cdongroup

Annual Report 2011

CDON Group AB
NASDAQ OMX Stockholm: CDON

CDON GROUP AB **54%** ▲ NET SALES **SEK 3,404 million** ▲ OPERATING PROFIT

QUISITION OF RUM21 AB LAUNCH OF MEMBERS.COM ACQUISITION OF TRETTI AB LAUNCH OF NELLY.COM ON 20 NEW MARKETS LAUNCH OF

Content

This document is in all respects a translation of the Swedish original Annual Report. In the event of any differences between this translation and the Swedish original, the latter shall prevail.

Increased growth rate and stronger result

CEO's statement

CDON Group has experienced remarkable growth over the years, and 2011 was no exception. Our first full year as an independently listed company on the NASDAQ OMX Stockholm exchange was eventful, with range development, geographical expansion, new acquisitions and the establishment of yet another new business. Our full year result is the strongest ever, with both accelerated growth and strengthened profitability. This clearly illustrates that our strategy is paying off.

The launch of the online record-store Cdon.com in 1999 paved the way for what is now CDON Group. Our business has developed year on year, and since 2007 we have been expanding into new product segments where we can take advantage of our knowledge, experience and business synergies. Today we are the leading Nordic e-commerce company within all of our four segments; Entertainment, Fashion, Sport & Health and Home & Garden.

Customers at the centre

CDON Group creates strong and well-known brands within internet-based consumer retailing via a high level of service, a broad range of products, fast distribution, competitive prices and a stimulating customer experience. We always put the customer first. In 2011, our ten e-commerce stores registered 172 million visits, and more than two million different customers completed a total of six million purchases.

Business development

During 2011 we continued to develop our customer offering by expanding our range of products within each segment. This has been most noticeable in Cdon.com, which was originally a media store but which is now becoming an online retailer with a broad offering. Cdon.com's focus on expanding the product range within home electronics was also a success and during the year, home electronics advanced to become the largest product group in Cdon.com in terms of value. An important step was taken in 2011 when Lekmer.com's assortment of toys was integrated into Cdon.com's platform.

Geographical expansion

Our geographical expansion, and in particular the international expansion that we initiated with Nelly.com, is a key factor for long-term growth. During the year, we launched Nelly.com in 20 new European markets and the e-commerce store is now available in English, German, Swedish, Danish, Norwegian, Finnish and Dutch language versions. We also expanded Gymgrossisten, Tretti, Rum21 and Members to new territories.

Investing in growth

Continued expansive sales growth is central to CDON Group and we feel that the business has a strong momentum. During the year we have invested heavily in all areas of our business. The 54% growth in sales is testament to the fact that this has paid off. Every day, more and more customers are discovering the advantages of buying online, and we are convinced that the shift from traditional shopping to internet shopping will remain evident in the future. CDON Group is market-leading in the Nordic countries within all the company's segments and is in an excellent position to take advantage of, and capitalise on anticipated continued strong growth in e-commerce. At the same time there are also several external forces that are working to our advantage; advances in technology, infrastructure and logistics are also improving opportunities for e-commerce companies to operate across larger geographical areas. We want to take hold of these opportunities and so we will be increasing the pace of investment. In 2012 we will be focusing our efforts on continuing to expand our product range within our e-commerce stores, primarily in Cdon.com, and we will be increasing the pace of investment through continued geographical expansion within the Fashion segment.

To summarise, we note that the future of online retailing remains bright and that e-commerce continues to account for an increasing share of total retail sales. CDON Group holds a strong position on the Nordic domestic market and we are convinced that 2012 will also be a year that is characterised by strong growth.

CDON Group stands well-equipped to meet our targets, where our overall focus is on creating value for shareholders through increased sales, improved profitability and persistently satisfied customers.

Finally, I would like to welcome you all to visit our stores in 2012.

Paul Fischbein
President and CEO
CDON Group AB

A sustainable business model

Responsibility within CDON Group

CDON Group is a part of the community. 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 a part of the community 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.

Here are some examples of our support during the year: The toy store Lekmer.se donated toys to the Queen Silvia Children's Hospital in Gothenburg and to the women's refuge Kvinnojouren in Stockholm, as well as to children's homes in Africa. In addition, during the year a series of toys was sold with a percentage of the profits going to children's charity SOS Barnbyar. Fashion store Nelly.com works with Project Playground and donates children's clothes to the project Ensamma Mammor (Single Mothers) and to support the victims of the disaster in the Philippines. Cdon.com gave Christmas gifts to the young people's association Maskrosbarn and books to the children's cancer ward at Lund University Hospital. Cdon.com also ran voluntary initiatives, getting customers involved via their e-commerce stores. Cdon.com entered into a partnership with The Calendar, a photo calendar featuring Swedish artists sold via the store, with SEK 150 of the revenue per sold calendar going entirely to the association Friends and the Swedish Society for Nature Conservation. During the year, the stores also sold Unicef gift certificates.

Corporate responsibility

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 the law and 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 ability 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 reduce 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.

Since the company was founded, 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, which wraps its items in plastic bags, moved over to an environmental choice of material in 2011, and Tretti.se 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.

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.

Our annual survey of employee performance revealed that our employees enjoy working with their colleagues and that they are keen to grow and tackle new challenges within the Group.
(Average score: 4.5 of 5.0)

Commitment among employees is high. Our employees know how to do their jobs, they always focus on what's best for the customer and they are prepared to "give that little bit extra" to contribute to the company's success.
(Average score: 4.4 of 5.0)

Financial overview

2011–2007

Group (SEK million)	2011	2010	2009	2008	2007
Operating revenue and income					
Net sales	3,404	2,210	1,746	1,286	910
Gross income	587	420	348	192	132
Operating income (EBIT)	129	135	125	83	79
Income after financial items	111	116	113	75	91
Net income for the period	83	90	80	49	104
Profitability and related ratios					
Gross margin	17.3%	19.0%	20.0%	14.9%	14.5%
Operating margin	3.8%	6.1%	7.2%	6.4%	8.7%
Return on capital employed	18.7%	36.1%	37.5%	25.9%	38.2%
Return on equity	22.0%	60.6%	49.6%	24.9%	33.2%
Capital structure and related ratios					
Net debt (+) / Net cash (–)	-38	-224	-15	-42	-245
Equity/asset ratio	25.7%	34.2%	1.1%	25.1%	36.1%
Operational key ratios					
Number of visits, million	172	114	88	63	54
Number of orders, million	6.0	4.7	3.9	3.2	2.8
Average shopping basket, SEK	546	442	421	409	372

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 major 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 two 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 2011 registered more than 80 million site visits and received more than four 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. The online store has local versions in the Nordic region. 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 music and films to books, games, consumer electronics, and household products. 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 and is now also available at CDON.com. Consumer electronics continued to grow strongly and is now the segment's largest product category for the full year. ***BookPlus.fi*** launched in 1995 as Finland's first e-bookstore. It was acquired by the CDON Group in December 2007 as a platform in Finland, and the online store was integrated into the Company infrastructure. Today, BookPlus.fi is a major player in the Finnish e-bookstore segment. BookPlus.fi offers a wide selection of over 3.5 million Finnish, English, German, and Swedish titles from all genres, from children's books to professional literature and academic titles. The online store targets the Finnish market. ***Lekmer.com*** an online store for toys and other products for children, launched in Sweden 2006. Lekmer.com was acquired by the CDON Group in March 2010. The product assortment includes about 5,000 toys and children's products from leading brands such as Alga, Mattel, Brio, Micki, Babybjörn, Disney, Hasbro, Lego and Playmobil. Lekmer.com was launched on the Norwegian market in October 2010 and the Finnish and Danish markets in November 2010.

Fashion

Operations in the Fashion segment are conducted through the online stores Nelly.com, Heppo.com and Members.com. Together, the stores in 2011 registered almost 75 million site visits and received more than one million orders.

Nelly.com was founded in 2004. After its acquisition by the CDON Group in 2007, the online store Nelly.com has expanded rapidly with launches in Norway in June 2008, and in Denmark and Finland in October 2008. A German version of Nelly.com was introduced in October 2010, marking the first expansion outside the Nordic region. Nelly.com was launched throughout the entire EU in September 2011. Today, the store is available in seven languages: Swedish, Norwegian, Danish, Finnish, German, Dutch and English. The product selection has broadened from its initial offering of lingerie, swimwear, and women's clothing to include children's and men's clothing, as well as accessories and beauty products. In all, Nelly.com offers more than 800 external brands in all price ranges. In 2008, Nelly.com launched its own brands, including "Nelly Trend" and "Nelly Shoes". The product range comprised by the Company'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 20 own brands. ***Heppo.com*** is an online retailer of shoes and shoe accessories. The CDON Group launched it in August 2010 in Sweden, and subsequently expanded to other Nordic regions in September 2010. 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 e-retailer's product assortment includes a wide selection of quality shoes and shoe accessories from more than 200 different brands. The main target audience for the online store is men and women from 25 to 40 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 attractive products from well-known brands to its exclusive, specially selected, members. Members.com's core offerings are fashion apparel and accessories as well as products and services related to lifestyle and design.

Sports & Health

Operations in the Sports & Health segment are conducted through the online stores Gymgrossisten.com (Fitnesstukku.fi in Finland) and Bodystore.com. Together, the stores in 2011 registered more than 9 million site visits and received more than 500,000 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 store 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 e-commerce store for beauty, health foods, and general well-being, with a selection of more than 1,700 articles. The online store was included in the acquisition of Gymgrossisten in 2008. The product range includes a wide assortment of health and beauty products, dietary supplements, workout apparel, and exercise equipment. The product range includes name as well as in-house brands.

Home & Garden

Operations in the Home & Garden segment are conducted through two online stores acquired in 2011, Tretti.se and Rum21.se. Together the stores registered almost six million site visits and received more than 100,000 orders since their acquisition by the CDON Group in 2011. ***Tretti.se*** is the Nordic leader in online retailing 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.se has a showroom in Stockholm. Tretti.se was established 2004, listed on the exchange in 2005, and launched in Norway and Finland in 2010. In June 2011, the Company was bought out from NASDAQ OMX First North by the CDON Group; the Company was established the same month in Finland. ***Rum21.se*** was launched in 2006 in Borås, Sweden, and is an online retailer of designer-brand furniture and interior design products from well-known Scandinavian and European brands. Rum21.se also has a shop in Borås, Sweden. Its product selection consists of well-known designer products from leading Nordic and European manufacturers. Rum21.se was acquired by the CDON Group in February 2011. The CDON Group established Rum21 as a furniture and interior design retailer across the Nordic region as an effect of the launch of Room21.dk in Denmark and Room21.fi in Finland in September, and Room21.no in Norway during October 2011.

Overview

Sales increased very significantly in 2011. The Entertainment segment has shown accelerated growth compared year-on-year. Growth has even accelerated during the year, partly driven by the continued expansion of Cdon.com, mainly through the expansion of the consumer electronics segment as well as the integration of Lekmer.com’s assortment 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.

The Fashion segment has continued its highly expansive growth in 2011, mainly driven by the development of in-house brands, the widening of its product range and continued geographic expansion. Nelly.com was launched in 20 new European countries in 2011. The shopping club Members.com also started in 2011, and was quickly launched in Sweden, Norway, Denmark and Finland. Shoe retailer Heppo.com that was launched in Q3 2010 showed very good growth during the year and now contributes to the total sales in the segment.

The Sports & Health segment strengthened its position in all geographic markets, particularly in Norway and Finland during the year. The segment expanded into the Danish market in February 2011, and into the German market in December.

The Home & Garden segment was established in Q2 through the acquisition of Tretti.se in June. Tretti.se is a Nordic market leader in online retailing of white goods. The furniture and interior design retailer Rum21, which was acquired in January, is also included in the Home & Garden segment.

The co-operation between the Group subsidiaries in marketing and logistics on all markets has enabled additional growth.

Consolidated financial position

(SEK million)	2011	2010	*Change (%)*
Net sales	3,403.7	2,210.0	*54.0%*
Gross profit	587.3	420.2	*39.8%*
Gross margin, %	*17.3%*	*19.0%*	
Operating profit	129.2	134.6	*-4.0%*
Operating margin, %	*3.8%*	*6.1%*	
Net financial items	-18.2	-18.8	
Profit before tax	111.0	115.8	*-4.1%*
Profit after tax	83.0	90.2	*-8.0%*
Basic earnings per share, SEK*	1.26	5.00	
Diluted earnings per share, SEK*	1.26	4.90	
Total assets	1,625.3	1,014.2	*60.3%*

*Basic earnings per share for 2010 are based on the average number of outstanding shares, 18,153,748. The weighted average number of shares outstanding before dilution for 2011 amounted to 66,342,124. The weighted average number of shares outstanding after dilution for 2011 amounted to 72,921,071.

