actual operating results, forecasts and financial projections, historical trends, general market conditions, industry trends, and other available information.

Cash flow projections are based on a sustainable growth rate that is individually calculated based on the each unit's outlook. Individual assumptions are also made on expenses and capital turnover development. The cash flow is discounted for each unit using an appropriate discount rate, taking into consideration the cost of capital and risk, and with individual consideration taken only in special circumstances. The cash flow calculated for each segment after the first five years was based on an annual growth rate of 2.5% (2.5). The calculated cash flow was calculated at present value at a discount rate of 9.5% (9.5) before tax.

Sensitivity

The impairment tests do not indicate an impairment requirement. The impairment tests generally have such a margin that any adverse changes in individual parameters would likely not cause the value in use to fall below the carrying amount. However, the cash flow projections are uncertain and may also be influenced by factors beyond the company's control. Even if the estimated growth rate applied after the forecasted five-year period had been 1.5% instead of the management estimate of 2.5%, there would be no need to recognise an impairment loss for trademarks. Even if the estimated discount rate before tax applied to the discounted cash flows had been 10.5% instead of the management estimate of 9.5%, there would be no need to recognise an impairment loss on trademarks. Nor does the company deem that likely changes in other important assumptions would cause the recoverable amount to fall below the carrying amount.

Note 10 Property, plant, and equipment

Group

Equipment (SEK million)	2012	2011
Opening accumulated cost	**15.9**	**9.2**
Investments	3.9	6.5
Investments through business combinations	5.7	5.6
Divestments	-3.2	-5.4
Closing accumulated acquisition value	**22.4**	**15.9**
Opening accumulated depreciation	**-5.1**	**-5.5**
Year's depreciation	-4.6	-2.6
Depreciation through acquisition	-	-2.4
Divestments	1.6	5.4
Closing accumulated depreciation	**-8.1**	**-5.1**
Carrying amounts	**14.3**	**10.8**

Depreciation costs of SEK 4.6 million (2.6) are included in selling and administrative expenses.

Parent company

Equipment (SEK thousands)	2012	2011
Opening accumulated cost	**35.8**	-
Investments	-	35.8
Closing accumulated acquisition value	**35.8**	**35.8**
Opening accumulated depreciation	**-7.7**	-
Year's depreciation	-7.0	-7.7
Closing accumulated depreciation	**-14.7**	**-7.7**
Carrying amounts	**21.1**	**28.1**

Depreciation costs of SEK 7.0 thousand (7.7) are included in selling and administrative expenses.

Note 11 Participations in Group companies

Shares in subsidiaries (parent company) (SEK million)	Corporate ID number	Registered office	No. of shares	Share capital (%)	Percentage of votes	Carrying amount 31 Dec 2012	Carrying amount 31 Dec 2011
CDON AB	556406-1702	Stockholm	1,000	100.0	100.0	27.8	27.8
Heppo AB	556533-8372	Stockholm	1,666	100.0	100.0	-	-
Linus & Lotta Postorder AB	556078-3135	Stockholm	9,000	100.0	100.0	-	-
Gymgrossisten Sweden AB	556564-4258	Stockholm	1,000	100.0	100.0	202.1	202.1
NLY Scandinavia AB	556653-8822	Borås	168,260	97.8	97.8	182.7	49.7
Lekmer AB	556698-8035	Stockholm	901	90.1	90.1	35.2	34.0
Rum21 AB	556774-1300	Malmö	901	90.1	90.1	19.1	19.1
Tretti AB	556665-7606	Stockholm	5,141,758	100.0	100.0	351.2	350.8
NLY Norge AS	896 508 202	Norway	100	100.0	100.0	0.1	0.1
CDON Group Deutschland GmbH	HRB 130256 B	Germany	25,000	100.0	100.0	-	0.3
CDON Group Logistics AB	556904-0834	Malmö	50,000	100.0	100.0	0.1	-
Total						**818.2**	**683.9**

Shares in subsidiaries (Group)	Corporate ID number	Registered office	No. of shares	Share capital (%)	Percentage of votes
CDON AB	556406-1702	Stockholm	1,000	100.0	100.0
CDON Alandia AB	2143083-5	Finland	100	100.0	100.0
Linus & Lotta Postorder AB	556078-3135	Stockholm	9,000	100.0	100.0
Gymgrossisten Sweden AB	556564-4258	Stockholm	1,000	100.0	100.0
NLY Scandinavia AB	556653-8822	Borås	168,260	97.8	97.8
Heppo AB	556533-8372	Stockholm	1,666	100.0	100.0
Lekmer AB	556698-8035	Stockholm	901	90.1	90.1
Rum21 AB	556774-1300	Malmö	901	90.1	90.1
Tretti AB	556665-7606	Stockholm	5,141,758	100.0	100.0
Tretti Options AB	556682-8850	Stockholm	100,000	100.0	100.0
Tretti Danmark ApS	32788300	Denmark	80,000	100.0	100.0
NLY Norge AS	896 508 202	Norway	100	100.0	100.0
CDON Group Logistics AB	556904-0834	Malmö	50,000	100.0	100.0

In December 2012, CDON Group Deutschland GmbH was discontinued.

Shares and participating interests in subsidiaries, parent company (SEK million)	2012	2011
Opening accumulated cost	**699.7**	**296.1**
Acquisitions	0.5	382.1
Revaluation of contingent consideration	1.1	-
Shareholder contribution	133.0	21.5
Sales	-0.3	-
Closing balance, 31 December	**834.1**	**699.7**
Opening accumulated impairment	**-15.8**	**-15.8**
Write-downs during the year	-	-
Closing balance, 31 December	**-15.8**	**-15.8**
Carrying amount, 31 December	**818.2**	**683.9**

Note 12 Operating costs distributed per type of cost

(SEK million)	2012	2011
Cost of goods sold	-3,225.3	-2,305.4
Distribution and warehousing costs	-694.9	-416.8
Personnel expenses	-326.6	-204.1
Depreciation/amortization	-15.7	-10.5
Other expenses	-374.7	-337.7
Total expenses	**-4,637.2**	**-3,274.5**

Note 13 Accounts receivable

Group

Credit exposure

Accounts receivable are recognised taking into consideration credit losses incurred during the year of SEK 3.1 million (3.6) in the Group. The credit losses refer to losses on a number of smaller customers. For more information, see Note 20.