Sales

Group net sales were up 54% year-on-year in 2011 and organically net sales increased 37% year on year, following continued sales growth and market share gains for all business segments in the Group. The Group’s internet retailers attracted 171.8 million visitors (114.1) and generated 6.0 million orders (4.7).

Operating expenses

Consolidated expenses for goods sold rose 57% to SEK 2,816.4 million (1,789.8), including expenses of SEK 15 million related to restatement of customs duties and VAT. Consequently, the gross margin amounted to 17.3% (19.0). The decrease in the gross 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 from June 3 2011, as the company's gross margins are somewhat lower than Group average.

Consolidated sales and administrative expenses increased by 60% year on year to SEK 458.8 million (287.4) for the full year, which reflected the higher sales volumes from existing and new business lines, investments in the launch of Members.com in the Nordics and Nelly.com in the EU, as well as marketing initiatives, such as Nelly.com in the German and Dutch markets and for Gymgrossisten's internet store Bodystore.dk in Denmark. The Group also incurred higher year on year TV advertising costs as a stand-alone company following the signing of a new agreement with the former parent company Modern Times Group, which took effect from the beginning of 2011. Group central costs of SEK 37.8 million (16.5) for the year to date reflected the Group's status as a stand-alone and publicly listed company with its own central functions and governing bodies, as well as non-recurring costs of SEK 4.7 million associated with the acquisition of Tretti AB during the second quarter 2011, as well as SEK 15 million attributable to a restatement of Norwegian customs duties and VAT for the past three years.

The Group therefore reported an operating profit of SEK 129.2 million (134.6) for the full year, with operating margins of 3.8% (6.1).

Net financial items

The Group´s net interest and other financial items amounted to SEK -18.2 million (-18.8), which primarily reflected the interest costs related to the convertible bond issued by CDON Group in December 2010, as well as the Group´s revolving credit facility.

Tax

Group profit before tax amounted to SEK 111.0 million (115.8).

The Group reported income tax expenses of SEK 28.0 million (25.6). Group consolidated net income therefore totalled SEK 83.0 (90.2).

Net profit and earnings per share

Consolidated profit after tax decreased 8% from SEK 90.2 million to SEK 80.0 million.

The total number of shares amounted to 66,532,124. The Group reported basic earnings per share of SEK 1.26 (5.00) for the year to date, based on weighted average number of shares during the period. The Group reported diluted earnings per share of SEK 1.26 (4.90), based on weighted average number of shares during the period.

Consolidated financial position

Group total assets increased 60% year-on-year to SEK 1,625.3 million (1,014.2) at 31 December 2011, which reflected the ongoing expansion of the Fashion and the Entertainment segments and the acquisition of Tretti AB and Rum21 AB. Inventory levels increased year on year from SEK 251.3 million to SEK 459.1 million. The increase reflected the higher proportion of Group sales generated from the more inventory intensive Fashion and Sports & Health segments, the acquisition of Tretti as well as the expansion of the Group's product categories and assortments, e.g. consumer electronics within the Entertainment segment.

Cash flow from operating activities before change in working capital declined to SEK 124.3 million (126.2). The Group reported a SEK 71.6 million (-32.9) change in working capital. The Group's rolling twelve month return on capital employed declined year on year to 18.7% (36.1), which mainly reflected the acquisition of Tretti AB in June.

Group cash flow to investing activity amounted to SEK -345.8 million (-9.8), which primarily reflected the SEK -5.3 million net cash flow impact from the acquisition of Rum21 AB in February and the SEK -317.5 million net cash flow impact from the acquisition of Tretti AB in June.

Group cash flow from financing activities amounted to SEK 136.2 (353.8) million, which reflected the Group's revolving credit facility, as well as SEK -13.8 million net cash flow impact from the acquisition of shares from minority shareholders in NLY Scandinavia AB in November.

Total interest-bearing liabilities for the Group amounted to SEK 379.8 million (207.2), which mainly reflected the revolving credit facility and the convertible bond, issued to the Modern Times Group.

Group cash and cash equivalents decreased by SEK -13.9 million till SEK 417.4 million (431.3). The Group therefore had a net cash position (defined as interest-bearing liabilities less cash and cash equivalents) of SEK 37.6 (224.1) million.

Acquisitions and divestments

Rum21 AB, a family-owned online retailer of designer brand furniture and interior decoration products with SEK 11 million in sales and four employees in 2010. At 31 January 2011, CDON Group acquired 90.1% of the company, on a cash and debt free basis, for a purchase price of about SEK 14 million, of which SEK 7.3 million is paid as a deferred/contingent part of the acquisition price over a three-year period starting in 2012. Rum21.se provides the Group with access to an industry segment that is well suited for e-commerce and has considerable growth potential. Company profits are consolidated within the Group from 1 February 2011.

Tretti AB is the largest online retailer of white goods and household appliances in the Nordics, with SEK 451 million in sales and growth of 31% in 2010. 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 had acquired 98.5% of company shares by the end of the second quarter. The Group initiated compulsory redemption procedure regarding the remaining shares in Tretti AB, in accordance with the Swedish Companies Act (2005:551). Tretti AB was also delisted from NASDAQ OMX First North, and the last trading day in the company's shares was 15 July 2011. The company's profits are consolidated within the Group from 3 June 2011.

CDON Group established a new business segment, Home & Garden, which comprises Tretti AB from 3 June 2011, and Rum21 AB from 1 April 2011. Rum21 AB's results were reported within the Fashion segment in the Group's financial results for the first quarter of 2011 since its acquisition on 1 February 2011. Due to the low proportion of the Fashion and Home & Garden segments sales and operating results accounted for by the company, the Group's historical segmental financial results have not been restated.

Segment

Entertainment

(SEK million)	2011	2010	*Change (%)*
Net sales	1,928.9	1,492.2	*29.3%*
Operating profit	102.3	99.7	*2.5%*
Operating margin, %	*5.3%*	*6.7%*	
No. of visits (millions)	81.4	68.5	*18.8%*
No. of orders (millions)	4.2	3.7	*14.0%*
Average shopping basket (SEK)	433	375	*15.4%*

The Entertainment segment comprises the online stores Cdon.com, BookPlus.fi and Lekmer.com. The segment sales were up 29% in 2011. The segment accounted for 57% (68) of total Group sales.

The ongoing shift from media products towards new growth areas such as consumer electronics accelerated further in 2011 as new supplier collaborations and an expanded product range contributed to continued strong sales development. Consumer electronics strengthened its position as the largest category. Media products showed growth despite weak market development. In the media category, computer games reported the strongest development; film and books also developed positively. Toys continued with three-digit growth, driven by demand on the new markets, as well as sales through Cdon.com after Lekmer.com's assortment was integrated in Cdon.com during the third quarter. The segment increased its sales volumes in all markets and all product categories strengthened their positions and market shares.

Cdon.com also integrated the digital platforms for video on demand and digital games into Cdon.com's retail platform, resulting in increased exposure to and enhanced sales volumes of digital products. The company also launched a mobile version of the shop.

The segment's operating income and the average shopping basket value increased compared with the previous year as a result of the increased sales volume and the rapid development of consumer electronics-sales within Cdon.com. Operating margin was also affected by market investments in the development of Lekmer.com.

Fashion

(SEK million)	2011	2010	*Change (%)*
Net sales	730.6	433.2	*68.7%*
Operating profit	19.9	16.1	*23.6%*
Operating margin, %	*2.7%*	*3.7%*	
No. of visits (millions)	75.0	39.3	*90.7%*
No. of orders (millions)	1.1	0.6	*75.3%*
Average shopping basket (SEK)	641	655	*-2.2%*

The Fashion segment comprises the online stores Nelly.com, Heppo.com and Members.com. The segment sales were up 69% in 2011. The segment accounted for 21% (20) of total Group sales.

Sales within the fashion segment grew strongly despite the moderate development on the general clothing and shoes market. The strong growth is mainly an effect of the significant investments the Group has made in development of new brands, such as shoe retailer Heppo.com which was launched in the third quarter of 2010, the shopping club Members.com that was launched during the third quarter of 2011 and the geographical expansion of fashion retailer Nelly.com. The investments have developed according to plan, and a global launch of Nelly.com is scheduled for 2012.

Nelly.com launched a series of new private label brands, as well as a mobile shop and new marketing campaigns in the Netherlands and Germany. Heppo.com focused on broadening the product range and brand assortment, and Members.com expanded into Norway, Denmark and Finland.

The segment improved its operating profits compared to last year despite these investments. Higher sales volumes, improved operating margin for Heppo.com and stronger gross margins for Nelly.com are the main drivers behind this positive development.

Sports & Health

(SEK million)	2011	2010	*Change (%)*
Net sales	377.1	284.7	*32.5%*
Operating profit	39.7	35.4	*12.4%*
Operating margin, %	*10.5%*	*12.4%*	
No. of visits (millions)	9.5	6.2	*52.4%*
No. of orders (millions)	0.5	0.4	*39.5%*
Average shopping basket (SEK)	692	727	*-4.9%*

The Sports & Health segment comprises the online stores Gymgrossisten.com, Fitnesstukku.fi and Bodystore.com. Sales in this segment grew 33% in 2011 and accounted for 11% (13) of total Group sales.

The strong growth is a result of marketing campaigns and market share gains in all of Gymgrossisten.com's markets. The product categories Nutrition supplements and Protein continued to show healthy growth, while the categories Sportswear and Health foods, where the assortment has been broadened, also contributed to the growth.

Gymgrossisten launched Bodystore.de on the German market during the fourth quarter. Bodystore.de offers a wide range of international brands, an additional range of German products and Gymgrossisten's private label brand Star Nutrition, a market leader brand in the Nordic countries.

The segment sales were up 12% in 2011. The segment's operating margin decreased from the previous year as a result of the previously mentioned market investments.

Home & Garden

(SEK million)	2011	2010	*Change (%)*
Net sales	367.1	-	-
Operating profit	5.2	-	-
Operating margin, %	*1.4%*	-	
No. of visits (millions)	5.9	-	-
No. of orders (millions)	0.1	-	-
Average shopping basket (SEK)	2,696	-	-

The Home & Garden segment comprises the online shops Tretti.com and Rum21.se. The segment accounted for 11% (-) of total Group sales.

Tretti developed according to plan and strengthened its position as the leading online white goods and home appliance shop in the Nordic region. The Nordic launch, range expansion and an increased focus on online advertising contributed to increased market shares in a total market characterised by strong price pressure. Rum21 showed triple-digit growth and expanded to Finland, Denmark and Norway. Rum21 has also aggressively expanded its assortment and launched its private label Formaterial, activities that have pressured the segment's operating profit. Further, a slowdown in the housing market has put some pressure on the premium segment in Tretti.com, and strong pressure on prices in the white goods segment has affected its operating result.

Significant events after the end of the period

Completion of 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 per cent 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.

Management changes

CDON Group announced on 12 March 2012 that Martin Edblad, Chief Financial Officer at CDON Group AB, and Peter Rosvall, Chief Executive Officer at Nelly.com and Members.com and responsible for the fashion segment, had decided to leave the Group.

Outlook

The Nordic e-commerce market is in an early phase of development and accounts for approximately 6 per cent 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 reached 9 per cent in the US and 12 per cent in the UK.

The total Nordic distance-selling market is estimated at approximately SEK 75 billion. Out of the total distance selling market, the Nordic e-commerce market is estimated at approximately SEK 62 billion[2].

Euromonitor estimates that Nordic e-commerce will continue to report double-digit growth (a compound annual growth rate, CAGR, of 11 per cent) 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 2011, 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 (Center for Retail Research).

The economic and business climate in the markets in which the CDON Group is active stabilised near the end of 2009 after the 2008–2009 financial crisis, and continued to grow stronger in 2010

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

to be subjected to renewed concerns in 2011 due to the debt crises in countries such as Greece, Spain and Portugal.

Against this backdrop, the CDON Group is well positioned to continue to capitalise on the ongoing migration of sales from traditional retail to e-commerce. By using its well-tested, scalable and efficient internet-retailing platform and by continuing to develop its portfolio of online retailers, the Group will achieve its overall objective: to create sustainable, long-term value for company shareholders. The increasing economic concern in Europe brings some uncertainty into the coming year.

The objectives defined for the Group in conjunction with its listing on NASDAQ OMX Stockholm remain firm.

- The Group will continue to grow organically at least in line with the growth of its active market segments, as well as establish and acquire new online stores.
- The Group will generate margins that are at least in line with the average for competitors in each of its operating market segments, adjusted for expansion costs.

The CDON Group's objectives are therefore summarised as grow organically at least in line with the market (CAGR 11%) over the period and achieve an underlying operating margin at least in line with the industry average. It is expected that this will be achieved through a stable gross margin and decreasing sales and administration costs as a percentage of total sales, that is via economies of scale.