(SEK million)	31 December 2012	31 December 2011
Accounts receivable not overdue or written down	163.8	76.0
Accounts receivable overdue but not written down	19.9	5.9
Accounts receivable written down	9.9	3.8
Provision for bad debts	-9.9	-3.8
Total accounts receivable	**183.7**	**81.9**

Credit risks in accounts receivable that are not past due or impaired are not thought to be large. No individual customer represents more than 10% of Group accounts receivable.

The company's accounts receivable are mainly in SEK. There is not deemed to be any significant currency exposure in accounts receivable.

Receivables past due without provision for bad debts (SEK million)	31 December 2012	31 December 2011
<30 days	9.8	3.1
30-90 days	9.9	1.3
>90 days	0.2	1.6
Total	**19.9**	**5.9**

Receivables past due with provision for bad debts (SEK million)	31 December 2012	31 December 2011
30-90 days	4.7	1.1
>90 days	5.2	2.7
Total	**9.9**	**3.8**

Provision for bad debts (SEK million)	31 December 2012	31 December 2011
Opening balance, 1 January	3.8	2.6
Provision for potential losses	7.2	2.9
Actual losses	-1.0	-1.8
Closing balance, 31 December	**9.9**	**3.8**

Note 14 Prepaid expenses and accrued income

Parent company

(SEK million)	31 December 2012	31 December 2011
Prepaid insurance expenses	-	1.0
Prepaid rent	0.3	0.1
Prepaid marketing expenses	-	1.0
Prepaid licensing costs	1.0	-
Other	0.6	0.5
Total	**2.0**	**2.6**

Note 15 Earnings per share

Group

	Basic		Diluted	
(SEK)	2012	2011	2012	2011
Earnings per share	-2.25	1.26	-2.25	1.26

The numerator and denominator used in the above calculation are shown below.

Basic earnings per share	2012	2011
Profit/loss for the year attributable to parent company shareholders (SEK million)	-149.6	83.3
Average number of shares	66,342,124	66,342,124
Basic earnings per share, SEK	**-2.25**	**1.26**

The parent company has two classes of instruments that may generate potential dilution in the future, a convertible bond (see Note 27) and custodial C shares attributable to the Group incentive program (see Note 23). These have not been included in the calculation of earnings per share since they contribute no dilution effect to either 2012 or 2011.

Diluted earnings per share	2012	2011
Profit/loss for the year attributable to parent company ordinary shareholders (SEK million)	-149.6	83.3
Interest effect on convertible bonds after tax (SEK million)	-	-
Diluted earnings attributable to parent company ordinary shareholders	**-149.6**	**83.3**
Average number of shares	66,342,124	66,342,124
Diluted earnings per share, SEK	**-2.25**	**1.26**

Weighted average number of diluted ordinary shares	2012	2011
Weighted average number of equity shares during the year, before dilution	66,342,124	66,342,124
Effect of convertible bonds	6,578,947	6,578,947
Weighted average number of diluted ordinary shares during the year	**72,921,071**	**72,921,071**

Note 16 Equity

At 31 December 2012, share capital comprised 66,817,124 shares (66,532,124). Each share has a par value of SEK 2.

Issued shares (SEK million)	No. of shares	Quotient value
Ordinary shares	66,342,124	132.7
C shares	475,000	1.0
Total number of shares issued/total par value as of 31 December 2012	**66,817,124**	**133.6**

Change in number of shares/share capital

Date	Event	Change in share capital (SEK)	Change in no. of shares	Share capital after change (SEK)	No. of shares after change
1936-12-11	Establishment	1,000,000	2,000	1,000,000	2,000
2010-09-24	Split	-	498,000	1,000,000	500,000
2010-09-24	Offset issue	131,090,244	65,545,122	132,090,244	66,045,122
2010-10-26	Cash issue	594,004	297,002	132,684,248	66,342,124
2011-05-31	Cash issue C shares	380,000	190,000	133,064,248	66,532,124
2012-05-30	Cash issue C shares	570,000	285,000	133,634,248	66,817,124
No. of issued shares/share capital at 31 December 2012		**133,634,248**	**66,817,124**	**133,634,248**	

The cash issue of C shares in 2012 and 2011 was implemented for use in the Group incentive program. For more information on the incentive programme, see Note 23. All C shares are owned by CDON Group AB.

C shares may be issued in an amount corresponding to the maximum total share capital and do not entitle the holder to dividends. C shares may be converted into ordinary shares at the request of the board. Customary provisions on primary and subsidiary preferential rights for cash issues apply to C shares. C shares have limited rights to assets at liquidation of the company.

The 2010 offset issue was implemented by offsetting previously issued loans from the Modern Times Group MTG AB at a value corresponding to SEK 239,000,000. CDON Group AB's share capital thus increased to SEK 132,090,244.

Other capital contributions/share premium reserve

A share premium reserve arises when shares are issued at a premium; that is, shares were paid at a higher price than the par value.

Foreign currency translation reserve

The translation reserve includes all exchange-rate differences that arise from the translation of income statements and balance sheets into the Swedish krona in the consolidated accounts.

Group (SEK million)	2012	2011
Opening balance, 1 January	**-1.1**	**-0.8**
Translation differences for the year, net after tax	-1.2	-0.2
Total accumulated translation differences	**-2.3**	**-1.1**

Retained earnings

Retained earnings include previously earned profit.

Proposed dividend

The board will propose to the 2013 AGM that no dividend be paid to shareholders for the fiscal year ending 31 December 2012, and that retained earnings be carried forward into the 2012 accounts.