The CDON Group intends to grow and improve Group profitability by concentrating on three overall areas.

Growth

The online retail sector is in a nascent stage in the markets in which the CDON Group is active. There is underlying market growth as e-commerce becomes an increasingly common and established sales channel. The consumer shift from traditional retailers to the internet will benefit the companies that are well positioned with internet stores that offer a comprehensive product range.

- **Organic growth:** CDON Group's growth has historically been mainly organic. Having well-positioned online stores and an attractive product offering in growing markets, the Company will continue to pursue organic growth within existing and new markets. CDON Group sees good opportunities to achieve organic growth by broadening its product range within existing internet stores while taking advantage of the Company's business model, where a growing active customer database can be exposed to a larger and broader product range from several stores within the Group.

- **Geographic expansion:** CDON Group is planning for a continued geographic expansion of the Group's online retailers, mainly in the Fashion segment, in which existing IT infrastructure and logistics solutions will facilitate the implementation.
- **Strategic acquisitions:** CDON Group has acquired and integrated five companies since 2007. Gymgrossisten.com and Nelly.com are both examples of the Company's ability to add new product segments through acquisition, where growth in acquired companies is accelerated through an improved product offering and economies of scale that have been achieved by becoming part of the CDON Group in conjunction with geographic expansion. Acquisitions will be part of the strategy in the future as well, both to consolidate existing markets and to enter new segments and geographic markets, even if it will probably not be with the same scope as previous years.
- **Own company launches:** The launch of the new internet store Heppo.com in Q3 2010 and Members.com in Q3 2011, both in the Fashion segment, are examples of how the CDON Group uses existing IT infrastructure, logistics solutions, and internal know-how to establish new companies with limited investment needs.

Continuous profitability gains

The CDON Group aims to improve profitability as the Company grows and expands its stores' product range in more geographic markets. The Company has operational objectives intended to create a positive development of margins in the coming years.

- **Scalable business model:** By exploiting the above-mentioned synergies while the Group is expanding, management sees opportunities to drive a positive development of margins within existing markets.
- **Transition to proprietary brands:** Developing and launching own brands is an important component of the Company's strategy. Management sees good opportunities to continue to build the Company's brands and strengthen customer loyalty, while increasing the number of repeat customers by offering attractive proprietary brands, such as Nelly Shoes, Nelly Trend, and Star Nutrition.

Synergies between the online stores

CDON Group's operations are based on several online stores that operate through a common corporate structure. This provides the Group with opportunities to achieve economies of scale in several areas.

- **Purchasing:** Economies of scale in purchasing supplier services and goods.
- **Marketing and sales:** Economies of scale when purchasing advertising space and a customer list with more than two million e-commerce consumers make it possible to direct offerings to specific customer groups based on demography and purchasing behaviour.

- **IT:** Scalable IT infrastructure with respect to equipment, monitoring and business systems, as well as website development, where newly developed or improved functions can be reused in several online retailers within the Group.
- **Daily operations:** Coordination of functions, logistics infrastructure and formalised procedures for business practices, control, logistics and contract negotiations.
- **Common strategy and financial flexibility:** Coordination of strategies between the Group's segments combined with financial capacity to use own cash flows to establish new subsidiaries, geographic expansion of existing web sites and add-on acquisitions.

Risks and uncertainties

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

Financial risks

- Currency risks
- Financing and interest rate risks

Legal risks

- Legislative, regulatory, and compliance

Industry and market risks

Market trend for e-commerce

The market for e-commerce is undergoing change. In the Nordic countries, the average annual growth of the e-commerce market was 18 per cent between 2004 and 2009. In 2011 the e-commerce market in Sweden constituted 6.0 per cent of total retail sales, compared with 1.2 per cent 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 should 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 of the online stores, such as CDON.COM, Nelly.com, and Gymgrossisten.com, currently offer free delivery on purchases exceeding a certain amount. 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 2011 were valued at SEK 585 million; these comprised goodwill of SEK 447 million, brands of SEK 109 million, capitalised expenditures of SEK 22 million, and other intangible assets of SEK 7 million. 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 40 per cent for full-year 2011, are completed outside Sweden, the company is exposed to certain risks related to financial 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, and 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 currently has a strong financial position with net cash, but finances its operations in part by borrowing, which mainly consists of a nominal SEK 250 million convertible bond (for more information on the convertible loan, see Note 27), and a revolving SEK 150 million credit facility. This means that part of CDON Group's cash flow is used for interest payments, but the fixed interest rate of 2.85% on the convertible bond partly limits the company's interest rate risk. The revolving credit facility has 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 it 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. 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.

Since the company was founded, 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 465 full-time employees at the end of 2011, compared with 333 at the beginning of 2011. Information on the average number of employees and salary expenses for the year is available in Notes 22 and 23.

Remuneration of the Chief Executive Officer and senior executives

It is proposed that the Annual General Meeting of shareholders adopts the following guidelines for remuneration to executives:

Remuneration guidelines

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

Fixed salary

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

Variable salary

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

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

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

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 CDON Group parent company reported sales of SEK 42.4 million (0.1) for the full year. Administrative expense totalled SEK -61.9 million (-17.8) for the full year, and reflects costs of a recurring nature, primarily related to operating the CDON Group as a publicly listed company, consisting of expenses for central functions, board fees, auditing services, etc.

Other net financial items amounted to SEK -12.6 million (-8.3) for the full year. The parent company received group contributions from subsidiaries amounting to SEK 124.0 million and gave group contributions to subsidiaries amounting to SEK -16.0 million during the year. Profit before tax totalled SEK 75.8 million (84.3) for the full year.

The parent company reported cash and cash equivalents of SEK 356.3 million (407.4) at year end.

The parent company made investments of SEK 403.6 million (31.8) in non-current assets during the year, of which:

- SEK 13.8 million related to acquisition of additional 2.23% of the shares in NLY Scandinavia AB. The CDON Group now owns 97.77% of NLY Scandinavia.
- SEK 350.8 million related to acquisition of Tretti AB
- SEK 19.1 million related to acquisition of 90.1% of Rum21 AB
- SEK 19.5 million in shareholder contribution and revaluation of earn-out for Lekmer AB
- SEK 0.1 million related to establishment of CDON Group Norge A/S
- SEK 0.3 million related to establishment of CDON Group Deutschland GmbH

Proposed allocation of profits

These amounts are at the disposal of the shareholders as of 31 December 2011 (SEK):

Share premium reserve	139,870,129.00
Retained earnings	76,312,474.23
Profit for the year	55,660,310.35
Total	271,842,913.58

The Board proposes that retained earnings, share premium reserve and profit for the year for a total of SEK 271,842,913.58 be carried forward, of which SEK 139,870,129.00 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 2011 was SEK 2.7 billion.

Shareholders at 31 December 2011

Name	Capital (%)	Votes (%)	No. of shares
Investment AB Kinnevik (incl. Emesco)	25.0%	25.1%	16,639,307
Point Lobos Capital LLC	10.0%	10.1%	6,674,346
Capital Group	9.1%	9.1%	6,056,500
Luxor Capital Group LP	5.2%	5.2%	3,464,161
Swedbank Robur Funds	2.0%	2.0%	1,343,803
AMF pension & fonder	1.8%	1.8%	1,188,400
SEB Funds	1.5%	1.6%	1,030,725
Handelsbanken fonder	1.3%	1.3%	885,349
Norska staten	1.3%	1.3%	833,302
Wasatch Funds	1.1%	1.1%	711,166
Avanza Pension Försäkring AB	0.8%	0.8%	554,266
Fjärde AP-fonden	0.6%	0.6%	405,915
Nordea Funds	0.6%	0.6%	405,000
SEB Trygg Liv	0.6%	0.6%	368,440
Abu Dhabi Investment Authority	0.4%	0.4%	241,150
Total for the 15 larges owners – by holdings	61.3%	61.6%	40,801,830
Other shareholders	38.7%	38.4%	25,730,294
Total no. of issued shares*	**100%**	**100%**	**66,532,124**

* Includes 190,000 C shares held by the CDON Group.

Source: SIS Ägarservice

Share capital

At 31 December 2011, the number of issued shares totalled 66,532,124, distributed as 66,342,124 ordinary shares and 190,000 C shares. C shares have a quotient value of SEK 2 and are held in whole by CDON Group AB. CDON Group AB purchased the C shares for SEK 380,000. The Group's share capital amounted to SEK 133.1 million at the year-end. For changes in the share capital between 2010 and 2011, 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 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 2011.

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.

At 31 December 2011, 91,300 outstanding rights were attributable to the Company's share-based incentive programme. For more information on the incentive programme, 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 2011.

Share price development

The share price at the beginning of the year was SEK 31.1. At the last trading day, the share price was SEK 37.8.

Corporate governance

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

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

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

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

Corporate governance

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

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

Share capital consists of two share types, Ordinary shares and Class C shares. For more information regarding company shares, see the *Share* section.

Shareholders are regularly provided information, including interim and full-year financial reports, financial statements, and press releases on significant events during the year. All reports, press releases, and additional information is available through on the CDON Group's website at www.cdongroup.se.

Annual General Meeting

The Annual General Meeting (AGM) is a limited company's highest decision-making body, and a forum for shareholders to exercise their voting rights to influence issues affecting the Company and its operations.

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

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

Nomination procedure

The Nomination Committee

Tasks of the Nomination Committee include:

- Evaluation of the Board's work and composition
- Submission of proposals to the AGM regarding the election of Board members and the CEO
- Preparation of proposals for the election of auditors in cooperation with the Audit Committee (as appropriate)
- Preparation of proposals for the fees to be paid to Board Directors and to the Company's Auditors
- Preparation of proposals for the Chairman of the Annual General Meeting
- Preparation of proposals to the AGM regarding the Nomination Committee's composition and work during the following year

Following a resolution of the AGM on 16 May 2011, a Nomination Committee consisting of majority investors was established with Cristina Stenbeck as convenor. The Nomination Committee comprises Cristina Stenbeck on behalf of Investment AB Kinnevik, Ryan Schaper on behalf of Point Lobos Capital, LLC, Jeffrey Pierce on behalf of Luxor Capital Group LP, and Björn Lind on behalf of AMF and AMF Funds. Cristina Stenbeck was appointed chairperson of the nomination committee. The Nomination Committee represents together over 42 per cent of the votes in CDON Group AB. The members of the Nomination Committee do not receive any separate remuneration for their work.

The Nomination Committee will submit a proposal for the composition of the Board, Chairman of the Board, auditing firm, and remuneration to the Board and its Chairman for presentation to the 2012 AGM for approval.

The Board of Directors as of 31 December 2011

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

Responsibilities and duties of the Board

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

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

The Board has also adopted procedures for instructions and mandates to the CEO. These procedures require that investments in non-current assets of more than SEK 1,000,000 must be approved by the Board. The Board must also approve major transactions, including acquisitions and closures or divestments of businesses. In addition, the Board has also issued written instructions specifying when and how information, which is required in order to enable the Board to evaluate the Group's and its subsidiaries' financial positions, should be reported.

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

The CDON Group's board composition during the year has fulfilled the requirements of NASDAQ OMX Stockholm AB and the Code on the independence of board members. This means that the majority of board members appointed by the AGM are independent in relation to the company and its management. At least two of these members are also independent in relation to the company's major shareholders.

Rules of procedure for the Board

Remuneration Committee

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

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

The Code states that the members of the committee are to be independent of the Company and its executive management with the exception of the Chairman of the Board who may chair the committee regardless of whether this criteria is met or not. Mia Brunell Livfors and Hans-Holger Albrecht are not independent of the company and its management due to their respective roles as member of the Board and CEO of Modern Times Group MTG AB (former owner of CDON Group), which is a significant supplier of marketing to CDON Group and holds a CDON Group convertible bond, and a company in which Investment AB Kinnevik owns more than 10 per cent of shares. As CEO of Investment AB Kinnevik, Mia represents shareholders who together hold more than 10 per cent of shares in CDON Group. The Company therefore deviates from this rule in the Code. The reason for the deviation is that both Mia Brunell Livfors and Hans-Holger Albrecht have significant experience in establishing and defining remuneration principles in listed companies, thereby providing the committee with the appropriate expertise.

Audit Committee

The Audit Committee comprises Lars Nilsson as chairman, Henrik Persson, and Florian Seubert.

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

Remuneration to board members

The fixed remuneration for the Board for the period until the close of the 2012 AGM is in total SEK 2,800,000, of which SEK 600,000 is allocated to the Chairman of the Board, SEK 300,000 to each board member, and a total of SEK 400,000 as remuneration for work in board committees.

The remuneration of the board members will be proposed by the Nomination Committee, which represents the Company's largest shareholders, and approved by the AGM. The Nomination Committee proposal is based on benchmarking of peer group company compensation and company size.