Note 17 Other provisions

Group

Other provisions (SEK million)	2012	2011
Provisions for social security contributions on share-based remuneration	0.5	0.1
Provisions for contingent considerations	5.5	4.8
Unutilised amount reversed during the period	0.0	-
Total	**6.0**	**4.9**

Provisions for share-based remuneration (SEK million)	2012	2011
Carrying amount at year's start	**0.1**	**-**
Provisions allocated during the period	0.4	0.1
Carrying amount at year end	**0.5**	**0.1**

For more information on share-based remuneration, see Note 23.

Provisions for contingent considerations (SEK million)	2012	2011
Carrying amount at year's start	**4.8**	**2.4**
Transferred to current liabilities	-5.4	-1.3
Provisions allocated during the period	6.2	3.6
Unutilised amount reversed during the period	0.0	-
Carrying amount at year end	**5.5**	**4.8**

Provisions consist of contingent considerations from the acquisition of Lekmer AB, Rum21 AB and Business Linc BL AB's operations. The valuation of the contingent considerations for Lekmer AB and Rum21 AB is based on defined profit objectives for coming years and the probability of their fulfilment. The valuation of the contingent considerations regarding the acquisition of operations from Business Linc BL AB is based on certain conditions, including the transfer to CDON Group of existing facility rental contracts for the operations with unchanged terms.

Total provisions for the Group (SEK million)	2012	2011
Total carrying amount at year's start	**4.9**	**2.4**
Transferred to current liabilities	-5.4	-1.3
Provisions allocated during the period	6.5	3.8
Total carrying amount at year end	**6.0**	**4.9**
Of which non-current portion of provisions	**6.0**	**4.9**
Of which current portion of provisions	**-**	**-**

Payments (SEK million)	2012	2011
Amount for which provisions are expected to be payable after 12 months	6.0	4.9

Parent company

Other provisions (SEK million)	2012	2011
Provisions for social security contributions on share-based remuneration	0.5	0.1
Provisions for contingent considerations	0.5	4.8
Total	**1.0**	**4.9**

Provisions for share-based remuneration (SEK million)	2012	2011
Carrying amount at year's start	**0.1**	**-**
Provisions allocated during the period	0.4	0.1
Carrying amount at year end	**0.5**	**0.1**

For more information on share-based remuneration, see Note 23.

Provisions for contingent considerations (SEK million)	2012	2011
Carrying amount at year's start	**4.8**	**2.7**
Transferred to current liabilities	-5.4	-1.3
Provisions allocated during the period	1.2	3.4
Unutilised amount reversed during the period	0.0	-
Carrying amount at year end	**0.5**	**4.8**

Provisions consist of contingent considerations from the acquisition of Lekmer AB and Rum21 AB. The valuation of the contingent considerations is based on defined profit objectives for coming years and the probability of their fulfilment.

Total provisions for the parent company (SEK million)	2012	2011
Total carrying amount at year's start	**4.9**	**2.7**
Transferred to current liabilities	-5.4	-1.3
Provisions allocated during the period	1.5	3.5
Unutilised amount reversed during the period	0.0	-
Total carrying amount at year end	**1.0**	**4.9**
Of which non-current portion of provisions	**1.0**	**4.9**
Of which current portion of provisions	**-**	**-**

Note 18 Accrued expenses and prepaid income

Parent company (SEK million)	31 December 2012	31 December 2011
Accrued personnel expense	8.2	9.2
Accrued audit expense	0.5	0.3
Accrued interest expense	0.2	0.7
Other	1.9	1.7
Total	**10.8**	**11.9**

Note 19 Pledged assets and contingent liabilities

Group

Contingent liabilities (SEK million)	31 December 2012	31 December 2011
Guarantees for external parties	74.5	76.1
Total	**74.5**	**76.1**

Guarantees for external parties relate to bank guarantees and guarantees made to suppliers and other third parties for Group subsidiaries.

Parent company

Contingent liabilities (SEK million)	31 December 2012	31 December 2011
Guarantees for external parties	74.5	76.1
Guarantees for subsidiaries	70.4	15.5
Capital cover guarantees	-	-
Total	**144.9**	**91.6**

This item relates to parent company and bank guarantees along with guarantees made to suppliers and other third parties for Group subsidiaries.

The parent company has made capital cover guarantees to subsidiaries Heppo AB, Lekmer AB, Rum21 AB, NLY Scandinavia AB and CDON Group Logistics AB.

Note 20 Financial instruments and financial risk management

Capital management
The Group's aim is to have a solid financial position that contributes to maintaining the confidence of investors, creditors, and the market, as well as be a solid foundation for the continued development of business operations, while generating satisfactory long-term investor returns. However, there are no explicit quantitative objectives, such as for the debt/equity ratio.

Capital is defined as total equity.

Capital (SEK million)	31 December 2012	31 December 2011
Total equity	266.4	417.3

Neither the parent company nor any of the subsidiaries have any external capital requirements to be met.

Finance policy
The CDON Group is exposed to various types of financial risks through its operations, such as market, liquidity, and credit risks.
The CDON Group's financial risk management is centralised within the parent company to capitalise on economies of scale and synergies, as well as minimise operational risks. The parent company also functions as the Group's internal bank and is responsible for financing and the financial policy. This includes pooling of cash requirements. The board has established financial principles for overall management of risks and for specific areas, such as liquidity risk, interest rate risk, currency risk, credit risk, insurance risk, the use of financial instruments, and placement of extra liquidity.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to fulfil its obligations associated with financial liabilities. This risk is centrally managed by the parent company, which ensures that there is always sufficient cash and cash equivalents and the ability to extend the available financing. Access to cash and cash equivalents for the subsidiary is ensured partly through the use of cash pools. During 2012, the Group expanded its available credit facilities by SEK 300 million. Total available credit facilities on the closing date amounted to SEK 470 million. At the closing date, this margin was utilised with loans of SEK 150 million. At the closing date, the Group has about SEK 320 million in available, unutilised overdraft facilities. After the closing date, available overdraft facilities have decreased by SEK 50 million. At 31 December 2012, the Group's liquidity stood at SEK 126 million (417). The SEK 150 million loan was presented as a current liability as of 31 December 2012, since the conditions of the loan with Nordea were in negotiation.

The Group's financial policy stipulates that there must always be at least SEK 80 million in available cash and cash equivalents.

Market risk – interest rate risk
Interest rate risk is the risk that the value of a financial instrument varies due to changes in market interest rates.
The Group's interest rate risk consists almost exclusively of long-term borrowing in the form of a nominal SEK 250 million convertible bond and a loan of SEK 150 million. Since the promissory note bears a fixed interest rate of 2.85%, the interest rate risk is limited; the loan has a variable interest rate. See Note 27 for the terms of the convertible bond.

If the variable interest rate on the Group's loan would increase or decrease by 1%, it would affect the Group's net financial items by SEK 1.5 million.

Credit risk
Credit risk is defined as the company's exposure to loss in the event that one party to a financial instrument fails to fulfil its obligations. The exposure is based on the carrying amount of the financial assets, of which the majority comprises accounts receivables and cash and cash equivalents. The Group has a credit policy detailing how customer credit will be managed.

Credit risk attributable to the Group's accounts receivable is distributed among a large number of customers, mainly private individuals. Accounts receivable have been sold since early 2009 to a factoring company. See Note 13, Accounts receivable.

Insurable risks
Insurance coverage is governed by the Group's corporate guidelines, and centrally negotiated insurance policies cover the majority of its subsidiaries' needs. In certain cases, local insurance policies have been put in place. The business areas and other units are responsible for managing the insurable risks associated with its day-to-day operations.

Market risks – currency risks
Currency risk is the risk that fluctuations in exchange rates will adversely affect the company's income statement, financial position, and/or cash flow. The risk can be divided into transaction exposure and translation exposure.

Transaction exposure

Transaction exposure is the risk that arises from net inflow or outflow of a foreign currency required by operations and financing. The transactions are not hedged.

Net foreign cash flow was as follows:

Flow of foreign funds (SEK million)	2012	2011
DKK	192.1	163.0
NOK	573.2	495.5
EUR	89.6	89.9
USD	-181.2	-112.6
GBP	-173.9	-145.4

Translation exposure

Translation exposure is the risk that arises from recalculating equity in a foreign subsidiary. Translation exposure is not hedged.

Net foreign assets including goodwill and other intangible assets arising from acquisitions are distributed as follows:

	2012		2011	
Currency	SEK million	%	SEK million	%
DKK	-2.9	-210.6	-1.3	-11.1
NOK	0.0	-2.3	0.1	1.0
EUR	4.3	312.9	13.0	110.1
Total	**1.4**	**100.0**	**11.8**	**100.0**

A five per cent exchange rate fluctuation for each currency would affect equity by these amounts:

Sensitivity analysis (SEK million)	2012	2011
DKK	+/- 0,1	+/- 0,1
NOK	+/- 0,0	+/- 0,0
EUR	+/- 0,2	+/- 0,6

Other financial assets are recognised in the statement of financial position as cash and cash equivalents, interest-bearing non-current receivables, and accounts receivable. Financial liabilities are recognised as liabilities to suppliers, current interest-bearing liabilities, and non-current interest-bearing liabilities. The company estimates that there is no essential difference between the carrying amount and fair value for these items.

Classification of financial instruments

Group (SEK million)	2012	2011
ASSETS		
Loans receivable and accounts receivable		
Other financial non-current assets	1.6	1.6
Accounts receivable	183.7	81.9
Other receivables	52.4	44.3
Accrued income	2.2	-
Cash and cash equivalents	126.1	417.4
Total loans receivable and accounts receivable	**366.0**	**545.1**
Total assets	**366.0**	**545.1**
LIABILITIES		
Other liabilities		
Accounts payable	564.2	463.0
Convertible bonds	223.0	214.8
Credit facilities	150.0	150.0
Other liabilities	109.3	95.6
Accrued expenses and prepaid income	292.5	176.2
Total other liabilities	**1,338.9**	**1,099.5**
Total liabilities	**1,338.9**	**1,099.5**

Parent company (SEK million)	2012	2011
ASSETS		
Loans receivable and accounts receivable		
Receivables from Group companies	523.8	146.6
Other receivables	0.3	0.0
Cash and cash equivalents	87.7	356.3
Total loans receivable and accounts receivable	**611.8**	**502.9**
Total assets	**611.8**	**502.9**
LIABILITIES		
Other liabilities		
Accounts payable	4.3	2.2
Convertible bonds	223.0	214.8
Credit facilities	150.0	150.0
Other liabilities	6.3	14.8
Liabilities to Group companies	608.6	349.9
Accrued expenses and prepaid income	10.8	11.9
Total other liabilities	**1,002.9**	**743.6**
Total liabilities	**1,002.9**	**743.6**

Calculation of fair value

Convertible bonds

Fair value of the debt component of the convertible bonds is calculated by discounting future flows of principal amounts and interest using a market interest rate for similar debts without conversion right. At 31 December 2012, fair value was estimated to total SEK 245.5 million (239.0).

Accounts receivable and accounts payable

For accounts receivable and accounts payable with a remaining life of less than six months, the carrying amount reflects fair value. The Group has no accounts receivable or accounts payable with a life in excess of six months.

Interest rates used to determine fair value

The company uses the Stockholm interbank offered rate of 31 December 2012 plus a relevant interest spread when discounting financial instruments.