Board work in 2011

During the year, the Board regularly reviewed the financial position of CDON Group AB and the Group's financial position. The Board also regularly dealt with matters involving acquisitions, the establishment of new operations, and investment matters. The Board also evaluated the Group's strategy and future development plans. The Board held five regular meetings in 2011.

Presence at board and committee meetings

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

External auditors

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

The auditor reports its findings to the shareholders by means of the auditors' report, which is presented to the AGM. In addition, the auditor reports detailed findings at each of the ordinary meetings of the Audit Committee and to the full board once a year, and annually provide written assurance of their impartiality and independence to the Audit Committee.

KPMG provided certain additional services in 2009, 2010 and 2011. These services comprised consultation on accounting and tax issues and other audit-related assignments.

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

For more detailed information on auditing fees for 2010, see Note 24 in this annual report.

CEO and executive management

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

Chief Executive Officer

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

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

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

Remuneration to executive management

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

Remuneration guidelines

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

Fixed salary

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

Variable salary

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

Incentive programme

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

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

Other benefits

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

Pension

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

Notice of termination and severance pay

The maximum notice period in any Executive's contract is 12 months, during which time salary payment will continue. The Company does not generally allow any additional contractual severance payments.

Deviations from the guidelines

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

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

Internal control of financial reporting

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

Control environment

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

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

Risk assessment and control activities

The Company has prepared a model for assessing risks in all areas in which a number of items are identified and measured. These risks are reviewed regularly by the Board and the Audit Committee, and include both the risk of losing assets as well as irregularities and fraud. Designing control activities is of particular importance to enable the Company to prevent and identify shortcomings. The important areas are purchase, logistics, and inventory processes, technical development and performance of the web platform, as well as general IT-security. Assessing and controlling risks also involves the operational boards in each business area, where meetings are held at least four times a year. The CEO, business area managers, and the CFO participate in the meetings. Minutes are kept for these meetings. The operational boards are further described under the heading “Executive Management”.

Information and communication

Important guidelines, manuals, and the like that are significant to the financial reporting are regularly updated and distributed to the employees concerned. There are formal as well as informal information channels to the executive management and Board for information from employees that is considered significant. Guidelines for external communication ensure that the Company applies the highest standards for providing accurate information to the financial market. The CDON Group has an established annual procedure for executive management to give their opinions on the quality of the financial reporting, disclosures, procedures, and compliance with internal and external guidelines and regulations.

Follow-up

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

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

Board of Directors

Hans-Holger Albrecht

Chairman of the Board

German, born 1963

Hans-Holger has been Chairman of the Board of Directors of CDON Group since 2000. He has served as President and Chief Executive Officer of MTG since 2000, prior to which he served as Head of the Group's Pay-TV operations, as President of Viasat Broadcasting and as Chief Operating Officer of MTG. Since 2003, Hans-Holger has been co-chairman of CTC Media, Inc., Russia's biggest independent TV broadcaster and in which MTG is the largest shareholder, with a participating interest of 38.5%. He has been a member of the Board of Directors since 2002. Hans-Holger has also been a member of the Board of Directors of Millicom International Cellular S.A. since 2010 and is a member of the Board of the International Emmy Association in New York. Hans-Holger graduated with a Doctorate in Law from the University of Bochum in Germany.

Member 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: 11,400 shares

Mia Brunell Livfors

Non-Executive Director

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 Chairperson 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 Korsnäs AB, Tele2 AB and Transcom Worldwide S.A. since 2006, Millicom International Cellular S.A. and Modern Times Group MTG AB since 2007, and H & M Hennes & Mauritz AB since 2008. 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

Non-Executive Director
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 from Stockholm School of Economics and a Master of Science in Computer Science and Engineering from the Royal Institute of Technology in Stockholm.

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

Lars-Johan Jarnheimer

Non-Executive Director
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), Apoteket AB, 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: 5,000 shares

Lars Nilsson
Non-Executive Director
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: 10,000 shares

Henrik Persson
Non-Executive Director
Swedish, born 1974

Henrik has been a member of the Board of CDON Group since August 2010. He has been Head of Investments at Investment AB Kinnevik since 2007 and is on the Board of several of the companies within the portfolio, including Black Earth Farming Ltd (since 2006) and Avito.ru (since 2006). Henrik studied economics 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: 0 shares

Florian Seubert

Non-Executive Director

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 from Lund University and has also studied at the London School of Economics and Political Science.

Shareholding in CDON Group: 30,000 shares

Martin Edblad

Chief Financial Officer

Born 1977

Martin Edblad joined Modern Times Group as a management trainee in 2004 and has since held a number of finance related positions within MTG, including as controller for the Online business area. Martin was appointed CFO of CDON Group in 2010, when the spin-off and demerger process was initiated. Before joining MTG, Martin spent five years working as a journalist for the daily business newspaper, Dagens Industri. Martin has studied Business Administration at the Stockholm School of Economics, and holds a Bachelor's Degree in Journalism from Stockholm University.

Shareholding in CDON Group: 6,385 shares

Elisabeth Andersson

Head of Administration

Born 1971

Elisabeth Andersson joined 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 Degree in Engineering from Lund University.

Shareholding in CDON Group: 1,500 shares

Fredrik Bengtsson

Head of Communications
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 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: 8,000 shares

Christian Eriksson

CEO Cdon.com and Bookplus.fi
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 CEO of the company. 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 Corporate Finance.

Shareholding in CDON Group: 2,000 shares

Christofer Gordon

Chief Technical Officer
Born 1973

Christofer Gordon was employed as Head of IT and Development at Cdon.com in 2006. From 2007, when MTG Internet Retailing (now CDON Group) was created, he has held the position of Chief Technical Officer in the Group. Before joining, 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: 2,900 shares

Therese Hillman

CEO Gymgrossisten.com and Bodystore.com
Born 1980

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

Shareholding in CDON Group: 1,500 shares

Ola Jarvi

Head of Operations CDON Group and CEO Room21.com
Born 1971

Ola Jarvi joined Cdon.com in 2000 as Head of Marketing, and has since held a number of different positions, including Head of Sales and COO. Ola became the COO of MTG's entire internet retailing business in 2008. From 2010, Ola has been the CEO of the newest internet retailing stores, Lekmer.com and Heppo.com and from 2011 CEO of Room21.com, as well as COO of CDON Group. Prior to joining MTG, Ola worked for Micro Bildelar, which was then owned by the Ikano Group. He has a Master's Degree in Business from Lund University.

Shareholding in CDON Group: 445 shares

Peter Rosvall

CEO Nelly.com and Members.com
Born 1980

Peter Rosvall joined Modern Times Group as a management trainee in 2004 and has since held several positions within MTG's internet retailing business, including being responsible for Cdon.com's digital services, and as Head of Logistics and IT for Cdon.com and TV-shop (then part of MTG). Since MTG Internet Retailing, now CDON Group, was established in 2007, Peter has been responsible for the companies Nelly.com/LinusLotta.com and Gymgrossisten.com/Bodystore.com as COO, and later as CEO. He is now CEO of Nelly.com and Members.com. Peter has a Master's Degree in Business from the University of Gothenburg School of Business, Economics and Law.

Shareholding in CDON Group: 5,340 shares

Consolidated income statement

SEK million	Note	2011	2010
Net sales	4	3,403.7	2,210.0
Cost of sales	29	-2,816.4	-1,789.8
Gross profit		**587.3**	**420.2**
Selling and administrative expenses		-458.8	-287.4
Other operating income	6	3.4	1.8
Other operating expenses	6	-2.7	-
Operating profit	4, 5, 9, 10, 11, 12, 21, 23, 24, 26, 29	**129.2**	**134.6**
Finance income	7	3.0	1.0
Finance expense	7, 27	-21.2	-19.8
Profit before tax		**111.0**	**115.8**
Tax	8	-28.0	-25.6
Profit for the year		**83.0**	**90.2**
Attributable to:			
Parent company owners		83.3	90.8
Non-controlling interest		-0.3	-0.6
Profit for the year		**83.0**	**90.2**
Basic earnings per share, SEK	15	1.26	5.00
Diluted earnings per share, SEK	15	1.26	4.90

Consolidated statement of comprehensive income

SEK million	Note	2011	2010
Profit for the year		83.0	90.2
Other comprehensive income			
Translation differences for foreign operations for the year		-0.2	-3.3
Other comprehensive income for the year	8, 16	**-0.2**	**-3.3**
Comprehensive income for the year		**82.8**	**87.0**
Comprehensive income for the year attributable to:			
Parent company owners		83.1	87.6
Non-controlling interest		-0.3	-0.6
Comprehensive income for the year		**82.8**	**87.0**

Consolidated statement of financial position

SEK million	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Intangible non-current assets	9		
Ongoing project		9.6	-
Development expenses		12.3	7.0
Domains		1.0	0.7
Trademarks		108.7	54.0
Customer relationships		6.3	4.1
Goodwill		447.0	189.0
Total intangible non-current assets		**584.9**	**254.8**
Property, plant, and equipment	10		
Equipment		10.8	3.7
Total property, plant, and equipment		**10.8**	**3.7**
Financial non-current assets			
Other financial non-current assets		1.6	-
Total financial non-current assets		**1.6**	**-**
Deferred tax asset	8	6.0	-
Total non-current assets		**603.3**	**258.5**
Current assets			
Inventory	29		
Finished goods and merchandise		428.8	229.4
Advances to suppliers		30.2	21.9
Total inventory		**459.1**	**251.3**
Current receivables			
Accounts receivable	13	81.9	28.9
Other current receivables, non interest-bearing		44.3	35.8
Prepaid expenses and accrued income		19.4	8.3
Total current receivables		**145.6**	**73.1**
Cash and cash equivalents	20		
Cash and bank		417.4	431.3
Total cash and cash equivalents		**417.4**	**431.3**
Total current assets		**1,022.1**	**755.7**
Total assets		**1,625.3**	**1,014.2**

SEK million	Note	31 December 2011	31 December 2010
EQUITY AND LIABILITIES			
Equity attributable to parent company shareholders	16		
Share capital		133.1	132.7
Other capital contributions		140.7	140.7
Reserves		-1.1	-0.8
Retained earnings including net income for the year		143.2	73.1
Total equity attributable to parent company shareholders		**415.9**	**345.7**
Non-controlling interest			
Non-controlling interest		1.4	0.9
Total equity		**417.3**	**346.5**
Non-current liabilities	20		
Interest-bearing			
Convertible bond	27	214.8	207.2
Credit facilities	30	150.0	-
Total non-current interest-bearing liabilities		**364.8**	**207.2**
Non-interest-bearing			
Deferred tax liability	8	40.8	26.7
Other provisions	17	4.9	2.4
Total non-current non-interest-bearing liabilities		**45.6**	**29.1**
Total non-current liabilities		**410.4**	**236.3**
Current liabilities	20		
Interest-bearing			
Current liabilities		15.0	-
Total current interest-bearing liabilities		**15.0**	**-**
Non-interest-bearing			
Advances from customers		0.0	1.0
Accounts payable		463.0	240.1
Current tax liabilities		47.9	26.4
Other liabilities		95.6	38.8
Accrued expenses and deferred income		176.2	124.9
Total current non-interest-bearing liabilities		**782.6**	**431.3**
Total current liabilities		**797.6**	**431.3**
Total liabilities		**1,208.0**	**667.7**
Total equity and liabilities		**1,625.3**	**1,014.2**

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

Consolidated statement of changes in equity

SEK million	Notes 8, 16	Equity attributable to parent company shareholders						
		Share capital	Other capital contributions	Foreign currency translation reserve	Retained earnings including net income for the year	Total	Non-controlling interest	Total equity
Opening balance, 1 January 2010		**1.0**	**0.8**	**2.4**	**2.5**	**6.7**	**1.5**	**8.2**
Comprehensive income for the year								
Profit for the year					90.8	90.8	-0.6	90.2
Other comprehensive income for the year				-3.2		-3.2		-3.2
Comprehensive income for the year		**-**	**-**	**-3.2**	**90.8**	**87.6**	**-0.6**	**87.0**
New share issue		131.7	107.9			239.6		239.6
Non-controlling interest upon acquisition of a partially owned subsidiary							0.8	0.8
Acquisition of shares from non-controlling interest					-20.2	-20.2	-0.8	-21.0
Outstanding convertible bond			32.0			32.0		32.0
Closing balance, 31 December 2010		**132.7**	**140.7**	**-0.8**	**73.1**	**345.7**	**0.9**	**346.5**
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 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**