Maturity structure of financial liabilities – undiscounted cash flows

Group (SEK million)	Total	0-3 months	3 mon - 1 year	1-5 years	>5 years
Convertible bonds	270.8	1.8	5.3	263.7	
Credit facilities	152.2	1.6	150.5		
Accounts payable	564.2	564.2			
Other liabilities	109.3	109.3			
Accrued expenses and prepaid income	292.5	262.2	30.3		
Total	**1,388.9**	**939.0**	**186.2**	**263.7**	**0.0**

Parent company (SEK million)	Total	0-3 months	3 mon - 1 year	1-5 years	>5 years
Convertible bonds	270.8	1.8	5.3	263.7	
Credit facilities	152.2	1.6	150.5		
Accounts payable	4.3	4.3			
Liabilities to Group companies	608.6	608.6			
Other liabilities	6.3	6.3			
Accrued expenses and prepaid income	10.8	5.4	5.4		
Total	**1,052.9**	**628.0**	**161.3**	**263.7**	**0.0**

Note 21 Operating leases

Group

The Group rents mainly office premises and warehousing facilities through operating leases.

Leases and other commitments for future payments at 31 December 2012

Group (SEK million)	Future payments on non-voidable contracts
2013	27.6
2014	21.8
2015	16.2
2016	4.6
2017	1.5
2018 and beyond	-
Total leases and other commitments	**71.6**
Leasing expense for the year	**40.3**

Leases and other commitments for future payments at 31 December 2011

Group (SEK million)	Future payments on non-voidable contracts
2012	9.8
2013	8.2
2014	5.7
2015	0.1
2016	0.0
2017 and beyond	-
Total leases and other commitments	**23.8**
Leasing expense for the year	**9.8**

Parent company

The parent company rents mainly office premises through operating leases.

Leases and other commitments for future payments at 31 December 2012

Parent company (SEK million)	Future payments on non-voidable contracts
2013	1.0
2014	0.4
2015	0.4
2016	-
2017	-
2018 and beyond	-
Total leases and other commitments	**1.7**
Leasing expense for the year	**1.5**

Leases and other commitments for future payments at 31 December 2011

Parent company (SEK million)	Future payments on non-voidable contracts
2012	1.1
2013	0.5
2014	0.1
2015	0.1
2016	-
2017 and beyond	-
Total leases and other commitments	**1.8**
Leasing expense for the year	**1.2**

Note 22 Average number of employees

Group	2012 Men	2012 Women	2011 Men	2011 Women
Sweden	284	296	219	183
Finland	-	1	-	1
Total	**284**	**297**	**219**	**184**
Total average no. of employees		**581**		**403**

Parent company	2012 Men	2012 Women	2011 Men	2011 Women
Sweden	26	32	17	16
Total	**26**	**32**	**17**	**16**
Total average no. of employees		**58**		**34**

Distribution of men and women in executive management

Group	2012 Men %	2012 Women %	2011 Men %	2011 Women %
Board	91	9	96	4
CEO and other executives	80	20	78	22
Total	**89**	**11**	**93**	**7**

Parent company	2012 Men %	2012 Women %	2011 Men %	2011 Women %
Board	67	33	71	29
CEO and other executives	80	20	78	22
Total	**75**	**25**	**75**	**25**

Note 23 Salaries, other remuneration, and social security contributions

Remuneration to senior executives

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 a long-term share-based incentive programme and pension plans. These components are meant to create a well balanced remuneration reflecting individual performance and responsibility, both short-term and long-term, as well as the CDON Group’s overall performance.

Fixed remuneration

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 contracted variable remuneration will generally not exceed a maximum of 75% 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

The 2012 long-term incentive program

The 2012 AGM resolved to adopt a performance-based incentive program ("the Program") that includes about 20 senior executives and other key employees within the CDON Group. In order to participate in the Program, 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 Program. The participants will then be granted shares free from consideration based on performance and achieved targets, as well as, in some cases, shares based on performance and stock options according to the terms adopted by the AGM. Subject to fulfilment of certain retention and performance-based conditions during the period 1 April 2012 – 31 March 2015 ("the Measurement Period"), that the participant, with some exceptions, is still employed in the CDON Group at the release of the interim report for the period January – March 2015, and subject to the participant retaining the invested shares during the vesting period ending at the release of the interim report for the period January – March 2015, each right entitles the participant to receive one ordinary share in the company and each option entitles the participant to purchase one ordinary share at a price equivalent to 120% of the share price at the allotment date.

The 2011 long-term incentive program

The 2011 AGM resolved to adopt a performance-based incentive program ("the Program") that includes about 10 senior executives and other key employees within the CDON Group. There was no previous equity-based incentive program in the Group.
In order to participate in the Program, 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 Program. The participants will then be granted shares free from consideration based on performance and achieved targets 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"), that the participant is still employed in the CDON Group at the release of the interim report for the period January – March 2014, and subject to the participant retaining 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.

Group

(SEK million)	2012	2011
Personnel expenses		
Salaries	212.8	135.8
Social security contributions	56.4	39.3
Pension expenses – defined contribution plans	13.4	10.5
Expenses for share-based remuneration	0.9	0.3
Social security contributions on share-based remuneration	0.4	0.1
Total	**283.9**	**186.0**

Base salary and variable remuneration (SEK million)	2012	2011
Senior executives (12 persons)	14.3	14.2
Of which, variable salary	*2.1*	*3.9*

Remuneration and other benefits for 2012

(SEK million)	Base salary	Variable remuneration	Other benefits	Pension expenses	Shareholder rights expenses	Total
Paul Fischbein, CEO	2.6	0.0	0.0	0.6	0.2	3.4
Senior executives (11 persons)	9.6	2.1	-	2.4	0.6	14.6
Total	**12.2**	**2.1**	**0.0**	**3.0**	**0.7**	**18.1**

The amounts recognised for 2012 relate to the full year. Accrued variable remuneration to be paid after year end to the CEO is SEK 0.1 million (0.2).

Remuneration and other benefits for 2011

(SEK million)	Base salary	Variable remuneration	Other benefits	Pension expenses	Shareholder rights expenses	Total
Paul Fischbein, CEO, Nov-Dec	0.4	0.0	0.0	0.1	-	0.6
Mikael Olander, CEO, Jan-Nov	3.4	2.0	0.0	1.3	-	6.7
Senior executives (9 persons)	6.5	1.9	-	1.5	0.3	10.1
Total	**10.3**	**3.9**	**0.1**	**2.9**	**0.3**	**17.4**

The amounts recognised for 2011 relate to the full year. Accrued variable remuneration to be paid after year end to the CEO is SEK 0.2 million (0.3).

Parent company

(SEK million)	2012	2011
Personnel expenses		
Salaries	34.6	28.4
Expenses for share-based remuneration	0.9	0.3
Social security contributions	10.2	8.4
Pension expenses – defined contribution plans	4.0	3.2
Social security contributions on share-based remuneration	0.4	0.1
Total social security contributions	**14.6**	**11.8**
Total	**50.0**	**40.5**

Payroll expenses and other remuneration (SEK million)	2012	2011
Board and senior executives (18 persons)	15.5	18.7
Of which, variable salary	*0.7*	*3.8*
Other employees	19.9	10.0
Total salaries and other remuneration	**35.4**	**28.7**

Remuneration and other benefits for 2012

(SEK million)	Base salary, board remuneration	Variable remuneration	Other benefits	Pension expenses	Shareholder rights expenses	Total
Lars-Johan Jarnheimer, Chairman of the Board	0.7					0.7
Mia Brunell Livfors	0.4					0.4
Lars Nilsson	0.5					0.5
Henrik Persson	0.4					0.4
Mengmeng Du	0.3					0.3
Florian Seubert	0.4					0.4
Paul Fischbein, CEO						
Remuneration from parent company	2.6	0.0		0.6	0.2	3.4
Other senior executives (11 persons)						
Remuneration from parent company	6.4	0.7		1.8	0.6	9.4
Remuneration from subsidiaries	3.1	1.4		0.6		5.2
Total	**14.8**	**2.1**	**0.0**	**3.0**	**0.7**	**20.7**

The amounts recognised for 2012 relate to the full year. Accrued variable remuneration to be paid after year end to the CEO is SEK 0.1 million (0.2). The board will receive its full remuneration from the parent company.

The CFO was a temporary hire from May through December 2012. This expense was invoiced to the CDON Group.

Notice of termination of the CEO is a maximum of 18 months when terminated by the company and 12 months when terminated by the employee. The CEO has no right to severance pay.

Remuneration and other benefits for 2011

(SEK million)	Base salary, board remuneration	Variable remuneration	Other benefits	Pension expenses	Shareholder rights expenses	Total
Hans Holger Albrecht, board chairman	0.6					0.6
Mia Brunell Livfors	0.4					0.4
Lars Nilsson	0.5					0.5
Henrik Persson	0.4					0.4
Mengmeng Du	0.3					0.3
Florian Seubert	0.4					0.4
Lars-Johan Jarnheimer	0.3					0.3
Paul Fischbein, CEO						
Remuneration from parent company	0.4	0.0	0.0	0.1		0.6
Mikael Olander, previous CEO						
Remuneration from parent company	3.4	2.0	0.0	1.3		6.7
Other senior executives (9 persons)						
Remuneration from parent company	5.3	1.8		1.3	0.3	8.7
Remuneration from subsidiaries	1.1	0.1		0.2		1.4
Total	**13.1**	**3.9**	**0.1**	**2.9**	**0.3**	**20.1**

The amounts recognised for 2011 relate to the full year. Accrued variable remuneration to be paid after year end to the CEO is SEK 0.2 million (0.3). The board will receive its full remuneration from the parent company.

Share-based remuneration

Starting in 2011, CDON Group AB's AGM established an incentive program for management and key employees.

The 2012 long-term incentive program

The 2012 program is addressed to twenty employees in management and other key personnel. A personal investment in CDON Group AB shares is necessary to participate. These shares can either be already held or shares purchased at market price in conjunction with notification to participate in the program. Participants must retain the shares during the three year vesting period. After that, participants will be allotted objective- and performance-based rights, as well as, in some cases, employee options, depending on how defined objectives were met. The objectives relate to return on shares, gross profit levels, and return on shares compared with a reference group. The objective-based and performance-based rights as well as the employee options were allotted to the participants in early June 2012. They can be utilised after publication of the interim report for the first quarter of 2015. The program contains 26,375 objective-based shareholder rights, 173,100 performance-based rights and 202,800 performance-based employee options.

The 2011 long-term incentive program

The 2011 program is addressed to ten employees in management and other key personnel. A personal investment in CDON Group AB shares is necessary to participate. These shares can either be already held or shares purchased at market price in conjunction with notification to participate in the program. Participants must retain the shares during the three year vesting period. After that, participants will be allotted objective-based and performance-based rights depending on how defined objectives were met. The objectives relate to return on shares, gross profit levels, and return on shares compared with a reference group. The objective- and performance-based rights were allotted to the participants in early June 2011. They can be utilised after publication of the interim report for the first quarter of 2014. The program contains 24,700 objective-based rights and 138,600 performance-based rights.

Cost effects of incentive programs

The programs are equity-regulated programs. The fair value at allotment date is expensed over the vesting period. The cost of the programs is recognised in equity and as an operating expense. The cost is based on the fair value of CDON Group AB shares at allotment date and the number of shares that are expected to be earned. The cost of the programs in 2012 totalled SEK 0.9 million (0.3), excluding social security contributions. When allocation of shares occurs, social security contributions will be paid for the value of benefit to the employee. During the vesting period, provisions are made for these estimated social security contributions.

The estimated fair value of services received in return for the employee options granted is based on the Black & Scholes valuation model. The expected volatility is based on historic value. The assumption of a ten per cent attrition rate during the period was also made. For the objective-based programs, the probability that the objectives will be achieved were taken into account by using the adjustment factors for the various objectives when the cost was calculated.