Consolidated statement of cash flows

SEK million	Note	2011	2010
Operating activities			
Profit before tax		111.0	115.8
Adjustments for items not included in cash flow	25	35.7	12.4
Income tax paid		-22.5	-2.0
Cash flow from operating activities		**124.3**	**126.2**
Cash flow from changes in working capital			
Increase (-)/decrease (+) in inventories		-134.7	-95.5
Increase (-)/decrease (+) in other current receivables		-55.6	9.6
Increase (+)/decrease (-) in accounts payable		177.1	40.1
Increase (+)/decrease (-) in other non-current liabilities		84.7	12.8
Total change in working capital		**71.6**	**-32.9**
Net cash flow from operations		**195.9**	**93.3**
Investing activities			
Investments in operations	5	-323.9	-4.5
Investments in other non-current assets		-21.9	-5.4
Cash flow to investing activities		**-345.8**	**-9.8**
Financing activities			
New share issue		-	0.6
Acquisition of shares from non-controlling interest	5	-13.8	-21.0
Group contributions paid		-	-126.4
Cash pool accounts, net		-	250.6
Issue of convertible loan	27	-	250.0
Utilised credit facilities	30	184.5	-
Amortisation of credit facilities		-34.5	-
Cash flow from/to financing activities		**136.2**	**353.8**
Change in cash and cash equivalents		**-13.8**	**437.3**
Cash and cash equivalents, year's start		**431.3**	**3.0**
Exchange rate difference for cash and cash equivalents		-0.1	-9.0
Cash and cash equivalents, year’s end		**417.4**	**431.3**

Income statement – parent company

SEK million	Note	2011	2010
Net sales		42.4	0.1
Gross profit		**42.4**	**0.1**
Administrative expenses		-61.9	-17.8
Operating loss	21, 23, 24, 26	**-19.6**	**-17.8**
Loss from shares of subsidiaries		-	-0.1
Interest revenue and similar items		8.1	0.5
Interest expenses and similar items		-20.8	-8.7
Group contributions received		124.0	132.4
Group contributions paid		-16.0	-22.0
Profit after financial items	7,27	**75.8**	**84.3**
Change in excess depreciation		0.0	-
Profit before tax		**75.8**	**84.3**
Tax	8	-20.1	-22.4
Profit for the year		**55.7**	**62.0**

Statement of comprehensive income – parent company

SEK million	2011	2010
Profit for the year	55.7	62.0
Other comprehensive income	-	-
Other comprehensive income for the year	**-**	**-**
Comprehensive income for the year	**55.7**	**62.0**

Balance sheet – parent company

SEK million	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant, and equipment			
Equipment	10	0.0	-
Total property, plant, and equipment		**0.0**	**-**
Financial non-current assets			
Participation in subsidiaries	11	683.9	280.3
Total financial non-current assets		**683.9**	**280.3**
Total non-current assets		**683.9**	**280.3**
Current assets			
Current receivables			
Accounts receivable		-	0.2
Current interest-bearing liabilities, Group		17.7	27.4
Receivables in Group companies		128.8	138.4
Other receivables		0.0	0.3
Prepaid expenses and accrued income	14	2.6	1.0
Total current receivables		**149.2**	**167.2**
Cash and bank	20	356.3	407.4
Total cash and cash equivalents		**356.3**	**407.4**
Total current assets		**505.5**	**574.7**
Total assets		**1,189.4**	**854.9**

SEK million	Note	31 December 2011	31 December 2010
EQUITY AND LIABILITIES			
Equity	16		
Restricted equity			
Share capital		133.1	132.7
Statutory reserve		0.8	0.8
Total restricted equity		**133.9**	**133.5**
Non-restricted equity			
Share premium reserve		139.9	139.9
Profit brought forward		76.3	14.4
Profit for the year		55.7	62.0
Total non-restricted equity		**271.8**	**216.3**
Total equity		**405.7**	**349.8**
Provisions			
Deferred tax liability	8	9.3	11.3
Other provisions	17	4.9	2.7
Total provisions		**14.1**	**13.9**
Non-current liabilities			
Convertible bond	27	214.8	207.2
Credit facility	30	150.0	-
Total non-current liabilities		**364.8**	**207.2**
Current liabilities			
Accounts payable		2.2	0.6
Other interest-bearing liabilities, subsidiaries		344.7	241.3
Liabilities to subsidiaries		5.2	-
Current tax liabilities		26.0	22.5
Other liabilities		14.8	2.7
Accrued expenses and deferred income	18	11.9	17.0
Total current liabilities		**404.8**	**284.1**
Total liabilities		**783.7**	**505.2**
Total equity and liabilities		**1,189.4**	**854.9**
Pledged assets and contingent liabilities – parent company			
Pledged assets		None	None
Contingent liabilities (SEK million)	19	91.6	5.2

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 for the year	Total equity
Opening balance, 1 January 2010		**1.0**	**0.8**	**-**	**33.3**	**-18.9**	**16.2**
Comprehensive income for the year							
Profit for the year						62.0	62.0
Other comprehensive income for the year							
Comprehensive income for the year		**-**	**-**	**-**	**-**	**43.1**	**-19.4**
Appropriation of profits					-18.9	18.9	-
New share issue		131.7		107.9			239.6
Merger profit					0.0		0.0
Outstanding convertible bond				32.0			32.0
Closing balance, 31 December 2010		**132.7**	**0.8**	**139.9**	**14.4**	**62.0**	**349.8**
Opening balance, 1 January 2011		**132.7**	**0.8**	**139.9**	**14.4**	**62.0**	**349.8**
Comprehensive income for the year							
Profit 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**

Cash flow statement – parent company

SEK million	Note	2011	2010
Cash flow from operations			
Profit before tax		75.8	84.3
Income tax paid		-18.6	-0.1
Adjustments for items not included in cash flow			
Interest that does not affect cash flow		7.6	0.6
Group contributions received		-124.0	-132.4
Group contributions paid		16.0	22.0
Other items that do not affect cash flow		0.4	-
Total adjustments for items not included in cash flow		**-100.0**	**-109.8**
Cash flow from operating activities before change in working capital		**-42.8**	**-25.5**
Cash flow from changes in working capital			
Increase (-)/decrease (+) in accounts receivable		0.2	-0.2
Increase (-)/decrease (+) in other current receivables		9.4	96.2
Increase (+)/decrease (-) in accounts payable		1.6	0.6
Increase (+)/decrease (-) in other non-current liabilities		82.8	256.9
Total cash flow from changes in working capital		**94.0**	**353.6**
Cash flow from operating activities		**51.2**	**328.1**
Investing activities			
Investment in shares in subsidiaries	5	-384.8	-31.8
Investments in property, plant, and equipment		0.0	-
Cash flow from investing activities		**-384.8**	**-31.8**
Financing activities			
Convertible bond	27	-	250.0
Utilised credit facility	30	184.5	-
Amortisation of credit facility		-34.5	-
Change in cash pool accounts, MTG		-	9.0
New share issue		-	0.6
Group contributions, paid		-	-148.4
Group contributions, received		132.4	-
Cash flow from financing activities		**282.4**	**111.1**
Cash flow for the year		**-51.2**	**407.4**
Cash and cash equivalents, year's start		407.4	-
Cash and cash equivalents, year’s end		**356.3**	**407.4**

Notes

Figures in SEK million unless otherwise specified

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 2011 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 11 April 2012.

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 2011 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.

Amendments to IFRS effective for future years follow. None of these amendments are expected to have any material impact on consolidated accounts.

- Amendments to IAS 1 *Presentation of Financial Statements* It amends the presentation of items in other comprehensive income.
- Amendments to IAS 12 *Income Taxes* regarding tax valuation for investment properties.
- Amendment to IAS 19 *Employee benefits.* The amendment removes the "corridor approach" for actuarial gains and losses.
- Amendment to IAS 27 *Separate financial statements.* After the amendment, the standard only covers regulations for legal entities.
- Amendment to IAS 28 *Investments in Associates and Joint Ventures* The amendment covers reporting in cases when investments change and significant influence exists or is lost.

- Amendment to *IAS 32 Financial instruments: Classification.* Amendments to clarify regulations for offsetting financial assets and financial liabilities.
- Amendments to IFRS 7 *Financial instruments: Disclosures* regarding new disclosure requirements for transferred financial assets.
- Amendments to IFRS 7 *Financial instruments: Disclosures* regarding new disclosure requirements for offsetting financial assets and financial liabilities.
- IFRS 9 *Financial Instruments*. The standard is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 10 *Consolidated Financial Statements*. New standard for consolidated financial statements.
- IFRS 11 *Joint Arrangements.* New standard for accounting for interests in jointly controlled entities.
- IFRS 12 *Disclosure of Interests in Other Entities*. New standard for disclosure of investments in subsidiaries, associates, joint arrangements, and unconsolidated structured entities.
- IFRS 13 *Fair Value Measurement*. A new, unified standard for measuring fair value and new disclosure requirements for fair value measurements.

2.1.3 Valuation bases applied in preparation of the financial statements

Assets and liabilities are recognised at historic accumulated cost, with the exception of financial assets and financial liabilities that are recognised at amortised 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.

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. 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, recognised 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 present value of expected future cash flows. Under normal circumstances, accounts receivable are impaired by 100% after 90 days. Receivables with a short duration are not discounted, however.

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 Repurchase of own shares

Acquisition of own shares is recognised as a deduction from equity. Cash or cash equivalents from sale of such own shares is recognised as an increase in equity. Any transaction expense is recognised directly in 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, which derive from convertible bonds during the periods reported. The larger the difference between the redemption and market prices, the greater the dilution. Dilution from convertible bonds is estimated by increasing the number of shares by the total number of convertible shares and increasing earnings by the recognised interest expense after tax.

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. The fair value of options issued 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 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 of social security contributions. 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 (December 2010) 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 2011 were the same as stated above for the Group.

Beginning in 2011, Group contributions received are recognised as dividend and Group contributions made are recognised as Other Financial Expenses. For more information, see the section "Group contributions and shareholder contributions". Comparison figures for 2010 have been adjusted for the new policies. Previously, group contributions were recognized directly as equity as per UFR 2 Group Contributions and Shareholder Contributions.

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 recognises group contributions received using the same policies as regular dividend, as financial income. Group contributions given are recognised as financial expense. 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.

• Sports & Health is a distributor of health products and includes Gymgrossisten.com, Bodystore.com, and Fitnesstukku.fi.

• The Fashion segment is a retailer of clothes and shoes, and comprises Nelly.com, Heppo.com, and Members.com. Linus & Lotta.com was incorporated as part of Nelly.com during the year.

• Home & Garden is a retailer of major appliances, small appliances, furniture, and home furnishings and includes Tretti.com and Rum21.com. The Home & Garden segment was established in the second quarter of 2011 through the acquisitions of Rum21 AB and Tretti AB.

Subsidiaries are attributable entirely to their respective segment.

Rum21 AB's results were reported within the Fashion segment in the Group's financial results for the first quarter of 2011 since its acquisition on 1 February 2011. Since the operation is smaller in terms of sales and earnings relative to the Fashion and Home & Garden segments, the Fashion and Home & Garden segments were not restated for the February-March 2011 period when Rum21 AB was included in the Fashion segment.

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

2010 (SEK million)	Entertainment	Fashion	Sports & Health	Home & Garden	Group-wide	Elimination	Group
External sales	1,492.2	433.2	284.7	-			2,210.0
Internal sales						-	-
Operating profit/loss	99.7	16.1	35.4	-	-16.5		134.6
Finance income							1.0
Finance expenses							-19.8
Profit before tax							**115.8**

In 2011, the parent company provided the Group's segments with certain services. These sales were conducted at cost price.

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 geographic area. Sales are shown by country of sale.

	Net sales		Non-current assets	
SEK million	2011	2010	2011	2010
Sweden	1,917.2	1,176.9	581.7	237.2
Norway	706.1	492.7	-	-
Finland	480.6	328.2	21.1	21.3
Denmark	243.3	198.0	0.5	-
Other Europe	56.5	14.3	-	-
Total	**3,403.7**	**2,210.0**	**603.3**	**258.5**

Sales per type of income (SEK million)	2011	2010
Products	3,316.6	2,165.2
Services	87.1	44.9
Total revenue	**3,403.7**	**2,210.0**

Note 5 Business combinations

Acquisitions 2011

During the year, the Group acquired 90.1% of the capital and votes in Rum21 AB and 100% of the 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.

An 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 prior 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 decoration products on 31 January 2011. Rum21 AB broadens the Group's online portfolio within an industry segment that is well suited to e-commerce and has significant growth potential. Rum21 AB's earnings have been fully consolidated into the Home & Garden segment since 1 April 2011. Rum21 AB was subsequently launched across the Nordic region. During the 11 months up to 31 December 2011, the subsidiary contributed SEK 26.9 million to consolidated sales and SEK -3.9 million to consolidated earnings after tax. If the acquisition had occurred on 1 January 2011, Group management estimates that consolidated sales 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
Provision, contingent consideration	-2.5
Cash and cash equivalents in acquired companies	-1.4
Net cash flow	**5.3**

Transaction costs

Transaction costs for the acquisition of Rum21 AB total SEK 0.5 million and are recognised on the "Selling and administrative expenses" line on the consolidated income statement.