Dilution

If all rights and options allocated to senior executives and other key employees are utilised as of 31 December 2012, the number of shares issued by the company will increase by 301,675 ordinary shares, which corresponds to a dilution of 0.5% of capital and votes at year-end 2012.

Rights and options granted	CEO	Senior executives	Key persons	Total
The 2011 long-term incentive program	-	37,500	-	37,500
The 2012 long-term incentive program	90,300	137,000	36,875	264,175
Total outstanding as of 31 December 2012	**90,300**	**174,500**	**36,875**	**301,675**

The current CEO is not participating in the 2011 incentive program. The former CEO was allotted 72,000 shareholder rights, but they were forfeited by his departure.

	2012		2011	
	No. of rights	Weighted redemption price	No. of rights	Weighted redemption price
Outstanding rights 1 January	91,300	-	-	-
Rights and options issued during the year	267,300	-	91,300	-
Rights forfeited during the year	-56,925	-	-	-
Total outstanding as of 31 December	**301,675**	**-**	**91,300**	**-**

Specification of long-term incentive program	No. of rights and options	Number of participants	Maximum redemption price	Theoretical fair value at allocation	Redemption period	No. of rights 1 January	Lapsed during the year	Redeemed during the year	Outstanding rights and options 31 December
Allocation 2011									
2011	91,300	8	150.0	27.1	2014	91,300	-53,800	-	37,500
Allocation 2012									
2012	267,300	20	280.0	14.7	2015	-	-3,125	-	264,175
Total allocation									
2011	91,300					91,300	-53,800	-	37,500
2012	267,300					-	-3,125	-	264,175

Personnel expenses, Group (SEK million)	2012	2011
Granted rights 2011	0.2	0.3
Rights and options granted during 2012	0.6	-
Total expense recognised as personnel expenses	**0.9**	**0.3**

Note 24 Fees and remuneration to auditors

Group (SEK million)	2012	2011
KPMG		
Auditing assignments	2.6	2.1
Auditing-related services	0.0	-
Tax consulting	0.9	0.2
Other services	0.4	0.8
Total	**3.9**	**3.2**

Parent company (SEK million)	2012	2011
KPMG		
Auditing assignments	0.8	0.6
Auditing-related services	0.0	-
Tax consulting	0.8	-
Other services	0.4	0.7
Total	**2.0**	**1.3**

Auditing assignments refer to compulsory audits of the annual accounts and accounting records, the administration of the board of directors and CEO, as well as other audits and reviews conducted in accordance with agreements or contracts.

This includes other duties that are incumbent on the company's auditor as well as the provision of advice or other assistance resulting from observations in connection with such auditing or the performance of such other duties.

Note 25 Additional information regarding the statement of cash flow

Group

Items in profit/loss for the year that do not generate cash flow from operations.

(SEK million)	2012	2011
Gain from sale of non-current assets	0.0	0.0
Loss from sale of non-current assets	4.8	-
Depreciation, amortisation, impairment, and disposals of non-current assets	15.7	10.5
Change in provision for contingent considerations	1.1	2.3
Incentive program	1.2	0.4
Interest expenses and income	7.7	7.6
Unrealised exchange differences	0.4	-0.1
Inventory write-downs	87.7	-
Receivable write-downs	6.8	-
Reserve for customs charges in Norway	-	15.0
Total	**125.4**	**35.7**
Other supplementary disclosures		
Interest received during the fiscal year	0.9	2.7
Interest paid during the fiscal year	-17.8	-12.2
Total	**-17.0**	**-9.5**

Parent company

Other supplementary disclosures

(SEK million)	2012	2011
Interest received during the fiscal year	8.6	7.0
Interest paid during the fiscal year	-16.6	-12.6
Total	**-8.0**	**-5.6**

Note 26 Related-party transactions

Group

Related companies	
Investment AB Kinnevik (Kinnevik)	Kinnevik holds shares in CDON Group AB.
Related to Kinnevik:	
Tele2 AB (Tele2)	Kinnevik owns a significant number of shares in Tele2.
Metro International S.A. (Metro)	Kinnevik owns a significant number of shares in Metro.
Modern Times Group MTG AB (MTG)	Kinnevik owns a significant number of shares in MTG.

All transactions between related companies are based on market-based conditions and negotiations have taken place on an arms' length basis.

Transactions with related companies

The Group purchases internal auditing and marketing services from Kinnevik. In 2012, purchases totalled SEK 9.0 million (7.8). Among the 2012 purchases included services purchased from companies disposed of by Kinnevik during the year, but which were owned by Kinnevik at the time of purchase.

Transactions with companies related to Kinnevik

The Group purchases telecommunications and data communications from Tele2.

The Group purchases advertising from Metro.

The Group purchases advertising from MTG companies.

There have been no transactions with senior executives beyond those those disclosed in Note 23.

Parent company

The parent company has related company relationships with its subsidiaries (see Note 11).

Summary of related company transactions (SEK million)	Year	Sale of goods/services to related companies	Purchase of goods/services from related companies	Other (interest, dividends, etc.)	Receivables from related companies, 31 December	Debts to related companies, 31 December
Subsidiaries	2012	54.0	0.0	33.6	523.8	608.6
Subsidiaries	2011	42.3	0.0	89.2	146.6	349.9

Note 27 Convertible bonds

Following a resolution passed at an Extraordinary General Meeting of CDON Group shareholders in Stockholm on 25 November 2010, the Group issued a five year SEK 250 million convertible bond on 2 December 2010. MTG subscribed for 100% of the bond, which bears an annual coupon rate of 2.85%.