Non-controlling interest

The fair value of non-controlling interest is calculated on the purchase price paid for the acquired share of the company.

Contingent consideration

The acquisition agreement states that a contingent consideration is to be paid to the former owners of Rum21 AB, based on the company’s future gross profits. The contingent consideration is an unlimited amount.

As of 31 December, the contingent consideration increased by SEK 0.1 million since the probability-adjusted gross profit after a new calculation is expected to be higher than originally estimated.

Acquisition of Tretti AB

Tretti AB is an online store for white goods and household appliances. The 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. The CDON Group initiated a compulsory redemption procedure regarding remaining shares in Tretti AB. CDON Group AB owned 100% of the shares in the company at the year-end, and Tretti AB was delisted from NASDAQ OMX First North, with the last trading day for shares in the company being 15 July 2011. Tretti AB’s earnings have been fully consolidated into the Home & Garden segment since 3 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 company	-23.2
Net cash flow	**317.5**

Transaction costs

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

Acquisitions 2010

During the year, the Group acquired 90.1% of the capital and votes in Lekmer AB and additional shares from owners without controlling interest in NLY Scandinavia AB and Linus & Lotta Postorder AB. From owners without controlling interest, 5.54% of capital and votes in NLY Scandinavia AB and 9.9% of capital and votes in Linus & Lotta Postorder AB were acquired. Thus, the Group owned 95.54% of NLY Scandinavia AB and 100% of Linus & Lotta Postorder AB. Lekmer AB was reported in the Entertainment segment and NLY Scandinavia AB and Linus & Lotta Postorder AB were reported in the Fashion segment. Linus & Lotta's operations were incorporated into NLY Scandinavia AB in 2011.

An additional purchase price was paid for Helsingin Dataclub OY in 2010, as per the acquisition agreement. This acquisition was reported in the Entertainment segment.

Summary of acquisitions

Group (SEK million)	2010 Net cash flow	2010 Net identifiable assets and liabilities	2010 Goodwill
Lekmer AB	-3.4	4.6	3.7
NLY Scandinavia AB	-21.0	-	-
Linus & Lotta Postorder AB	-	-	-
Additional consideration from 2007, Helsingin Dataclub Oy	-1.1	-	1.1
Total	**-25.5**	**4.6**	**4.8**

Lekmer

On 31 March, the Group acquired 90.1% of shares in Lekmer AB for a purchase price of SEK 7.5 million. Lekmer is a online retailer of toys in Sweden. Lekmer.com's earnings were fully consolidated into the Entertainment segment as of 1 April 2010. Lekmer.com was subsequently launched across the Nordic region. During the nine months up to 31 December 2010, the subsidiary contributed SEK 27.5 million to consolidated sales and SEK -7.2 million to consolidated earnings after tax. If the acquisition had occurred on 1 January 2010, management estimates that consolidated sales would have totalled SEK 2,212.0 million, and profit for the year would have been SEK 90.6 million.

Accrued goodwill in 2010 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	0.1
Intangible non-current assets	6.3
Inventory	3.0
Accounts receivable and other receivables	0.4
Cash and cash equivalents	-
Deferred tax liability	-1.7
Accounts payable and other operating liabilities	-3.5
Net identifiable assets and liabilities	**4.6**
Non-controlling interest	-0.8
Goodwill on acquisition	3.7
Purchase price	**7.5**
Cash and cash equivalents in acquired companies	-
Provision, contingent consideration	-4.1
Net cash flow	**3.4**

Contingent consideration

The acquisition agreement states that a contingent consideration is to be paid to the former owners of Lekmer AB, based on the company's future gross profit. The contingent consideration is an unlimited amount.

The fair value of the contingent consideration was estimated by applying the so-called net present value approach. The fair value estimate is based on a discount rate of 12% and assumed probability-adjusted gross profit.

As of 31 December 2010, the contingent consideration decreased by SEK 0.6 million as the probability-adjusted gross profit after a new calculation is expected to be lower than original estimates.

Note 6 Other income and expenses

Group (SEK million):	2011	2010
Other operating income		
Gain from sale of non-current assets	-	0.1
Exchange gains on operating receivables/liabilities	1.7	1.1
Revaluation of contingent consideration for Lekmer AB	-	0.6
Other operating income	1.7	-
Total	**3.4**	**1.8**
Other operating expenses		
Revaluation of contingent consideration for Lekmer AB	-2.7	-
Total	**-2.7**	**-**

Note 7 Financial items

Group

SEK million	2011	2010
Interest income from MTG cash pool accounts	-	0.8
Interest income, other	2.7	0.2
Net translation differences	0.1	-
Other	0.2	-
Finance income	**3.0**	**1.0**
Interest expenses:		
- MTG cash pool accounts	-	-10.1
- Current loans from MTG	-	-0.6
- Convertible bonds (Note 27)	-14.7	-1.1
- Interest expenses, other	-5.1	-1.0
Net translation differences	-	-6.7
Other	-1.4	-0.3
Finance expenses	**-21.2**	**-19.8**
Net financial items	**-18.2**	**-18.8**
Parent company		
Impairment of shares in subsidiaries	-	-0.1
Loss from shares in subsidiaries	**-**	**-0.1**
Interest income:		
- MTG cash pool accounts	-	0.2
- Subsidiaries, CDON Group	4.7	0.1
- Interest income, other	2.3	-
Net translation differences	1.1	-
Group contributions received	124.0	132.4
Other	0.0	0.2
Finance income	**132.1**	**132.9**
Interest expenses:		
- MTG cash pool accounts	-	-6.8
- Current loans from MTG	-	-0.6
- Subsidiaries, CDON Group	-2.1	-0.1
- Convertible bonds (Note 27)	-14.7	-1.1
- Interest expenses, other	-3.4	-
Group contributions paid	-16.0	-22.0
Other	-0.6	-
Finance expenses	**-36.8**	**-30.7**
Net financial items	**95.4**	**102.1**

Note 8 Tax

Group

Distribution of tax expenses (SEK million)	2011	2010
Current tax expense		
Tax expense for the year	-35.3	-27.1
Adjustment of tax attributable to prior years	-0.8	0.4
Total	**-36.0**	**-26.8**
Deferred tax		
Deferred tax on temporary differences	2.2	1.2
Deferred tax revenue in the year’s capitalised taxable value in loss carryforwards	5.8	-
Total	**8.0**	**1.2**
Total recognised Group tax expense	**-28.0**	**-25.6**

Reconciliation of tax expense (SEK million)	2011	%	2010	%
Profit before tax	111.0		115.8	
Tax as per applicable tax rate for parent company	-29.2	-26.3	-30.5	-26.3
Effect of other tax rates in foreign subsidiaries	0.0	0.0	0.0	0.0
Non-taxable income	0.8	0.7	1.4	1.2
Non-deductible expenses	-2.6	-2.3	-0.4	-0.3
Utilisation of previously uncapitalised deficit deduction	3.6	3.3	5.4	4.7
Losses on which deferred tax was not recognised	-	-	-1.9	-1.6
Tax attributable to prior years	-0.8	-0.7	0.4	0.3
Effective tax/tax rate	**-28.0**	**-25.2**	**-25.6**	**-22.1**

SEK million	31 December 2011	31 December 2010
Deferred tax assets		
Loss carry-forwards	6.0	-
Total	**6.0**	**-**
Deferred tax liabilities		
Equipment, tools, and installations	1.1	0.3
Intellectual property rights	30.4	15.2
Convertible bond	9.3	11.3
Total	**40.8**	**26.7**
Net deferred tax	**-34.7**	**-26.7**

The change in net temporary differences are recognised below:

SEK million	Opening balance, 1 January	Deferred tax revenue	Acquisition of subsidiaries	Recognised in equity	Other	Closing balance, 31 December
	2011					
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**	**0.0**	**-0.2**	**-34.7**

SEK million	Opening balance, 1 January	Deferred tax revenue	Acquisition of subsidiaries	Recognised in equity	Other	Closing balance, 31 December
	2010					
Temporary differences:						
Equipment, tools, and installations	-0.7	0.2			0.2	-0.3
Intellectual property rights	-14.4	0.9	-1.7			-15.2
Non-current liabilities	-	0.2		-11.4		-11.3
Total	**-15.1**	**1.2**	**-1.7**	**-11.4**	**0.2**	**-26.7**

At 31 December 2011, recognised loss carry-forwards without expiration dates in the Group were SEK 13.9 million (0). The 2011 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)	2011	2010
No expiry date	-	7.2
Expiration date 2019	-	5.6
Total	**-**	**12.8**

Parent company

Distribution of tax expenses (SEK million)	2011	2010
Current tax on year’s profit/loss	-22.1	-22.6
Total tax expense	**-22.1**	**-22.6**
Deferred tax		
Deferred tax on temporary differences	2.0	0.2
Total	**2.0**	**0.2**
Total recognised tax expense in the parent company	**-20.1**	**-22.4**

Reconciliation of tax expense (SEK million)	2011	%	2010	%
Profit/loss before tax	75.8		84.3	
Tax as per applicable tax rate for parent company	-19.9	-26.3	-22.2	-26.3
Non-deductible expenses	-2.2	-2.9	-0.2	0.0
Tax effect of convertible loan	2.0	2.6	-	-
Other	0.0	0.0	-0.2	0.0
Effective tax/tax rate	**-20.1**	**-26.6**	**-22.6**	**-26.8**

The change in net temporary differences is recognised below:

SEK million	2011 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**	**-**	**-9.3**

SEK million	2010 Opening balance, 1 January	Deferred tax revenue	Recognised in equity	Closing balance, 31 December
Temporary differences:				
Non-current liabilities	-	0.2	-11.4	-11.3
Total	**-**	**0.2**	**-11.4**	**-11.3**

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)	2011	2010
Opening accumulated cost	**-**	**-**
Investments	9.6	-
Closing accumulated acquisition value	**9.6**	**-**
Carrying amounts	**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)	2011	2010
Opening accumulated cost	**11.9**	**26.8**
Investments through acquisition	8.8	-
Investments	5.3	1.7
Reclassifications	-	-16.5
Closing accumulated acquisition value	**25.9**	**11.9**
Opening accumulated amortisation	**-4.9**	**-3.0**
Investments through acquisition	-5.0	-
Year’s amortisation	-3.7	-2.1
Reclassifications	-	0.1
Closing accumulated amortisation	**-13.6**	**-4.9**
Carrying amounts	**12.3**	**7.0**

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

Amortisation costs of SEK 3.7 million (2.1) are included in selling and administrative expenses.

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

Domains (SEK million)	2011	2010
Opening accumulated cost	**1.2**	**-**
Investments	0.6	0.5
Reclassifications	-	0.6
Closing accumulated acquisition value	**1.7**	**1.2**
Opening accumulated amortisation	**-0.5**	**-**
Year's amortisation	-0.3	-0.2
Reclassifications	-	-0.3
Closing accumulated amortisation	**-0.7**	**-0.5**
Carrying amounts	**1.0**	**0.7**

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

Amortisation expenses of SEK 0.3 million (0.2) are included in selling and administrative expenses.

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

Acquisition of intangible assets

Trademarks (SEK million)	2011	2010
Opening accumulated cost	**54.0**	**44.5**
Investments	54.6	5.1
Reclassifications	-	4.4
Closing accumulated acquisition value	**108.7**	**54.0**
Opening accumulated amortisation	**-**	**-5.6**
Reclassifications	-	5.6
Closing accumulated amortisation	**-**	**-**
Carrying amounts	**108.7**	**54.0**

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

Customer relationships (SEK million)	2011	2010
Opening accumulated cost	**12.7**	**-**
Investments	6.1	1.2
Reclassifications	-	11.5
Closing accumulated acquisition value	**18.7**	**12.7**
Opening accumulated amortisation	**-8.6**	**-**
Year's amortisation	-3.9	-3.1
Reclassifications	-	-5.5
Closing accumulated amortisation	**-12.5**	**-8.6**
Carrying amounts	**6.3**	**4.1**

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

Goodwill (SEK million)	2011	2010
Opening accumulated cost	**189.0**	**189.9**
Investments	258.1	4.8
Other	-	-2.5
Translation differences	-0.1	-3.1
Closing accumulated acquisition value	**447.0**	**189.0**
Carrying amounts	**447.0**	**189.0**

This item relates to goodwill arising from acquisition of Gymgrossisten Sweden AB, Lekmer AB, NLY Scandinavia AB, Linus & Lotta Postorder AB, Rum21 AB, and Tretti 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	2011	2010
Sports & Health	139.9	139.9
Entertainment	24.9	25.0
Fashion	24.1	24.1
Home & Garden	258.1	-
Total	**447.0**	**189.0**

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% (9.3) 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	2011	2010
Sports & Health	48.9	48.9
Entertainment	5.1	5.1
Home & Garden	54.6	-
Total	**108.7**	**54.0**

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% (9.3) 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)	2011	2010
Opening accumulated cost	**9.2**	**5.9**
Investments	6.5	3.2
Investments through business combinations	5.6	0.2
Divestments	-5.4	0.0
Closing accumulated acquisition value	**15.9**	**9.2**
Opening accumulated depreciation	**-5.5**	**-3.9**
Year's depreciation	-2.6	-1.6
Depreciation through acquisition	-2.4	-0.1
Divestments	5.4	0.0
Closing accumulated depreciation	**-5.1**	**-5.5**
Carrying amounts	**10.8**	**3.7**

Depreciation costs of SEK 2.6 million (1.6) are included in selling and administrative expenses.