Group and parent company (SEK million)	2012	2011
Nominal value after convertible bond issue, 2 December 2010	250.0	250.0
Original amount classified as equity	-32.0	-32.0
Reclassification to equity pursuant to change in tax rate	-1.2	-
Deferred tax liability attributable to convertible bond	-10.2	-11.4
Capitalised interest	16.3	8.2
Recognised liability, 31 December 2012	**223.0**	**214.8**
Net financial items		
Capitalised interest	-8.1	-7.6
Coupon rate	-7.1	-7.1
Effect of convertible instrument on net financial items in consolidated and parent company income statements	**-15.3**	**-14.7**

The conversion price for the Group's SEK 250.0 million five-year convertible bond was set as of 19 January 2011 at SEK 38.00, which corresponds to 125% of the volume-weighted share price for CDON Group shares during the first 20 days of trading, that is to say, the period from 15 December 2010 to 14 January 2011. MTG may therefore convert the bond into a maximum of 6,578,947 CDON Group shares between 15 June 2012 and 1 December 2015, which would represent a 9.0% dilution effect based on the number of shares outstanding as at 31 December 2012.

In the case that a shareholder other than Investment AB Kinnevik should hold 50 per cent or more of the Company's shares, or if the Company is delisted, MTG can require repayment of the convertible. The conversion price for the convertible will also be recalculated if a shareholder other than Investment AB Kinnevik should hold 50 per cent or more of the Company's shares.

Note 28 Significant events after the end of the fiscal year

Divestment of Heppo.com

CDON Group AB announced on 17 April 2013 that it has signed an agreement regarding the sale of operations in subsidiary Heppo AB to Footway Group AB. The sale is structured as an asset deal and includes the majority of Heppo's assets as well as the liabilities attributable to these assets that arise after the transfer. The purchase price has been set at approximately SEK 42 million.

CDON Group implements a rights issue of about SEK 500 million

CDON Group AB announced on 17 April 2013 that the Board of Directors had decided to implement a rights issue with preferential rights for existing shareholders of about SEK 500 million, before transaction costs, to strengthen the Group capital structure and facilitate the implementation of the Group's growth strategy. The rights issue is subject to approval at an extraordinary general meeting to be held on 14 May 2013, the same day as the annual general meeting.

The Company has also renegotiated the terms of existing loans and secured long-term credit facilities of SEK 275 million in conjunction with the preferential rights issue. The Company will reduce its outstanding loans by around SEK 200 million in conjunction with the infusion of capital.

Management changes

On 21 August 2012, the CDON Group appointed Nicolas Adlercreutz as Group CFO. Adlercreutz assumed the position on 7 February 2013. On 20 December 2012, the CDON Group announced the appointment of Birgitta Elfversson as Group logistics manager and Managing Director for the newly formed CDON Group Logistics AB. Elfversson assumed the role on 2 April 2013.

Note 29 Inventories

During the year, inventory was written down by SEK 62.7 million (4.8). Non-recurring items mainly related to the warehouse relocation completed during the year as well as write-down of overstock in Nelly.com were charged against 2012.

Note 30 Liabilities to credit institutions

Liabilities to credit institutions (SEK million)	2012	2011
Bank loans	150.0	150.0
Liabilities due for payment more than five years after the closing date:	-	-

The bank loan relates to the revolving credit facility obtained from Nordea Bank AB (publ) in conjunction with the acquisition of Tretti AB.

The liability was presented as current as of 31 December 2012, since the conditions of the loan with Nordea were in negotiation at the closing date.

The board's attestation

The Board of Directors and Chief Executive Officer certify that the Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden and the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards which are defined in regulation (EC) 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards. The Annual Report and consolidated accounts provide a true and fair view of the financial position and earnings of the Parent Company and the Group. The Directors´ Report for the Group and parent company present a fair summary of the Group and parent company's activities, position, and results, and describes significant risks and uncertainty factors faced by the parent company and Group companies.

Stockholm, 23 April 2013

Lars-Johan Jarnheimer
Chairman of the Board

Paul Fischbein
Chief Executive Officer

Mia Brunell Livfors
Board member

Lars Nilsson
Board member

Henrik Persson
Board member

Mengmeng Du
Board member

Florian Seubert
Board member

Our audit report was submitted on 23 April 2013

KPMG AB

Åsa Wirén Linder
Authorised Public Accountant

The annual accounts and consolidated accounts have, as stated above, been approved for publication by the board and the Chief Executive Officer on 23 April 2013.

Auditor's report

To the annual meeting of the shareholders of CDON Group AB (publ), corp. id. 556035-6940

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Cdon Group AB (publ) for the year 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 7 - 91.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circum-stances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of share-holders adopt the income statement and balance sheet for the parent company and the income statement and statement of financial position for the group.

Report on other legal and regulatory require-ments

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company’s profit or loss and the administration of the Board of Directors and the Managing Director of Cdon Group AB (publ) for the year 2012.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company’s profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company’s profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for our opinion on the Board of Directors’ proposed appropriations of the company’s profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm 19 April 2013
KPMG AB

Åsa Wirén Linder
Authorized Public Accountant

Definitions

Return on equity, %
Return on equity is calculated as net income for the four last quarters divided by average equity for the same period, as a percentage.

Return on capital employed, %
Return on capital employed is calculated as operating income for the four last quarters divided by average capital employed for the same period, as a percentage. Capital employed is calculated as the average of total non-current assets, cash and working capital, less provisions.

Equity per share
Equity attributable to the parent company's shareholders divided by average number of shares.

Net cash flow from operations
Cash flow from operating activities is calculated as operating income before depreciation, amortisation and other non-cash items, plus/minus changes in working capital.

Net debt / Net cash
Net debt equals total interest-bearing liabilities, less interest bearing current and non-current assets and cash and cash equivalents.

Earnings per share
Earnings for the year attributable to the parent company's shareholders divided by average number of shares.

Working capital
Working capital equals the total of inventory and current receivables, less trade accounts payable and other current liabilities.

Operating margin, %
Operating margin is operating income as a percentage of net sales.

Operating income (EBIT)
Operating income is earnings before interest and tax (EBIT).

Equity/assets ratio
The equity/assets ratio equals equity including non-controlling interests, expressed as a percentage of total assets.