Parent company

Equipment (SEK thousands)	2011	2010
Opening accumulated cost	**-**	**-**
Investments	35.8	-
Closing accumulated acquisition value	**35.8**	**-**
Opening accumulated depreciation	**-**	**-**
Year's depreciation	-7.7	-
Closing accumulated depreciation	**-7.7**	**-**
Carrying amounts	**28.1**	**-**

Depreciation costs of SEK 7.7 thousand (0) 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 2011	Carrying amount 31 Dec 2010
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	Stockholm	168,260	97.8	97.8	49.7	35.8
Lekmer AB	556698-8035	Stockholm	901	90.1	90.1	34.0	14.6
Rum21 AB	556774-1300	Borås	901	90.1	90.1	19.1	-
Tretti AB	556665-7606	Stockholm	5,141,758	100.0	100.0	350.8	-
CDON Group Norge AS	896 508 202	Norway	100	100.0	100.0	0.1	-
CDON Group Deutschland GmbH	HRB 130256 B	Germany	25,000	100.0	100.0	0.3	-
Total						**683.9**	**280.3**

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	Stockholm	168,260	97.77	97.77
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	Borås	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
CDON Group Norge AS	896 508 202	Norway	100	100.0	100.0
CDON Group Deutschland GmbH	HRB 130256 B	Germany	25,000	100.0	100.0

Helsingin Dataclub Oy and CDON Alandia AB merged as of 31 Dec 2011. CDON Alandia AB is the surviving party.

Shares and participating interests in subsidiaries, parent company (SEK million)	2011	2010
Opening accumulated cost	**296.1**	**317.2**
Acquisitions	382.1	28.5
Shareholder contribution	21.5	7.2
Group restructuring	-	-56.8
Closing balance, 31 December	**699.7**	**296.1**
Opening accumulated impairment	**-15.8**	**-15.7**
Write-downs during the year	-	-0.1
Closing balance, 31 December	**-15.8**	**-15.8**
Carrying amount, 31 December	**683.9**	**280.3**

Note 12 Operating costs distributed per type of cost

Group

SEK million	2011	2010
Cost of goods sold	-2,305.4	-1,482.7
Distribution and warehousing costs	-416.8	-268.8
Personnel expenses	-204.1	-136.4
Depreciation/amortisation	-10.5	-6.9
Other expenses	-337.7	-180.6
Total expenses	**-3,274.5**	**-2,075.4**

Note 13 Accounts receivable

Group

Credit exposure

Accounts receivable are recognised taking into consideration credit losses incurred during the year of SEK 3.6 million (1.8) 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 2011	31 December 2010
Accounts receivable not overdue or written down	76.0	25.1
Accounts receivable overdue but not written down	5.9	3.9
Accounts receivable written down	3.8	2.6
Provision for bad debts	-3.8	-2.6
Total accounts receivable	**81.9**	**28.9**

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 2011	31 December 2010
<30 days	3.1	2.7
30-90 days	1.3	0.9
>90 days	1.6	0.3
Total	**5.9**	**3.9**

Receivables past due with provision for bad debts (SEK million)	31 December 2011	31 December 2010
30-90 days	1.1	-
>90 days	2.7	2.6
Total	**3.8**	**2.6**

Provision for bad debts (SEK million)	31 December 2011	31 December 2010
Opening balance, 1 January	2.6	3.0
Provision for potential losses	2.9	1.4
Actual losses	-1.8	-1.8
Closing balance, 31 December	**3.8**	**2.6**

Note 14 Prepaid expenses and accrued income

Parent company

SEK million	31 December 2011	31 December 2010
Prepaid insurance expenses	1.0	0.7
Prepaid rent	0.1	0.0
Prepaid marketing expenses	1.0	-
Other	0.5	0.3
Total	**2.6**	**1.0**

Note 15 Earnings per share

Group

SEK	Basic 2011	Basic 2010	Diluted 2011	Diluted 2010
Earnings per share	1.26	5.00	1.26	4.90

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

Basic earnings per share	2011	2010
Profit/loss for the year attributable to parent company shareholders (SEK million)	83.3	90.8
Average number of shares	66,342,124	18,153,748
Basic earnings per share, SEK	**1.26**	**5.00**

The parent company has two classes of potential ordinary shares, namely, a convertible bond (see Note 27) and custodial C shares attributable to the Group incentive program (see Note 23).

Diluted earnings per share	2011	2010
Profit for the year attributable to parent company ordinary shareholders (SEK million)	83.3	90.8
Interest effect on convertible bonds after tax (SEK million)	10.9	0.8
Diluted earnings attributable to parent company ordinary shareholders	**94.2**	**91.7**
Average number of shares	72,921,071	18,694,484
Diluted earnings per share, SEK	**1.26**	**4.90**

Weighted average number of diluted ordinary shares	2011	2010
Weighted average number of basic ordinary shares during the year	66,342,124	18,153,748
Effect of convertible bonds	6,578,947	540,735
Weighted average number of diluted ordinary shares during the year	**72,921,071**	**18,694,484**

Note 16 Equity

At 31 December 2011, share capital comprised 66,532,124 shares (66,342,124). Each share has a par value of SEK 2.

Issued shares (SEK million)	No. of shares	Par value
Ordinary shares	66,342,124	132.7
C shares	190,000	0.4
Total number of shares issued/total par value as of 31 December 2011	**66,532,124**	**133.1**

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
12-11-1936	Establishment	1,000,000	2,000	1,000,000	2,000
09-24-2010	Split	-	498,000	1,000,000	500,000
09-24-2010	Offset issue	131,090,244	65,545,122	132 090 244	66,045,122
10-26-2010	Cash issue	594,004	297,002	132,684,248	66,342,124
05-31-2011	Cash issue, C shares	380,000	190,000	133,064,248	66,532,124
No. of issued shares/share capital at 31 Dec 2011		**133,064,248**	**66,532,124**	**133,064,248**	

The cash issue of C shares in 2011 was implemented for use in the Group incentive program. For more information about the incentive program, 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)	2011	2010
Opening balance, 1 January	-0.8	2.4
Translation differences for the year, net after tax	-0.2	-3.2
Total accumulated translation differences	**-1.1**	**-0.8**

Retained earnings

Retained earnings include previously earned profit.

Proposed dividend

The board will propose to the 2012 AGM that no dividend be paid to shareholders for the fiscal year ending 31 December 2011, and that retained earnings be carried forward into the 2012 accounts.

Note 17 Other provisions

Group

Other provisions (SEK million)	2011	2010
Provisions for social security contributions on share-based remuneration	0.1	-
Provisions for contingent considerations	4.8	2.4
Total	**4.9**	**2.4**

Provisions for share-based remuneration (SEK million)	2011	2010
Carrying amount at year's start	**-**	**1.2**
Provisions allocated during the period	0.1	-
Unutilised amount reversed during the period	-	-1.2
Carrying amount at year end	**0.1**	**-**

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

Provisions for contingent considerations (SEK million)	2011	2010
Carrying amount at year's start	**2.4**	**-**
Transferred to current liabilities	-1.3	
Provisions allocated during the period	3.6	2.4
Carrying amount at year end	**4.8**	**2.4**

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 Group (SEK million)	2011	2010
Total carrying amount at year's start	**2.4**	**1.2**
Transferred to current liabilities	-1.3	-
Provisions allocated during the period	3.8	2.4
Unutilised amount reversed during the period	-	-1.2
Total carrying amount at year end	**4.9**	**2.4**
Of which non-current portion of provisions	**4.9**	**1.3**
Of which current portion of provisions	**-**	**1.1**

Payments (SEK million)	2011	2010
Amount for which provisions are expected to be payable after 12 months	4.9	1.3

Parent company

Other provisions (SEK million)	2011	2010
Provisions for social security contributions on share-based remuneration	0.1	-
Provisions for contingent considerations	4.8	2.7
Total	**4.9**	**2.7**

Provisions for share-based remuneration (SEK million)	2011	2010
Carrying amount at year's start	**-**	**-**
Provisions allocated during the period	0.1	-
Carrying amount at year end	**0.1**	**-**

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

Provisions for contingent considerations (SEK million)	2011	2010
Carrying amount at year's start	**2.7**	**-**
Transferred to current liabilities	-1.3	
Provisions allocated during the period	3.4	2.7
Carrying amount at year end	**4.8**	**2.7**

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)	2011	2010
Total carrying amount at year's start	**2.7**	**-**
Transferred to current liabilities	-1.3	
Provisions allocated during the period	3.5	2.7
Total carrying amount at year end	**4.9**	**2.7**
Of which non-current portion of provisions	**4.9**	**1.3**
Of which current portion of provisions	**-**	**1.3**

Note 18 Accrued expenses and deferred income

Parent company (SEK million)	31 December 2011	31 December 2010
Accrued personnel expense	9.2	3.8
Accrued audit expense	0.3	0.4
Accrued listing expense	-	10.5
Accrued interest expense	0.7	0.6
Other	1.7	1.7
Total	**11.9**	**17.0**

Note 19 Pledged assets and contingent liabilities

Group

Contingent liabilities (SEK million)	31 December 2011	31 December 2010
Guarantees for external parties	76.1	39.4
Total	**76.1**	**39.4**

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 2011	31 December 2010
Guarantees for external parties	76.1	-
Guarantees for subsidiaries	15.5	5.2
Capital cover guarantees	-	-
Total	**91.6**	**5.2**

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, and Rum21 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 to 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 2011	31 December 2010
Total equity	417.3	346.5

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 are always sufficient cash and cash equivalents and the ability to extend the available financing. Access to cash and cash equivalents for subsidiaries is ensured partly through the use of cash pools. Through the issue of a SEK 250 million convertible instrument, the Group has good access to cash and cash equivalents; at 31 December 2011, the Group's liquidity stood at SEK 417 million (431). In 2011, the Group obtained a credit facility of SEK 200 million. The company amortised SEK 34.5 million during the fiscal year, which means that available credit declined to SEK 165.5 million under the facility agreement. At the closing date, this margin was utilised with loans of SEK 150 million and guarantees of SEK 6.6 million. The Group currently has about SEK 30 million in available undrawn credit facilities, which consist of the remaining margin in the credit facility and overdraft credit.

The Group's credit facility of SEK 200 million is subject to two covenants. These are EBITDA in relation to net debt and EBITDA in relation to financial items. At year end, the EBITDA in relation to net debt was -0.3 and EBITDA in relation to financial items was 8.4, which means that the Group fulfils these requirements by a comfortable margin.

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 utilisation of SEK 150 million of the Group's credit facility. Since the promissory note bears a fixed interest rate of 2.85%, the interest rate risk is limited; the credit facility has a variable interest rate. See Note 27 for the terms of the convertible bond.

If the variable interest rate on the Group's credit facility were to 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 individual persons. 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 taken out. The business areas and other units are responsible for managing the insurable risks associated with their 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)	2011	2010
DKK	163.0	114.1
NOK	495.5	342.0
EUR	89.9	-99.6
USD	-112.6	-68.9
GBP	-145.4	-94.2

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:

	2011		2010	
Currency	SEK million	%	SEK million	%
DKK	-1.3	-11	-	-
NOK	0.1	1	-	-
EUR	13.0	110	24.9	100
Total	**11.8**	**100**	**24.9**	**100**

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

Sensitivity analysis (SEK million)	2011	2010
DKK	+/- 0.1	-
NOK	+/- 0.0	-
EUR	+/- 0.6	+/- 1.2

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)	2011	2010
ASSETS		
Loans receivable and accounts receivable		
Other financial non-current assets	1.6	-
Accounts receivable	81.9	28.9
Other receivables	44.3	35.8
Cash and cash equivalents	417.4	431.3
Total loans receivable and accounts receivable	**545.1**	**496.1**
Total assets	**545.1**	**496.1**
LIABILITIES		
Other liabilities		
Accounts payable	463.0	240.1
Convertible bonds	214.8	207.2
Credit facilities	150.0	-
Other liabilities	95.6	39.9
Accrued expenses and deferred income	176.2	124.9
Total other liabilities	**1,099.5**	**612.1**
Total liabilities	**1,099.5**	**612.1**

Parent company (SEK million)	2011	2010
ASSETS		
Loans receivable and accounts receivable		
Accounts receivable	-	0.2
Receivables from Group companies	146.6	165.8
Other receivables	0.0	0.3
Cash and cash equivalents	356.3	407.4
Total loans receivable and accounts receivable	**502.9**	**573.6**
Total assets	**502.9**	**573.6**
LIABILITIES		
Other liabilities		
Accounts payable	2.2	0.6
Convertible bonds	214.8	207.2
Credit facilities	150.0	-
Other liabilities	14.8	2.7
Liabilities to Group companies	349.9	241.3
Accrued expenses and deferred income	11.9	17.0
Total other liabilities	**743.6**	**468.8**
Total liabilities	**743.6**	**468.8**

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.

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 2011 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 bond	277.9	1.8	5.3	270.8	
Credit facility	159.0	1.1	2.9	155.0	
Accounts payable	463.0	463.0			
Other liabilities	95.6	95.6			
Accrued expenses and deferred income	176.2	159.1	17.1		
Total	**1,171.6**	**720.5**	**25.3**	**425.8**	**0.0**

Parent company (SEK million)	Total	0-3 months	3 mon – 1 year	1-5 years	>5 years
Convertible bond	277.9	1.8	5.3	270.8	
Credit facility	159.0	1.1	2.9	155.0	
Accounts payable	2.2	2.2			
Liabilities to Group companies	349.9	349.9			
Other liabilities	14.8	14.8			
Accrued expenses and deferred income	11.9	7.6	4.4		
Total	**815.7**	**377.3**	**12.6**	**425.8**	**0.0**

Note 21 Operating leases

Group

The Group rents mainly office premises through operating leases.

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**

Leases and other commitments for future payments at 31 December 2010

Group (SEK million)	Future payments on non-voidable contracts
2011	8.8
2012	6.8
2013	6.8
2014	6.7
2015	6.8
2016 and beyond	5.9
Total leases and other commitments	**41.8**
Expenses for the year	**9.4**

Parent company

The parent company rents mainly office premises through operating leases.

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**

Leases and other commitments for future payments at 31 December 2010

Parent company (SEK million)	Future payments on non-voidable contracts
2011	0.4
2012	-
2013	-
2014	-
2015	-
2016 and beyond	-
Total leases and other commitments	**0.4**
Leasing expense for the year	**0.0**

Note 22 Average number of employees

	2011		2010	
Group	Men	Women	Men	Women
Sweden	219	183	148	129
Finland	1	-	-	-
Total	**220**	**183**	**148**	**129**
Total average no. of employees		**403**		**277**

	2011		2010	
Parent company	Men	Women	Men	Women
Sweden	17	16	2	2
Total	**17**	**16**	**2**	**2**
Total average no. of employees		**34**		**4**

The parent company had no employees until 1 September 2010.

Distribution of men and women in executive management

2011

Group	Men %	Women %
Board	96	4
CEO and other executives	78	22
Total	**93**	**7**

Parent company	Men %	Women %
Board	71	29
CEO and other executives	78	22
Total	**75**	**25**

2010

Group	Men %	Women %
Board	94	6
CEO and other executives	86	14
Total	**93**	**7**

Parent company	Men %	Women %
Board	75	25
CEO and other executives	86	14
Total	**80**	**20**

Note 23 Salaries, other remuneration, and social security contributions

Remuneration to senior executives

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

Remuneration guidelines

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

Incentive program

The 2011 AGM resolved to implement an incentive program (“the Plan”) that includes about ten senior executives and other key employees within the CDON Group. There is no previous equity-based incentive program in the Group.
In order to participate in the Plan the participants are required to own shares in CDON Group. These shares can either be shares already held or shares purchased on the market in connection with the notification to participate in the Plan. The participants will then be granted retention rights and performance rights free from consideration according to the terms adopted by the AGM. 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, free from consideration.

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.

Group

SEK million	2011	2010
Personnel expenses		
Salaries	135.8	94.8
Social security contributions	39.3	39.8
Pension expenses – defined contribution plans	10.5	5.0
Expenses for share-based remuneration	0.3	-
Social security contributions on share-based remuneration	0.1	-
Total	**186.0**	**139.7**

SEK million	2011	2010
Senior executives (9 persons)	14.2	7.6
Of which, variable salary	3.9	*1.8*

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).

Remuneration and other benefits for 2010

SEK million	Base salary	Variable remuneration	Other benefits	Pension expenses	Shareholder rights expenses	Total
Mikael Olander, CEO	2.2	1.1	-	0.3	-	3.5
Senior executives (6 persons)	3.6	0.8	-	0.5	-	4.9
Total	**5.8**	**1.8**	**-**	**0.8**	**-**	**8.4**

The amounts recognised for 2010 relate to the full year. Accrued variable remuneration to be paid after year end to the CEO is SEK 0.3 million (0.2).

Parent company

SEK million	2011	2010
Personnel expenses		
Salaries	28.4	5.0
Expenses for share-based remuneration	0.3	-
Social security contributions	8.4	1.6
Pension expenses – defined contribution plans	3.2	0.3
Social security contributions on share-based remuneration	0.1	-
Total social security contributions	**11.8**	**2.0**
Total	**40.5**	**7.0**

Payroll expenses and other remuneration (SEK million)	2011	2010
Board and senior executives (18 persons)	18.7	3.1
Of which, variable salary	*3.8*	*1.1*
Other employees	10.0	2.0
Total salaries and other remuneration	**28.7**	**5.0**

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 Livfors Brunell	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.

Remuneration and other benefits for 2010

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 Livfors Brunell	0.4					0.4
Lars Nilsson	0.5					0.5
Henrik Persson	0.3					0.3
Mengmeng Du	0.3					0.3
Florian Seubert	0.4					0.4
Lars-Johan Jarnheimer	0.3					0.3
Anders Nilsson	0.4					0.4
Mikael Olander, CEO						
Remuneration from parent company	0.7	0.8		0.1		1.6
Remuneration from subsidiaries	1.5	0.3		0.2		1.9
Other senior executives (6 persons)						
Remuneration from parent company	0.6	0.3		0.1		1.0
Remuneration from subsidiaries	3.1	0.5		0.4		3.9
Total	**8.9**	**1.8**	**-**	**0.8**	**-**	**11.5**

The amounts recognised for 2010 relate to the full year. Accrued variable remuneration to be paid after year end to the CEO is SEK 0.3 million (0.2). The board will receive its full remuneration from the parent company. No portion of board remuneration was paid out as of the closing date.

Notice of termination of the CEO is 12 months, and the CEO has no right to severance pay.

The CFO was salaried by the former parent company Modern Times Group MTG through November 2010. This expense was invoiced to the CDON Group.

Share-based remuneration

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

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 retention- 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 retention- 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 retention rights and 138,600 performance-based rights.

Cost effects of the incentive program

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 the allotment date and the number of shares that are expected to be earned. The cost of the programs in 2011 totalled SEK 0.3 million, 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.

For the estimated fair value of services received in return 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. The assumption of a ten per cent attrition rate during the period was also made.

Granted rights	CEO	Senior executives	Key persons	Total
2011 long-term incentive program	-	91,300	-	91,300
Total outstanding as of 31 December 2011	**-**	**91,300**	**-**	**91,300**

The current CEO is not participating in the incentive program. The former CEO had been allotted 72,000 rights, but they lapsed at his resignation.

	2011	
	No. of rights	Weighted redemption price
Outstanding rights, 1 January	-	-
Rights issued during the year	91,300	-
Total outstanding, 31 December	**91,300**	**-**

Specification of long-term incentive progra	No. of rights	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, 31 December
Allocation 2011									
2011	91,300	8	150.0	27.1	2014	-	-	-	91,300
Total allocation									
2011	91,300					-	-	-	91,300

Personnel expenses, Group (SEK million)	2011
Granted rights, 2011	-0.3
Total expense recognised as personnel expenses	**-0.3**

Note 24 Fees and remuneration to auditors

Group (SEK million)	2011	2010
KPMG		
Auditing engagements	2.1	1.4
Tax consulting	0.2	0.1
Other services	0.8	0.6
Total	**3.2**	**2.1**

Parent company (SEK million)	2011	2010
KPMG		
Auditing engagements	0.6	0.6
Other services	0.7	0.6
Total	**1.3**	**1.2**

Auditing engagements refer to compulsory audits of the annual accounts and accounting records, the administration of the board 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 Supplementary disclosures regarding statement of cash flows

Group

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

SEK million	2011	2010
Gain from sale of non-current assets	0.0	0.0
Depreciation, amortisation, impairment, and disposal of non-current assets	10.5	6.9
Change in provision for contingent considerations	2.3	-0.6
Incentive program	0.4	-1.2
Interest expenses and income	7.6	0.6
Unrealised exchange differences	-0.1	6.7
Reserve for customs charges in Norway	15.0	-
Total	**35.7**	**12.4**
Other supplementary disclosures		
Interest received during the fiscal year	2.7	1.0
Interest paid during the fiscal year	-12.2	-11.2
Total	**-9.5**	**-10.2**

Parent company

Other supplementary disclosures

SEK million	2011	2010
Interest received during the fiscal year	7.0	0.5
Interest paid during the fiscal year	-12.6	-7.6
Total	**-5.6**	**-7.1**

Note 26 Transactions with related companies

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.
Transcom WorldWide S.A. (Transcom)	Kinnevik owns a significant number of shares in Transcom.
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 marketing services from Kinnevik. In 2011, purchases totalled SEK 7.8 million (1.1).

Transactions with companies related to Kinnevik

The Group purchases credit management services from Transcom.

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 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	2011	42.3	0.0	89.2	146.6	349.9
Subsidiaries	2010	-	-	110.4	165.8	241.3

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)	2011	2010
Nominal value after convertible bond issue, 2 December 2010	250.0	250.0
Original amount classified as equity	-32.0	-32.0
Deferred tax liability attributable to convertible bond	-11.4	-11.4
Capitalised interest	8.2	0.6
Recognised liability	**214.8**	**207.2**
Net financial items		
Capitalised interest	-7.6	-0.6
Coupon rate	-7.1	-0.6
Effect of convertible instrument on net financial items in consolidated and parent company income statements	**-14.7**	**-1.1**

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 2011.

In the event that a shareholder besides Investment AB Kinnevik were to come into possession of 50% or more of the company's shares or if the company is delisted, MTG may require repayment of the convertible instrument. The conversion rate for the convertible instrument would also be recalculated in the event that a shareholder besides Investment AB Kinnevik were to come into possession of 50% or more of the company's shares.

Note 28 Significant events after the end of the fiscal year

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

The 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 the CDON Group had the right and obligation to redeem the outstanding shares. The CDON Group owned 100 per cent of the shares in Tretti at the end of 2011. In a final arbitration award that was issued on 19 January 2012, the arbitral tribunal fixed the redemption price at SEK 67.25 per share.

Management changes

CDON Group announced on 12 March 2012 that Martin Edblad, Chief Financial Officer at CDON Group AB, and Peter Rosvall, Chief Executive Officer at Nelly.com and Members.com and responsible for the fashion segment, had decided to leave the Group.

Note 29 Inventories

During the year, inventory was written down by SEK 4.8 million (8.4), which is considered to be within the boundaries of normal obsolescence.

Note 30 Liabilities to credit institutions

Parent company

Non-current liabilities (SEK million)	2011	2010
Bank loans	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 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 11 April 2012

Hans-Holger Albrecht
Chairman of the Board

Paul Fischbein
Chief Executive Officer

Mia Brunell Livfors
Board member

Lars-Johan Jarnheimer
Board member

Henrik Persson
Board member

Lars Nilsson
Board member

Mengmeng Du
Board member

Florian Seubert
Board member

Our audit report was submitted on 11 April 2012

KPMG AB

George Pettersson
Authorised Public Accountant

The annual accounts and consolidated accounts have, as stated above, been approved for publication by the board and Chief Executive Officer on 11 April 2012.

Auditor's Report

To the annual meeting of the shareholders of CDON Group AB (publl), 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 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 7–94.

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 and 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 circumstances, 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 opinion.

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 2011 and of its financial performance and its cash flows for the year then ended in accordance with Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Account Act and present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standard, as adopted by the EU, and the Annual

Accounts Act. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders 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 requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined 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 2011.

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 opinion.

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 are discharged from liability for the financial year.

Stockholm 11 April 2012

KPMG AB

George Pettersson
Authorized Public Accountant

Definitions

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

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

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

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.

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

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

Return on capital employed %
Return on capital employed equals 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.

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

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

Narva

cdongroup

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